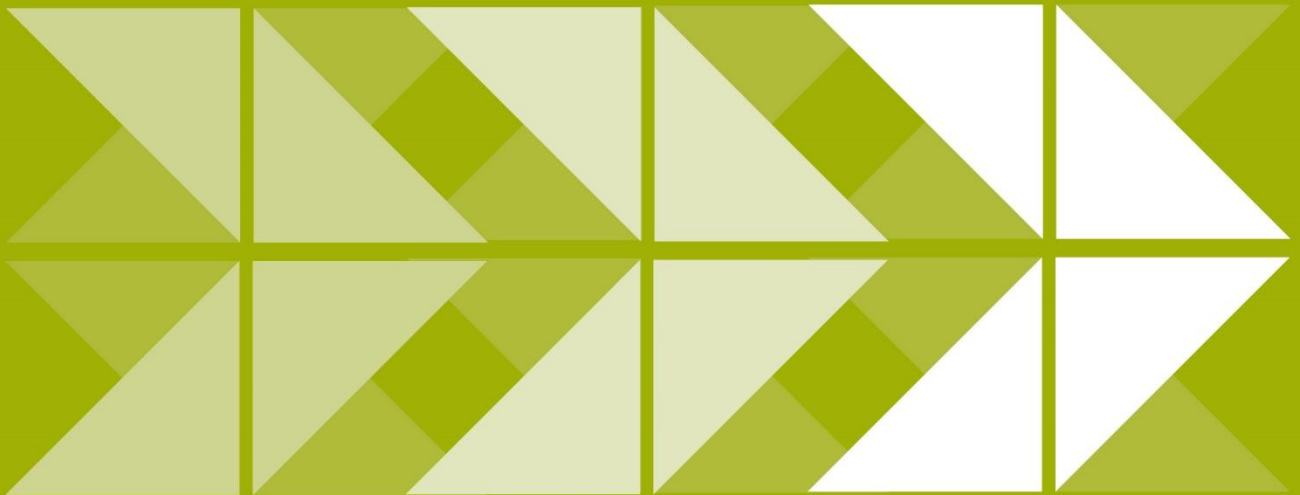


**ofgem**

Making a positive difference  
for energy consumers



**ForwardWorkProgramme**  
2023-24

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## Contents

<b>1. Introduction .....</b>	<b>4</b>
Foreword from the Chief Executive.....	4
Who we are and how we deliver our principal objective .....	6
Consumer Interests Framework .....	7
Strategic priorities .....	9
<b>2. Delivery: Projects and programmes .....</b>	<b>10</b>
Our short-term priority: Ensuring prices are fair .....	10
Our short-term priority: Creating resilience across the energy sector .....	13
Our short-term priority: Setting, monitoring and enforcing quality and standards .....	16
Our longer-term priority: Facilitating infrastructure investment.....	18
Our longer-term priority: Developing and delivering market reforms .....	22
Our longer-term priority: Reforming governance arrangements .....	25
<b>3. Core regulatory activities.....</b>	<b>28</b>
<b>4. Delivering environmental and social schemes for government.....</b>	<b>29</b>
Renewable heat schemes.....	29
Energy efficiency and social schemes .....	30
Renewable electricity schemes .....	31
<b>5. Estimated expenditure .....</b>	<b>32</b>
<b>6. Reducing burdens .....</b>	<b>33</b>

## 1. Introduction

### Foreword from the Chief Executive

The unprecedented energy prices that we have seen over the last 18 months have been a major challenge to the country: putting pressure on our economy, changing how we think about risks to our energy supply, and, most regrettably, causing real hardship to many vulnerable households across Britain.

Even with the extension of the Energy Price Guarantee until July and other extensive government support available, this is a tough time for millions of households, struggling to afford the energy they need. As Britain's energy regulator, Ofgem's first responsibility is to do everything we can to protect the interests of consumers, both now and in the future.

This Forward Work Programme, built on stakeholder responses to our consultation, sets out how we intend to achieve this over the coming year.

Our first priority is to ensure that suppliers are looking after their most vulnerable customers. We have been looking at our rules around prepayment meter installations, and plan to clarify and strengthen protections for vulnerable customers in the coming weeks and months. We have been crystal clear with energy providers that they must be accountable for their practices and behaviours, including those of their subcontractors.

At the same time, we need to ensure that service standards increase across the board. We will be taking a proactive approach to consumer protection, carrying out more in-depth monitoring and supervision of the retail sector to identify sources of consumer harm. We are taking robust compliance and enforcement action to protect both domestic and business energy users, upgrading our data, analytical, compliance, enforcement, and legal capabilities within Ofgem to do so.

We recognise that raising standards of customer service also means that the sector needs to become more robust and financially resilient, with well-run, reasonably profitable companies that have the resources and capability necessary to provide good services to their customers.

We need to reform our retail market, so it is better able to withstand market shocks, and to ensure that if suppliers do fail, costs to consumers are minimised. That will mean moving ahead with new approaches to regulate financial risks to ensure that we do not see the kind of supplier failures we saw last winter, which ultimately drive-up bills for everyone.

In the long-term, we must also remain focused on ensuring that we reduce our dependency on international gas markets for our energy supply. The economics of energy have

changed, with low carbon energy rapidly becoming not only the greener but often less costly and more secure option too. Ofgem will act to enable cost-effective infrastructure investment to transition away from our high dependence on fossil fuels and deliver a homegrown, cheaper and more secure net zero energy system.

To meet the government's ambitious targets for renewables, other forms of low carbon generation, and the growing demand for electric vehicles and heat pumps, Ofgem will need to facilitate the investment required to realise a massive and rapid expansion of our electricity grid at a pace not seen for decades, at reasonable cost.

This will require thinking holistically about how to plan for the energy system we need, through the new Future System Operator at a national level, and likely at a regional level, to start proactively setting the planning parameters for local network companies as they build their own more detailed plans. We will also be establishing new regulatory regimes to facilitate investment into nuclear generation, carbon capture and storage, and working with government to consider appropriate regulatory models for regulating hydrogen.

An energy system with a greater reliance on renewable sources of energy will be more intermittent, producing more power when it is windy or sunny. So, in tandem with this, the coming year will see Ofgem delivering major change programmes that will unlock a smarter, more flexible system. These reforms will enable customers to be rewarded for shifting the time they use energy, with smart gadgets and more effective storage systems, meaning not only lower bills, but a reduction in the strain on the grid, better enabling the transition to net zero.

This Forward Work Programme will help deliver a more resilient energy sector, higher standards and stronger protections for energy consumers, and facilitate investment in major new low carbon infrastructure at low cost to consumers.

The energy crisis, perhaps the biggest in our lifetimes, presents formidable challenges both for the sector and, more importantly, the customers that we are here to serve. Prices have fallen in recent months, but remain high. I believe there are brighter days ahead. Ofgem is working hard to make a positive impact to protect consumers and ensure prices are fair in the short-term, and help deliver a cheaper, greener, and more secure energy system in the long-term.

Jonathan Brearley

**Ofgem Chief Executive**

## Who we are and how we deliver our principal objective

The [Gas and Electricity Markets Authority](#) (the 'Authority'), consists of non-executive and executive members, and a non-executive chair. The Authority operates through the Office of Gas and Electricity Markets ('Ofgem'), which is a non-ministerial government department. The terms Ofgem and the Authority are used interchangeably in this document.

Non-executive members of the Authority are appointed by the Secretary of State for the Department for Energy Security and Net Zero ('DESNZ'). DESNZ was created in February of 2023, to focus on the energy portfolio from the former Department for Business, Energy and Industry Strategy.

The Authority determines strategic direction, sets policy priorities and makes decisions on a wide range of regulatory issues, including price controls and enforcement.

The Authority's principal objective, set out in statute, is to protect consumers' interests, now and in the future. In 2023-24, we propose to further this objective by:

- using our Consumer Interests Framework, to keep consumer priorities at the heart of our decision-making
- focusing our resources on our short, and longer-term strategic priorities
- delivering our core regulatory activities, and
- administering environmental and social schemes for government.

We will also continue to deploy our resources to our investment and enabling activities, that make us a more efficient and effective regulator.

Delivery of this Forward Work Programme is conditional on approval of additional funding that Ofgem is seeking from HM Treasury, which is being discussed at the time of publication.

## **Consumer Interests Framework**

Alongside this year's Forward Work Programme, we consulted on Ofgem's developing Consumer Interests Framework. The framework was developed by directly engaging with consumers to identify their interests, so that we can ensure we continue to keep their priorities at the heart of our decision making. We welcome the feedback that we received, which focused on two key areas; (1) feedback on the framework itself, and (2) questions on how the framework will be used.

### **Feedback on the framework itself**





Feedback on the framework content included potential phrasing changes and suggestions for areas to enhance, and whether the framework should focus on consumer outcomes rather than interests. Ofgem is committed to this being used as a living framework that does not override or substitute, but rather helps inform our approach to our statutory duties. As part of this commitment, we are taking an iterative approach, and will continue to consider ongoing feedback on how it can remain relevant and effective. Importantly, the framework has already been incorporated into our board decision-making, to help ensure all decisions continue to consider the key interests of consumers in a consistent way.

### **Questions on how the framework will be used**

Questions on how the framework will be used included queries about: how the framework will be used to inform trade-offs between the different interests, when making decisions within our statutory framework; how this will be quantified; and how Ofgem will engage with stakeholders on the framework moving forward.

We are currently considering the wider implementation of the framework and how it will be further operationalised. This will include how and when to engage with consumers, stakeholders, and industry on the framework. We will continue to engage with stakeholders on how we can use the framework to help inform our decision-making, when balancing the different interests and update them as the framework evolves.

**The Consumer Interests Framework**

	 <b>Fair Prices</b>	 <b>Quality &amp; Standards</b>	 <b>Low-Cost Transition</b>	 <b>Resilience</b>
Description	<p>Costs are efficient and fairly distributed. Undue price discrimination is prevented and action to minimise consumer welfare risks (e.g. fuel poverty and self-disconnection) is supported.</p>	<p>Customer services throughout energy supply chain are accessible, transparent and responsive. Consumers are suitably empowered and protected from harm, with enhanced protections for the vulnerable.</p>	<p>Sustainable, carbon-free energy and associated infrastructure at least cost to consumers (and taxpayers). Consumers are supported to make greener choices and are fairly rewarded for their contributions to the system</p>	<p>Consumers have secure supply and trust that industry Participants are resilient to market shocks. The sector attracts sufficient long-term investment to deliver consumer interests.</p>
Sub-objective	Prevent excessive profits	Accessible & responsive	Enable infrastructure & markets required for net zero transition	Maintain security of supply
Sub-objective	Achieve cost efficiency	Transparent & enables choice	Minimises net cost of transition	Robustness to market developments and external shocks
Sub-objective	Protect consumer welfare	Enhanced protections for the vulnerable	Apply innovative solutions to support & protect consumers	Ensure sector is investable



## Strategic priorities

Ofgem has identified six strategic priorities for our regulatory work, in the coming year – three short-term and three longer-term – which are set out below. Within the six, we have planned to deliver twenty priority projects and programmes that (short-term) address current market conditions, and (longer-term) will enable a low-cost transition to a net zero energy system. Descriptions, objectives and quarterly milestones for those projects and programmes can be found in the following section.

### Our short-term priorities

#### Ensuring prices are fair

With sustained gas price volatility having driven-up energy costs, Ofgem will continue to work with government to help design and deliver support for energy consumers, while ensuring that prices are fair across the energy value chain.

#### Creating resilience across the energy sector

Price volatility, geopolitical threats to European energy security and global competition have increased the need for resilience across the sector. We will strengthen security of supply standards and further implement changes to deliver a reformed retail market, so that it can better withstand market shocks.

#### Monitoring and enforcing quality and standards

Performance standards have been found to be lacking across parts of the sector. We will continue to monitor and enforce key consumer standards and protections, while implementing new standards where our remit expands. We will require the sector to go further to support consumers, especially the most vulnerable.

### Our longer-term priorities

#### Facilitating infrastructure investment

Decarbonisation of energy will require a new and expanded range of technologies across the system, with shifting demand for electricity, gas and other energy sources. Ofgem will act as an enabler for infrastructure investment at pace, to facilitate a rapid, cost-effective transition to net zero.

#### Developing and delivering market reforms

A renewables-dominated power system requires development and delivery of market reforms to help ensure it is optimised, including enabling greater flexibility.

#### Reforming governance arrangements

The transition requires a more strategically planned energy system and reforms to existing governance arrangements and institutions.

## 2. Delivery: Projects and programmes

### Our short-term priority: Ensuring prices are fair

#### Government Bill Support

##### Description

Support the delivery of government schemes to address the cost-of-living crisis:

- Energy Price Guarantee ('EPG') – Limits the unit price that suppliers can charge domestic consumers for gas and electricity, with the Government paying the costs above that limit.
- Energy Bills Support Scheme ('EBSS') – Gives all domestic customers a £400 discount on electricity bills, split into monthly payments between October 2022 and March 2023.
- Alternative Fuel Payment Scheme ('AFP') - Provides a one-off payment to certain off-grid customers who use alternative fuels.
- Energy Bill Discount Scheme ('EBDS') - The EBDS will replace the Energy Bill Relief Scheme, from 1 April 2023, to provide unit rate discounts to non-domestic customers if wholesale prices are above a certain threshold. Energy and Trade Intensive Industries will also get enhanced discounts.
- Energy Bill Relief Scheme ('EBRS') – The EBRS provided a discount off non-domestic customer bills, based on a proportion of the wholesale energy price.

##### Objective

Across these schemes, we will monitor compliance and/or enforcement and take appropriate action against suppliers where necessary, to deliver the specific goals for each scheme. We will:

- continue to ensure EBSS suppliers have fulfilled their obligations under SLC 25E and meet the compliance requirements regarding the EBSS delivery in the end of scheme audit and assurance activities
- ensure that suppliers comply with the requirements of the EPG scheme and that these benefits are passed on to domestic consumers, engaging in compliance and enforcement activities to secure this where necessary
- ensure suppliers comply with their requirements in the EBDS (and 'EBRS'), and pass on benefits to non-domestic consumers
- continue to set the Default Tariff Price Cap (the 'Price Cap') as the benchmark price (that suppliers could otherwise have charged), informing government support through the EPG

- as per the Chancellor’s commitment, continue to work with DESNZ to develop policy options to enable the ‘levelisation’ of pricing for customers on traditional prepayment meters.

Quarterly milestones

Q1 – Q4 Ongoing delivery of scheme compliance, enforcement and engagement

**Vulnerable consumers**

Description

Deliver enhanced protections for prepayment meter customers and develop our wider approach for protecting vulnerable consumers.

Objective

Across Ofgem activity, we will continue to consider our particular duties to vulnerable customers and look for areas where we could intervene with further support. This will include producing a new ‘Code of Practice’ on prepayment meter installations, and putting this into the supplier licences, and also considering options for equalising the prepayment meter price cap tariff, to remove the premium over the direct debt tariff. We will monitor and assess if energy companies are delivering their obligations to support prepayment meter customers in full. This will include reviewing and potentially updating our Consumer Vulnerability Strategy.

Quarterly milestones

Q1 Publish a ‘Code of Practice’ for prepayment meters

Consult on prepayment meter rule changes

Q2 Publish decision on prepayment meter rule changes

**Retail market reform**

Description

Develop and implement reforms to drive-up standards for all consumers.

Objective

In parallel with our approach on consumer price protections and financial resilience and controls (see following sections), we need to ensure that the non-price related consumer protection standards in place via the supply licence are delivering the best outcomes for domestic and non-domestic consumers.

Building on the existing framework and the outcomes from our Market Compliance Reviews (‘MCRs’), we will consider how effectively standards are delivered by the energy suppliers and implement reforms where necessary to help ensure that they remain fit-for-purpose for the future. This will include a non-domestic market review on business customer protections.

Quarterly milestones

- Q1 *Consumer standards: Consult on new/revised standards*
- Q2 *Non-domestic market review: Consult on changes to business customer protections*
- Q3 *Non-domestic market review: Publish a statutory consultation*  
*Consumer standards: Publish statutory consultation (if required)*  
*Consumer standards: Publish licence changes*  
*Consumer standards: New standards take effect*
- Q4 *Non-domestic market review: Changes to business customer protections take effect*

**Consumer price protections**

Description

Deliver effective price protection, which continues to evolve to meet the needs of consumers in a changing market.

Objective

We have been making changes to the Price Cap in response to unprecedented volatility, to strengthen resilience and maintain protections – for example – by shifting to quarterly price cap periods. We will continue to monitor the impact of the Cap on customers and update the methodology as necessary, to ensure that it reflects the efficient costs of supplying energy, so that we can continue to protect existing and future customers in line with our principal statutory objective.

In December 2022, we published our 'Programme of Work' for the Price Cap (which you can find on our [website](#)) and intend to publish a further update early in 2023-24. In the longer-term, the Government has announced a review of customer protections post-April 2024 (once the EPG ends), which may include measures such as social tariffs. We will work closely with government to develop options for price protection that continue to protect those who need it.

Quarterly milestones

- Q1 *Publish an update to our Price Cap 'Programme of Work'*  
*Update the Price Cap, effective from 1 July 2023*
- Q2 *Work with Government on post-April 2024 protections*  
*Update the Price Cap, effective from 1 October 2023*
- Q3 *Publish options to remove the prepayment meter premium*  
*Update the Price Cap, effective from 1 January 2024*
- Q4 *Implement Post-April 2024 protections*  
*Update the Price Cap, effective from 1 April 2024*

## **Our short-term priority: Creating resilience across the energy sector**

### **Security of supply**

#### Description

Work with government and the sector to support a secure energy supply for the winter of 2023-24 and beyond, including monitoring the wholesale market, evaluating existing arrangements for gas and electricity, and considering if regulatory interventions would further support security of supply.

#### Objective

During the year, we plan to:

- alongside government and regulated entities, undertake short to medium-term measures to increase gas and/or electricity supply to and within GB, and further develop schemes to support demand reduction in 2023-24, and beyond
- undertake continual, detailed market monitoring to evaluate wholesale market and market participant resilience, and assess appropriateness of market interventions to help ensure that markets are functioning to support security of supply
- review existing commercial, charging and access arrangements to identify the need for intervention to:
  - ensure GB remains a competitive destination for gas supply
  - mitigate risks that could undermine market resilience, and
  - keep downward pressure on costs for consumers
- review the security of supply legislative framework, to ensure that roles and responsibilities are clear
- verify that emergency protocols are clear and fit-for-purpose, and take forward changes where needed, such as:
  - changes to emergency code arrangements, to ensure consistency across protocols
  - improving data sharing across sectors and relevant parties, to improve consumer outcomes in the event of a supply disruption, particularly for priority service register customers.

#### Quarterly milestones

*Q3 Deliver short-term measures to increase gas and/or electricity supply and schemes to support demand reduction for the winter of 2023-24*

## **Cyber**

### Description

Protect consumers by driving an increase in the cyber and security resilience measures of regulated companies.

### Objective

We will continue to protect consumers by driving an increase in the cyber and security resilience measures across companies regulated by Ofgem, with three areas of focus:

- Accelerated resilience – Embed accelerated cyber and security resilience into the changes in GB energy systems, using guidance, as well as our full scope of regulatory powers.
- Improved situational awareness – Develop systemic understanding of the risks to the sector, to minimise the impact of an incident on consumers.
- Digitalisation – Support sector changes in a flexible energy market, through review and maintenance of associated cyber standards, guidance and codes.

### Quarterly milestones

*Q1 – Q4 Ongoing delivery of our cyber and security resilience programme*

## **Power market liquidity**

### Description

Explore and assess current power market liquidity trends, issues and concerns, and work with government to consider potential options for intervention in the short, medium and longer-term.

### Objective

Explore whether intervention is required ahead of the winter of 2024-25, to ensure that the wholesale power market liquidity is sufficient to meet market participant requirements, and to enable effective management of risk, balanced against costs and the interests of consumers.

### Quarterly milestones

- Q1 Develop a clear scope/plan for this work  
Coordinate and clarify roles and responsibilities with government, related to planned or potential wholesale market liquidity interventions*
- Q1-Q2 Undertake a 'call-for-input' with industry on current wholesale power liquidity trends, issues and concerns*
- Q2-Q3 Assess 'call-for-input' responses and, subject to responses, begin to explore the case for further intervention to support wholesale power liquidity, ahead of the winter of 2024-25*
- Q3-Q4 Subject to steps above, further development and refinement of interventions*

## **Financial resilience and controls**

### Description

Implement and further develop a regime to deliver a resilient energy supply market including:

- an effective capital adequacy regime for domestic suppliers, with proactive monitoring and timely intervention to protect consumers
- the enhanced Financial Responsibility Principle ('FRP'), covering both domestic and non-domestic suppliers
- proposed ring-fencing of Renewables Obligation (see the delivery of environmental and social schemes section) receipts, attributable to domestic supply.

### Objective

Our overarching objective is to protect current and future consumers by developing a more resilient energy supply market. Through developing and implementing our proposed regime, we want to remove incentives for excessive risk-taking with consumer money (the moral hazard) while enabling an environment for investment and sustainable competition. Suppliers should have sufficient capital and sustainable business models to ensure they are sufficiently resilient to market shocks and that customers are shielded from the impacts of supplier failures, as far as possible. This must all be achieved at the lowest cost to consumers.

### Quarterly milestones

*Q1 Publish a decision on ring-fencing for the Renewables Obligation*

*Publish a decision on the enhanced FRP*

*Consult on 'minimum capital requirements'*

*Consult on powers to direct 'customer credit balance' ring-fencing*

*The enhanced FRP takes effect*

*Q2 Publish a decision on 'minimum capital requirements'*

*Publish a decision on powers to direct 'customer credit balance' ring-fencing*

*Q3 Implement Renewables Obligation ring-fencing*

*Q4 Deadline for first annual 'adequacy self-assessments', as a part of the enhanced FRP*

## **Our short-term priority: Setting, monitoring and enforcing quality and standards**

### **Proactive and robust compliance and enforcement**

#### Description

Over the course of the year, we will continue to progress a programme of proactive and reactive compliance and enforcement activity. Our proactive work will focus on our Market Compliance Reviews ('MCRs') in the retail sector.

#### Objective

Where we see either shortcomings or sharp practice, we will take compliance action against the company concerned. Where we find any egregious breaches of the regulations, we will not hesitate to take enforcement action. We will continue to prioritise the interests of consumers, especially those that are vulnerable.

We will also review the end-to-end process for our compliance and enforcement activities, to ensure that the right cases are being expedited through to enforcement. During the year, we expect to increase both our compliance and enforcement capabilities.

#### Quarterly milestones

- Q1 On-going delivery of case management work associated with current MCRs*
- Q2 Review and respond to prepayment meter outcomes*
- Q3 Vulnerability MCR outcomes and direct debit testing outcomes*
- Q4 Billing MCR outcomes and customer services testing outcomes testing outcomes*



## Heat network regulation

### Description

Prepare to regulate heat networks in line with government plans and support DESNZ in developing the market framework. The date that the regulations will take effect is contingent on the legislative programme and other workstreams, but is expected to be late in 2024.

### Objective

Ofgem has two main heat network regulation objectives:

1. to help to ensure consumers get a fair price, fair treatment and a reliable supply of heat, and
2. to support the decarbonisation of the sector, by enabling technical standards and enforcing carbon emissions limits on heat networks.

We aim to achieve these objectives by:

- ensuring there are sector-specific protections for heat network customers, through efficient and effective authorisation processes, regulation and monitoring, and compliance and enforcement activities
- setting-up our authorisation, compliance and enforcement processes, to enable us to hold heat suppliers to account for their obligations under the prevailing rules, and see that performance and efficiency improve over time
- facilitating DESNZ promotion of market growth, by ensuring that heat network developers can access powers equivalent to other utilities, such as gas and electricity.

To assist us in developing a regulatory framework that provides additional support and protection for heat network customers, delivers on government policy intent and works for the industry, we have engaged with a wide range of stakeholders from many parts of the industry. Ofgem and DESNZ will use this feedback to consult on the policy and implementation detail of our proposed regulatory framework for heat networks.

### Quarterly milestones

*Q2 Publish a joint consultation with DESNZ on latest policy developments and proposals for our approach to implementing a heat network regulatory framework*

*Begin a 'beta phase' of the heat network data solution development*

*Q3 Publish a joint consultation response with DESNZ*

*Q4 Publish consultations on 'Complaints' and 'Guaranteed Standards of Performance Statutory Instruments'*

## Our longer-term priority: Facilitating infrastructure investment

### Enable time-critical investment in infrastructure

#### Description

Support strategic transmission investment across onshore, offshore and cross-border networks, and enable faster connections and coordinated infrastructure development.

#### Objective

To meet system needs and to enable and accelerate necessary infrastructure investment, we will:

- work with electricity transmission network companies to:
  - deliver Accelerated Strategic Transmission Investments ('ASTI') from the two 'Holistic Network Design' exercises, driving a step change in their capacity to build new connections and to deliver government targets, including 50GW of offshore wind by 2030, and
  - avoid excessive networks constraints
- conclude an 'initial project assessment' for new interconnectors and the pilot project for multi-purpose interconnectors ('MPIs'), to enable government targets of 18GW of interconnector capacity by 2030 to be met
- implement and administer the full suite of RIIO-2 price controls, including the new RIIO-ED2 electricity distribution re-openers, to support the connection of new sources of low carbon power to homes and businesses, while meeting new demands, particularly for electric vehicles and heat pumps
- undertake reforms to improve both transmission and distribution network connection times at national and sub-national levels – in the short and medium-term – to significantly reduce the current queue for connection and to improve the timeliness and efficiency of connection dates.

Following our 'minded-to' decision on offshore delivery models in December 2022, we will develop a new OFTO-build delivery model option for coordinated parts of the offshore network, subject to consultation feedback. We will also introduce assessments to enable anticipatory investment for offshore networks. Our objective is for offshore developers to have the flexibility and certainty required, so that the electricity network can be fit-for-purpose, to enable government's offshore wind target of 50GW by 2030.

Quarterly milestones

Q1 *Start of the RIIO-ED2 price control period*

*Publish Ofgem's 'Connections Open Letter'*

*Implement the Industry Strategic Connections Group's tactical solutions, including necessary regulatory approvals*

*Consult on 'early-stage assessment guidance' for the Offshore Transmission Network Review*

*Consult on the MPI regulatory framework*

Q2 *Publish the two 'Holistic Network Design' exercises*

*Consult on the 'initial project assessment' for potential new interconnectors and MPIs*

*Consult on implementing coordinated offshore delivery models*

*Implement ASTI into licence conditions and progress regulatory approval at pace*

Q3 *Publish a decision on the 'initial project assessment' for potential new interconnectors and MPIs*

*Publish next steps on connections reform*

**Future network regulatory framework**

Description

Set policy direction for a new regulatory framework and begin work to determine an optimal approach for the future of the gas grid.

Objective

We will continue the development of a future network regulatory framework, which is: best suited for increasing network capacity where required; limits the cost of meeting net zero targets; and enables innovative solutions on the networks with our focus on:

- developing the future price control frameworks for monopoly networks, to create the optimal incentives to deliver value and quality of service for consumers, while enabling the transition to net zero
- working with industry and other stakeholders on implementation of price control development from 2026 for electricity transmission and gas transmission and distribution, and for electricity distribution companies, from 2028
- continuing to work with the Electricity System Operator (the 'ESO') with the intention to finalise an 'early competition model' for the electricity transmission network, to drive down the cost of meeting net zero targets, and to increase network capacity and enable new innovative solutions on the network.

Quarterly milestones

Q1 *Consult on the future network regulatory framework*

Q3 *Publish a decision on the future network regulatory framework*

### **Nuclear Regulated Asset Base ('RAB') model**

#### Description

Design and implement the economic regime for new nuclear build generation plants, supporting the Government's development of the model for the Sizewell C project.

#### Objective

We will continue to take an active role in the design of the nuclear RAB economic regime to ensure that it is workable, with our focus across development and implementation, so that current and future consumers are protected and receive value for money.

#### Quarterly milestones

*Q1 – Q4 Continue to advise DESNZ on the design and development of the nuclear RAB model, ahead of a final investment decision*

### **Carbon Capture Utilisation and Storage ('CCUS') RAB model**

#### Description

Design and implement the economic regime for CCUS transport and storage networks.

#### Objective

We will continue to take an active role in the design of the CCUS transport and storage economic regime to ensure that it is workable, and maintain our focus across the development and implementation, ensuring that current and future consumers and network users are protected and receive value for money.

#### Quarterly milestones

*Q1 – Q4 Continue to advise DESNZ on the design and development of the CCUS RAB model, ahead of a final investment decision*

## Hydrogen

### Description

Protect consumers' interests in a low-cost net zero transition through our continuing support to government to inform decisions on hydrogen, and enable early investment, through facilitating innovation, developing the evidence base, and preparing the required regulatory frameworks.

### Objective

Across our work on hydrogen, our primary focus is to ensure consumers' interests are protected, as hydrogen's role in a low-cost, net zero transition becomes clearer. We will work to:

- facilitate the development of evidence to inform decisions on hydrogen, including the government's 2026 strategic decision on the role of hydrogen in heating, through trials, studies, and Strategic Innovation Fund projects
- develop improved understanding of the strategic role for hydrogen in delivering net zero, especially in hard-to-decarbonise end-use sectors and power, to direct future work
- work with government and industry to develop an appropriate regulatory framework for hydrogen network infrastructure investment, while seeking to ensure value for money for energy consumers
- consider steps to prepare for the evolution of other regulatory models, which may be required to protect consumers as the hydrogen economy evolves and matures.

### Quarterly milestones

Q1 *Begin to advise DESNZ on a preliminary hydrogen transport business model design*

Q2 *Consult on providing partial funding for the Hydrogen Village Trial, subject to DESNZ's decisions on the trial location and provision of government funding*

Q3 *Publish a gas system transition options consultancy study, with the National Infrastructure Commission*

Q4 *Publish a study considering regionalised infrastructure requirements, related to the role for hydrogen in delivering net zero*

## **Our longer-term priority: Developing and delivering market reforms**

### **Enabling markets for flexibility**

#### Description

Open markets to residential and business assets, enabling wider participation, and maintain progress on key enablers, including: market-wide half-hourly settlement; smart meters and a new smart metering data communications service; developing a smart, secure electricity system; and digitalisation to enable distributed flexibility.

#### Objective

We will continue to focus on ensuring flexibility's potential to support a low-cost transition can be maximised, by taking steps to enable wider participation in markets by:

- engaging with industry further on our March 2023 'call-for-input' on the future of distributed flexibility, including moving to the delivery of these reforms
- working with government to develop a competitive regulatory regime for the aggregation and control of smart energy appliances and demand side response, ensuring that consumers and the electricity system are protected
- specifying what common digital energy infrastructure and key wider enablers are needed to unlock distributed flexibility.

#### *And:*

- supporting the delivery of market-wide half-hourly settlement ('HHS'), specifically through support for HHS baseline planning, which Elexon will design and deliver, and similarly supporting the commencement of 'system integration testing' and Elexon's delivery of an effective 'migration and participant qualification' approach
- driving the roll-out of smart metering, through our regulatory oversight, with compliance and enforcement activity as appropriate, regarding both the rollout and ensuring that suppliers are operating existing smart meters appropriately
- regarding smart metering data communications, we will consider the new regulatory model for the current Data Communications Company ('DCC'), alongside any legislative changes required for a 'Business Handover Period', and as appropriate, commence any planning for a licence extension, handover planning, and changes to the regulatory model.

Quarterly milestones

- Q1 *Publish a decision on HHS programme delivery*
- Q2 *Finalise regulatory implementation for HHS*  
*Publish a decision on Ofgem’s agreed approach for DCC regulation*
- Q3 *Publish a response letter to the ‘call-for-input’ on distributed flexibility*  
*Develop and consult on a proportionate and flexible licensing framework for organisations providing demand side response*
- Q4 *Initiate next steps to deliver commitments in the response letter for the ‘call-for-input’ on distributed flexibility*

**Wholesale market reforms and network charging arrangements**

Description

Develop and recommend options for reform of market and network charging and access arrangements, seeking to ensure that they facilitate net zero and maintain security of supply, supporting government policy design.

Objective

These reforms aim to put effective signals in place to incentivise parties to locate and dispatch in the right place, at the right time. They will help to deliver a secure, affordable, net zero system, where all connected resources can contribute their full efficient potential to meeting system needs, by flexibly responding to available energy and network resources.

The reforms will provide predictable and transparent investment signals, facilitating low carbon generation investment and network build in the right places. This includes supporting government on wholesale market and future interconnector arrangements, as well as developing transmission and distribution level charging and access reform.

We will:

- restart our Distribution Use of System charges reform activities (‘DuoS’), taking stock of work-to-date and the Access Reforms implementation
- restart Transmission Network Use of System changes (‘TNUoS’) taskforce meetings, considering near to medium-term improvements to charging arrangements, focusing on cost-reflectivity, stability and predictability of charges
- set out our expert view of wholesale market reforms, laying out the cost benefit case, as well as the key trade-offs, to feed into the government’s Review of Electricity Market Arrangements (‘REMA’)
- engage and lead on the longer-term purpose and structure of transmission charges and potential reform to transmission charges, considering potential reforms in REMA.

Quarterly milestones

- Q1 *Publish an 'open letter' on Ofgem's principles-based thinking on the long-term structure of transmission charges*  
*Restart TNUoS Task Force meetings and provide direction priorities for near-terms transmission charging reform*
- Q2 *Publish Ofgem's assessment of introducing locational wholesale pricing, along with the quantitative modelling*  
*Publish a longlist of potential TNUoS reforms models for input*  
*Publish an update on the DUoS Significant Code Review*
- Q3 *Subject to industry timelines, industry to submit proposals for near-term reform for an Ofgem decision*



## **Our longer-term priority: Reforming governance arrangements**

### **Future System Operator ('FSO') and local governance**

#### Description

We continue to work closely with DESNZ to deliver the FSO. Our joint response to the initial FSO consultation published in April 2022 set out our commitment to proceed with the creation of an expert, impartial FSO. In July 2022, the government introduced the Energy Bill that contains the relevant clauses to enable the FSO's creation. We expect the FSO to be established by, or in, 2024.

In April 2022, also we launched our review into the future of local energy institutions and governance and set out an initial case for reform.

#### Objective

Our objective for the implementation of the FSO focuses on developing the relevant parts of the regulatory framework ahead of its establishment. This includes creating two new FSO licences (the Gas System Planner Licence and the Electricity System Operator Licence) and coordinating the necessary modifications to existing industry codes and licences. We will work to ensure the implementation of the FSO is incorporated into existing regulation, including the ESO's price control.

We are also planning to deliver institutional and governance change at the local distribution level, and are currently consulting on our position. Our proposed package of reform would deliver clear accountability for the delivery of the core functions, necessary for a smart, flexible energy system capable of achieving a low-cost net zero transition. The proposal includes the creation of a new regional energy system planner role, simplifying market facilitation by assigning it to a single entity and keeping the real-time operations of the network with distribution network operators. Our objective is that these arrangements create consistency and coherence between national and sub-national approaches.

#### Quarterly milestones

- Q1 – Q2 Prepare for creation of the two new FSO licences and necessary modifications to existing industry codes and licences for FSO implementation, and begin consultation processes*
- Q3 Publish a decision on local governance reform, including a timeline for delivery and implementation of any reforms*

## **Energy code reform**

### Description

Work with government to develop secondary legislation and code manager licence conditions, to develop proposals for use of our transitional powers and commencement of our new strategic role, subject to legislation.

### Objective

We will work closely with stakeholders to develop our approach to implementing the energy code reforms, to develop our new strategic role, and to create a code governance framework which is forward-looking, informed by the government's ambition and path to net zero emissions.

Subject to passage and timing of the Energy Security Bill, which sets out the energy code reforms and transitional powers to facilitate implementation, we will:

- work alongside government to develop the required secondary legislation, including code manager selection processes
- develop proposed content for code manager licence conditions
- analyse and consult on options for energy code consolidation
- develop proposals to implement code governance reform into the existing framework, including changes to licences, codes and central systems arrangements.

### Quarterly milestones

*Q1 Conclude initial stakeholder engagement*

*Q2 Develop policy options for code reform*

*Q3 Publish a joint consultation with DESNZ, on code reform secondary legislation  
Publish a consultation on code reform implementation*

*Q4 Review responses to the consultations*

## **Energy sector digitalisation**

### Description

We will work with our key stakeholders such as DESNZ, Innovate UK and industry participants within the energy industry and beyond, to accelerate digitalisation innovation and improvement in regulated entities and further develop and embed digital and data regulations, standards and reforms.

### Objective

Our objectives for energy sector digitalisation are to:

- establish regulatory expectations and levers and to support market stability for data and digital services and initiatives
- embed digitalisation best practices into regulatory rules and to anticipate data-driven market failure risks, including data standards, reforms and a compliance framework to help assess regulatory performance and promote market stability
- ensure sector data is visible, accessible, interoperable and that standards for structure and quality are established and embedded
- consider if digital infrastructure is appropriate, reduce complexity in emerging digital markets and enable innovation
- promote better cross-sector data/digital regulatory communication and collaboration – for the energy market and beyond
- accelerate digitalisation innovation and improvement in regulated entities and engage industry on the balance between data sharing and cybersecurity risk.

### Quarterly milestones

*Q2 Consult on the reformed 'Long-Term Development Statement' data standard*

*Publish a 'call-for-input' into our Digitalising our Energy System Strategy*

*Finalise updated 'Data Best Practice Guidance' following the consultation*

*Q3 Publish future compliance guidelines for companies obligated under 'Data Best*

*Practice Guidance' obligations*

*Q4 Update the joint digitalisation strategy with DESNZ*

### 3. Core regulatory activities

In addition to the regulatory activities that have been detailed in our projects and programmes, we will continue to deliver other core regulatory activities, including to:

- respond to any supplier failures through our Supplier of Last Resort process and Special Administration Regime
- maintain industry codes and issue licences
- monitor and develop intelligence for the retail and wholesale energy markets
- engage and cooperate with partner agencies on cross-border policy
- maintain cross-border market arrangements
- maintain Capacity Market rules and make determinations on disputes
- maintain regulatory oversight of:
  - the Electricity System Operator
  - the Gas System Operator
  - Distribution System Operators
- monitor current onshore price controls, their benefits, cost effectiveness and network company compliance
- respond to appeals for the electricity distribution price control
- carry-out a competitive tender process for offshore transmission owner assets and administer licences
- assess new interconnector projects through our Cap and Floor process and monitor existing licences for effectiveness
- monitor offshore transmission owner construction costs and assess economic value for proposed projects
- provide advice and support for innovation through our Innovation Link service.

## **4. Delivering environmental and social schemes for government**

Ofgem administers a range of environmental and social schemes for government, which during 2023-24, will continue to deliver the transition towards decarbonisation of domestic and non-domestic electricity generation, the adoption of renewable heat solutions, as well as support vulnerable consumers and energy efficiency measures. The schemes provide around £10 billion of support each year, under three main categories.

### **Renewable heat schemes**

#### **Boiler Upgrade Scheme**

Launched in May 2022, the Boiler Upgrade Scheme supports property owners to install low-carbon heating systems to support the transition to net zero through upfront capital grants, for the installation of heat pumps and biomass boilers in homes and non-domestic buildings. £450 million of grant funding is available between 2022 and 2025.

#### **Green Gas Support Scheme & Green Gas Levy**

Following the closure of the Non-Domestic Renewable Heat Incentive scheme, the Green Gas Support Scheme has provided energy tariff support for plants that produce biomethane via anaerobic digestion, which is injected into the gas grid. Funded by the Green Gas Levy, tariffs are calculated to compensate plants for the building of new infrastructure to produce biomethane and ongoing operation costs.

#### **Renewable Heat Incentive**

While the domestic, non-domestic and Northern Ireland Renewable Heat Incentive schemes have now all closed to new entrants, Ofgem will continue to administer the schemes as per the regulations including issuing associated payments to households, businesses, the public sector and non-profit organisations, and will ensure compliance with scheme rules.

## **Energy efficiency and social schemes**

### **Energy Company Obligation**

Now in its fourth iteration – ECO4 – the scheme continues to help to reduce carbon emissions and to tackle fuel poverty by obligating energy suppliers to promote energy efficiency measures that improve the heating in homes of vulnerable and low-income consumers. ECO4 runs from April 2022 to March 2026 and focuses on improving the least energy efficient homes through a multi-measure, whole-house retrofit.

### **Energy Company Obligation Plus**

DESNZ has announced its intention to launch a further three-year scheme, comprising £1 billion of help between April 2023 and March 2026, to support the installation of additional energy efficiency measures for a wider cohort of households living in the least energy efficient homes. Ofgem is likely to be the administrator of this scheme and will work with DESNZ during the year to support its creation and delivery.

### **Warm Home Discount**

Increased to £150 during 2022-23, the Warm Home Discount offers less-well off pensioners and low-income households a rebate to their electricity or gas account. Other assistance provided by energy suppliers can include industry initiatives, such as entitlement checks, debt assistance, energy and smart meter advice, and energy efficiency measures for low income and vulnerable households.

Ofgem also supports consumers through the Energy Bill Support Scheme and other temporary government schemes introduced by government, in response to exceptionally high energy prices. Please see the 'ensuring prices are fair' section for details.

## Renewable electricity schemes

### Renewables Obligation

The Renewables Obligation scheme supports production of renewable electricity on a large-scale, by requiring suppliers to purchase a set amount from those sources. Certificates are issued to operators of accredited renewable generating stations for the electricity that they generate, and which are sold to, and can be traded with other suppliers. Those suppliers that do not meet their obligations are required to pay an equivalent amount into a buy-out fund. In 2023-24, Ofgem will continue to consider how challenges of failures in the supplier market affect the successful operation of the scheme.

A decision and associated guidance will soon be published on the requirements for suppliers to demonstrate they have the means to satisfy their obligation on a quarterly basis. This will be achieved through showing sufficient Renewables Obligation certificates have been acquired, or relevant financial instruments are in place to buy out their obligation.

### Feed-in-Tariffs

Smaller-scale renewable and low-carbon electricity generation is mainly supported through the Feed-in-Tariffs scheme, in which suppliers make payments to participants that install electricity generating installations, such as solar photovoltaic panels.

## 5. Estimated expenditure

In 2021, the Chancellor of the Exchequer announced a three-year funding settlement for Ofgem as set out in the table below, following the Comprehensive Spending Review.

	2022-23	2023-24	2024-25
<b>Ofgem budget</b>	£90.7m	£94.3m	£100.2m

In addition, we received further funding of £12m in 2022-23, reflecting the additional work Ofgem had to deliver in response to the energy crisis. These estimated expenditure figures do not include funding that we received directly from government for:

- environmental and social schemes that Ofgem administers on behalf of government, including the new Boiler Upgrade Scheme, Green Gas Support Scheme and ECO4, which have been launched since the settlement
- the offshore electricity transmission owner ('OFTO') regime, where Ofgem recovers costs from developers as a part of a tendering process.

New responsibilities that are included in the settlement include for:

- heat network regulation
- economic regulation of new nuclear build generation plants.

New responsibilities that have emerged since the settlement and shown as in-year adjustments are for:

- CCUS regulation
- Hydrogen transport regulation
- code governance reform
- the administration of government initiatives that support cost-of-living and energy increase, including:
  - the Energy Bill Discount Scheme, which will replace the Energy Bill Relief Scheme from 1 April 2023
  - the Energy Price Guarantee, and
  - the Alternative Fuel Payment, which provides one-off payments to certain off-grid customers.

We are currently discussing funding for these additional responsibilities with HM Treasury and DESNZ.



## 6. Reducing burdens

In accordance with the Regulatory Enforcement and Sanctions Act 2008, we regularly review our regulatory functions to ensure we do not impose (or allow to continue unnecessarily) undue burdens on regulated parties. The Act requires us to review the regulatory burdens what we impose or maintain, remove any burdens that are unnecessary and unjustified, and report each year on how we intend to fulfil this duty as we carry out our regulatory work. While this work programme aims deliver a more resilient energy sector, higher standards and stronger protections for energy consumers, we will proactively consider the trade-offs in our decision-making through our Consumer Interests Framework.

The Consumer Interests Framework includes sub-objectives that seek to:

- achieve cost efficiency, for the benefit of both consumers and industry
- minimise the net cost of the energy transition
- promote innovation solutions from industry
- ensure that the energy sector is investable.

Alongside our Consumer Interests Framework, we will continue have regard to the principles of better regulation as we update our existing regulatory frameworks develop new regimes in the year ahead. Our aims will be as follows:

**Retail market reform and compliance** – Our Market Compliance Reviews are targeted, and that any new non-price related consumer protections are proportionate.

**Financial resilience and controls** – We remove incentives for excessive risk-taking with consumer money, while still enabling an environment for investment and sustainable competition in the retail supply market.

**Heat network regulation** – Consumers can get a fair price, fair treatment and a reliable source of energy, while the heat network market can effectively grow.

**Network investment** – Strategic transmission projects offer consumers value for money and supports net zero goals, while investment can be accelerated through our policy initiatives and competition models.

**Network regulatory framework** – A successor to the RIIO framework can increase network capacity and meet net zero targets by enabling innovative solutions.

**Nuclear, CCUS and hydrogen transport regulatory frameworks** – Regimes are workable, attract investment and provide value for money.

**Flexibility** – Ofgem can work with government to develop a competitive market for smart energy appliances and demand side response, alongside storage, while consumers and the electricity system remain protected.