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Consultation Response: Ofgem's Forward Work Programme

Ofgem has a crucial role to play in facilitating change, including in supporting the development of new markets for hydrogen and the expansion of heat networks. We therefore support the recognition in the draft work programme that we are at critical point for the energy market in its transition to a net zero future and that these two activities feature in the priority future programmes of work.

The transition to decarbonised power generation, transport and heat will ultimately help resolve the energy security and affordability issues that are currently, and rightly, the focus of Government and Ofgem's attention.

Ofgem's proposed consumer interest framework is useful in providing guidance as to how new issues can be assessed and prioritised by the organisation. We support the principle of Ofgem prioritising activities but are concerned that some of those classified as long term need action now and delays may lead to negative outcomes in the longer term.

Some of the projects and programmes that are highlighted as priorities for Ofgem we believe would be a good use of the organisations resources and will support the energy industry and consumers, especially with regards to the transition to net zero. We would highlight heat, hydrogen, the development of the FSO, MHHS and energy codes reform as areas that Ofgem should prioritise in the next year.

Other projects such as cyber and digitalisation as well as the delivery of schemes for Government, are areas where other organisations within Government have better skills and are already focused on delivering similar outcomes.

Ofgem does not have unlimited resources and management time. It should therefore focus on areas where its core strengths in understanding the commercial and economic aspects of the energy sector will best deliver benefits for the market and consumers.

Comments on short term priorities:

Cybersecurity: This is an important issue for the energy sector considering the increasing number of potential threats and we understand Ofgem's remit under the NIS Regulations. However, this is not an area where Ofgem has natural key strengths and skills. This inevitably risks creating a distraction to the delivery of core Ofgem activities and would be better handled by other Government agencies, more focused on this type of activity.

Heat network regulation: The development of a heat network regulatory framework will effectively protect customers while also facilitating the evolution of an economic and efficient

heat network market that will provide the scope for competition to flourish where possible. It is therefore welcome that the development of a robust regulatory framework, working in conjunction with BEIS, should be a priority for Ofgem. New heat networks will provide a key element in the drive to decarbonise the heating of homes and businesses. Getting the regulatory regime right is critical to ensuring that investment is delivered and the opportunities to deliver low cost reliable solutions for customers are not lost.

Comments on longer term priorities:

Future network regulatory framework: This is especially relevant in the context of the existing gas networks and the uncertain future that they have in providing heating solutions for customers. A framework will need to be developed that can take these uncertainties into account for 2026. We would therefore classify this as a short term priority and suggest that sufficient work be undertaken within the next year to ensure that there is clarity and time to prepare for the next round of price controls.

Hydrogen: The future regulatory framework for the hydrogen market is likely to be quite different from the current methane market. Networks are likely to be regional and small in scale. They are unlikely to be interconnected for many years and a liquid wholesale market will probably take decades to develop. Ofgem should focus its activity on supporting BEIS with the development of options for the commercial and regulatory framework that will be needed over the next ten years, as the market for hydrogen starts to expand. Little activity has been undertaken in this area to date, with the commercial and regulatory arrangements for hydrogen trials aimed at mimicking the existing methane market, rather than exploring what will be needed for the future hydrogen market. Ofgem should look to address this issue as a priority.

Energy Code Reform: We welcome Ofgem's recognition that these reforms will be a significant undertaking. The successful delivery of these reforms will require sufficient resources within Ofgem, who will have to take on a considerable number of activities that have historically been provided by industry parties. There is a risk that existing industry code governance activity might be adversely affected if Ofgem resource is diverted from existing code management activities to focus on delivering the programme. The industry codes team will need to be sufficiently resourced to oversee the business as usual code activities as well as implementing these reforms.