

Ofgem
10 South Colonnade
Canary Wharf
LONDON
E14 4PU

By email only to: FWP@ofgem.gov.uk

3 February 2023

Dear Sir/Madam,

Draft Forward Work Programme 2023/24

Thank you for the opportunity to comment on Ofgem's draft Forward Work Programme for the 2023/24 regulatory year. This response is on behalf of our three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

Whilst the breadth of Ofgem's agenda remains striking and the content of the Work Programme is broadly in line with our expectations, there are some workstreams that we particularly welcome and there are a small number of areas where we would like to see a clearer and more strategic approach.

We understand that many areas of policy are reserved to ministerial Government Departments and that Ofgem must operate within a governmental policy framework. However, in the following two areas, we believe that Ofgem is nevertheless in a position to make linkages clear and to thus highlight the need for and facilitate strategic decisions by all parties.

- **Future Networks for Heat**

The need for game-changing decisions on the future of local networks for decarbonised heat is a critical area, where we would ask Ofgem to take a lead. Energy network planning must be explicitly centred around these decisions, and it would be helpful if Ofgem could set out how it envisages this happening.

We need an overall strategy that covers:

- Local energy plans to determine the best technology
- Network upgrades (regulatory)
- Consumer engagement
- Supply chain development of heat pumps and skills for installation
- Government subsidies
- Protecting the vulnerable to make the switch
- Addressing the rental sector.

Recently we have seen huge growth in LCT uptake chiefly due to action from early adopters, but the next phase of decarbonisation will require mass adoption. To achieve this, it will be crucial that people trust that their needs will be met when making the transition and the process is made as simple as possible. This is particularly true for heat, where performance cannot be compromised. Significant work is required to make this happen, which is why we think there is an urgent need for Ofgem to publish a strategy that makes it clear who is accountable for what aspects of delivery and how current barriers will be overcome. Focus is needed on technologies such as heat pumps that are deployable at scale as it takes time to build supply chains and market confidence.

The appendix to this letter sets out our initial, high-level thoughts on this issue.

- **Whole System Decision Making**

The other (linked) area where more clarity is needed is how decisions should be taken where the potential impacts stretch beyond an individual sector.

We would like to see Ofgem working on a strategy to incentivise whole systems solutions on this wider canvas and there is little mention of this in the Work Programme. It could link together the transparency and visibility of network assets and plans through open data alongside incentives for collaboration and whole system solutions.

In our view it is crucial that public bodies are at the heart of this decision process and are empowered to make informed decisions. We are hopeful that Ofgem's local governance work stream can make progress in this area alongside the creation of a publicly owned Future System Operator.

One option would be to resolve such issues within the context of local area energy plans (LAEPs). In this context, public authorities would determine the optimal public interest outcome from a whole system perspective, but could only do so with transparent engagement and constructive collaboration from all parties involved. A further question would then be how to ensure a streamlined Ofgem approval process for necessary network upgrades, where these have high confidence and require additional price control funding.

- **Other Feedback**

- We are pleased that Ofgem is considering REMA wholesale market reforms alongside network charging and access in an integrated way. We were concerned that some options for reform could have led to complex and even contradictory balancing of incentives.
- We also welcome Ofgem's intention to work with BEIS on a new approach to tackling vulnerability in an integrated manner. We would be keen to play a constructive role in this area, including through deployment of shareholder funds, as shown in our RIIO-ED2 Business Plan. Nevertheless, we are conscious of concerns raised by Citizens Advice and others about risk of duplication of systems to provide information and advice to those most in need. Greater clarity on where networks can add most value would be welcome.
- We are supportive of Ofgem's plan to undertake reforms to improve both transmission and distribution network connection times at national and sub-national levels in the short and medium term. However, reform should focus on delivery at

the speed customers want, which is not always the same as the fastest connection at all costs.

- We note that one of the short-term strategic priorities refers to performance standards that “have been found to be lacking across parts of the sector”. We seek clarity from Ofgem on its precise concerns, as any changes should be focused on areas where there are issues, and these are not clear from the drafting.
- We are entirely supportive of Ofgem’s drive to secure market-wide half hourly settlement, as we believe that it will support our ambitious DSO plans. We are actively involved in the programme and would welcome further engagement on the detail of how to make it happen – in particular helping to make sure that plans are realistic and requirements clear, to support timely deliverability.
- We remain committed to delivering for our customers by supporting Ofgem and other sectors across all workstreams, including responding to challenges such as supplier failures and the preparation of potential demand control scenarios.

We would be pleased to discuss any of the above issues further if that would be useful. We would also be keen to engage in any ED2 “lessons learned” exercise which Ofgem may wish to launch.

Yours faithfully,



James Hope
Head of Regulation & Regulatory Finance
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
Gemma Cox, Regulation Analyst, UK Power Networks

Appendix: Future Networks for Heat

The Scottish Government's draft Energy Strategy, published earlier this month, states:

We do not consider that hydrogen will play a central role in the overall decarbonisation of domestic heat and therefore we cannot afford to delay action to decarbonise homes this decade through other available technologies.¹

Instead, the Scottish Government is targeting heat networks to supply an estimated 430,000 homes by 2030 and use of electric heat in at least a further 600,000 homes by the same date, with the result that a million Scottish homes – approximately 38% of the total – should be decarbonised by the end of the decade.

This relative clarity in Scotland makes network planning easier, but it still needs translation down into local energy network plans in order for electricity and gas networks and heat network operators to make cost-effective decisions.

The UK Government is currently committed to making a decision in 2026 on the role of hydrogen in future heat policy, whilst decisions on a framework for determining which areas should have a district heat network will be made in 2025.

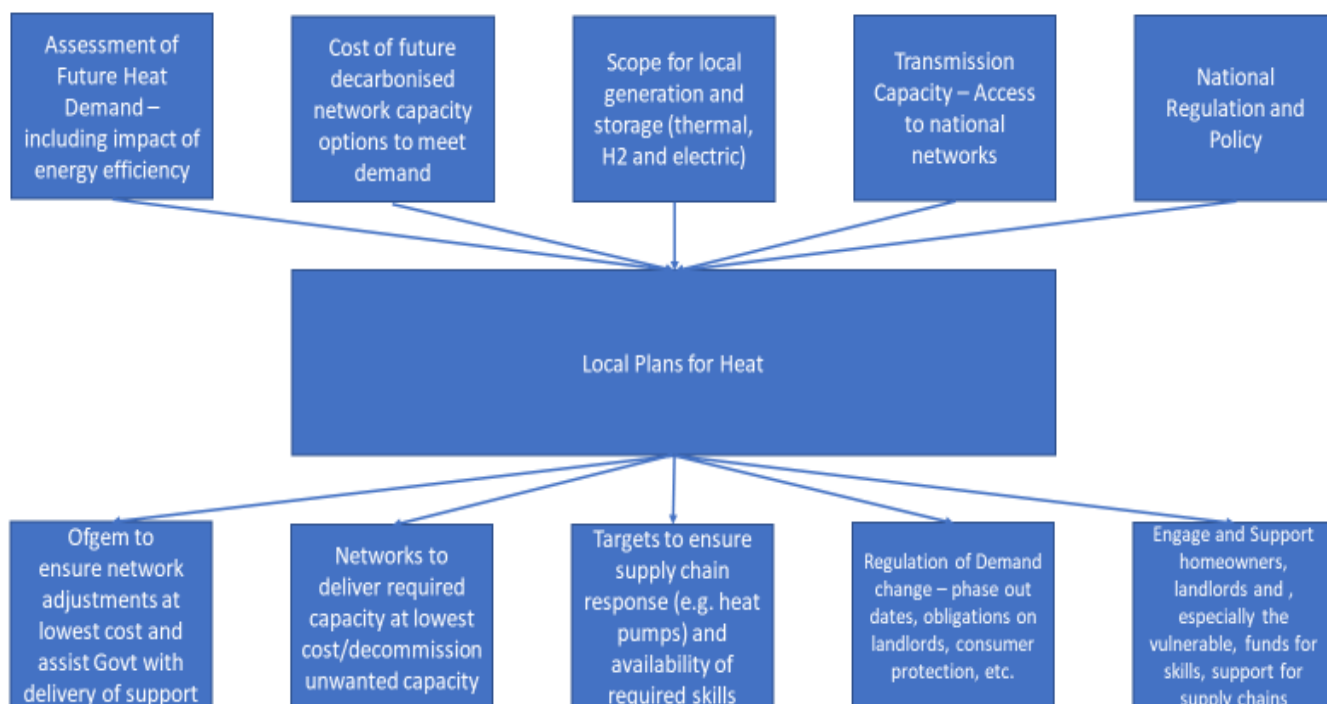
It is already clear that in some (mostly urban) areas (up to 20% of homes overall) heat networks are likely to be the most cost-effective option and even the most ambitious proponents of hydrogen do not expect hydrogen networks to extend into areas currently off gas grid. Many experts expect hydrogen networks to be too expensive in areas beyond industrial hydrogen centres or for residential heating more generally². Decisions will therefore be needed on which networks are optimal for each locality.

Ofgem cannot pre-empt such decisions, but it can and should consider how network companies should feed into these decisions, how the decisions about local networks are going to be taken alongside the national-level decisions and what impacts will flow from the decisions taken.

The following diagram illustrates our high-level view of the informational requirements for local plans for heat and the consequential actions required from a range of parties to make the transition effective. We consider that Ofgem's role is vital.

¹ [Draft Energy Strategy and Just Transition Plan \(www.gov.scot\)](https://www.gov.scot/publications/draft-energy-strategy-and-just-transition-plan/pages/1-to-5.aspx)

² [Is heating homes with hydrogen all but a pipe dream? An evidence review - ScienceDirect](https://www.sciencedirect.com/science/article/pii/S036059172100001X)



Source: UKPN

Whilst it is ultimately for Ministers to ensure that the necessary deliberative capacity and decision-making framework is put in place to develop local plans for heat and to establish the national parameters around such plans, we would suggest that Ofgem has unique insight within Government on how to achieve this.

Our own view is that such decisions must be informed through Net Zero Regional System Planning, which we see as an inherently public sector task.

Regional System Planners should assist local and national government in determining the optimal pathway to Net Zero for the local region. Practically, this means:

- Supporting local government, where required, with technical analysis to determine what decarbonisation technologies should be deployed, how many, where and by when?
- Ensuring that the pathway takes a whole systems approach to understand and incorporate dependencies on transport, housing, and other societal needs;
- Assessing the economic costs impartially and doing so across energy vectors to provide local government (and where necessary central Government) with high quality information, upon which local network policy decisions, particularly regarding future networks for heat, can be based; and
- Identifying the quantum of funding and any other measures needed to realise the plans, recognising that this will be much broader than network investment costs alone.

These RSP functions will require technical and economic skills and could assume responsibilities currently undertaken by DNOs, such as development of local future energy scenarios, in an impartial way. This would enable the Future System Operator's national future energy scenarios to be better aligned with bottom-up, local insights.

The parameters for future local electricity networks laid down by RSPs would then be **delivered** by legally separate and independent-minded DSOs. DSOs would determine how to deliver the required outcomes at lowest cost to consumers, including the appropriate mixture of reinforcement, and demand-side response.

We would welcome Ofgem setting out its vision for how future network decisions will be taken at local level, as soon as possible. In our view Ofgem has a role both in advising Government and in engaging all the networks on how they need to engage with local authorities and others to ensure that the decisions are as well informed as possible. Work may need to accelerate, for example, on network cost transparency and determination of existing capacity, so that the respective costs of all the different options can be objectively compared, alongside unified establishment of future demand scenarios and flexible supply options. Work on many of these issues has been initiated, but the vision on how it will all be integrated is so far unpublished.

If hydrogen for heating is increasingly ruled out across areas of the UK, networks will then need to put into action robust delivery plans that facilitate the deployment of electric heating (including for heat networks) at a mass scale. Given the apparently growing likelihood of this, we think the drafting of such plans should happen sooner rather than later to ensure that the 2050 target remains on track.