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Jonathan Brearley
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Dear Jonathan,

Response to Ofgem's Draft 2023/24 Forward Work Programme Consultation

I am writing to respond to Ofgem's consultation on its Draft Forward Work Programme for 2023/24 which was published on 15 December 2022.

The consultation document sets out a comprehensive programme of work to be undertaken over the coming year and we are committed to supporting Ofgem in the successful delivery of its plan.

The energy sector continues to face significant challenges as we move into 2023. Longer-term impacts of the retail energy market crisis, the implications of Russia's war in Ukraine and a negative macroeconomic outlook all are set to put continued pressure on energy customers and companies. The past year was also the warmest on record for the UK and saw significant swings in extreme weather that will only continue as the impacts of climate change intensify. Given this outlook, we support the emphasis of Ofgem's plan, to both bolster short-term sector resilience and accelerate support to deliver net zero long-term. We also support the focus on the needs of vulnerable customers in the plan. Current pressures and the unprecedented change required to meet net zero may disproportionately effect some energy customers and it is imperative that their interests are protected and represented in all decision-making.

In addition, we also have a number of views on specific elements of the plan which we believe are important to take account of to meet Ofgem's overarching goals. These concern:

1. **Supporting the delivery of system resilience and long-term value through future network regulation:** Throughout the past year we have engaged actively with Ofgem, BEIS and other key stakeholders on future regulatory frameworks through our *RIIO for 2050* work – and we were pleased to see recognition of key points in Ofgem's Future Systems and Network Regulation Open Letter. As the process to define the next gas price control continues, we believe Ofgem should focus on three key actions:
 - *Support further investment in natural gas to keep energy flowing* – while the future role of gas is yet to be determined, it is clear that no matter the net zero pathway, customers will require safe delivery of natural gas over the coming decade at least. Therefore, it is essential that Ofgem, alongside BEIS, facilitates continued investment in networks to support safety, asset health and wider system resilience.
 - *Simplify the setting and administration of price controls* – The RIIO-2 framework led to significant increases in regulatory burden and evidence to date suggests that this burden is not manageable by Ofgem and creates a significant cost and distraction for networks in delivering for customers. Demonstrable and sustained simplification of current approaches will reduce cost to customers, whilst supporting greater focus for Ofgem and networks on strategically important issues for decarbonisation.



- *Create an agile whole-system investment framework to action heat policy* – to deliver an optimal energy transition it is essential for investments to be made at the right time and pace to mitigate significant costs of delay. However, the RIIO-2 framework, with a focus on short-term affordability, use of re-openers and lack of whole-system alignment could act as a barrier. Future frameworks must incorporate proactive whole-system planning for alternative Heat Policy outcomes to allow for swift reaction and investment from networks once a decision is made.
2. **Taking a holistic approach to energy planning and governance reforms:** Activities to date to develop new approaches for whole-system planning for the Future System Operator (FSO) and reforms to local energy planning have been undertaken separately. However, it is unclear how localised ambitions will interface effectively with national plans developed by the FSO. There is a need for reforms to be brought together to ensure the right institutional framework is in place to manage the huge programme of change required to deliver an on-time transition in the interest of all UK customers.
 3. **Taking a proactive approach to supporting hydrogen, particularly for time-critical infrastructure:** We are pleased to see a number of commitments to further develop hydrogen solutions for net zero. However, these are centred on informing future decisions where its use is uncertain. Government's Hydrogen and Energy Security Strategies have already committed to delivering 10GW of hydrogen by 2030 and there are projects (such as the HyNet North-West pipeline) which require funding routes to be confirmed to deliver to these timescales. Actions under Ofgem's longer-term priority to "*enable time-critical investment in infrastructure*" should therefore incorporate hydrogen projects. As written, this currently focusses only on greater electricity investment.
 4. **Joining-up approaches to cyber and digitalisation:** We firmly support and are working with Ofgem to deliver increased cyber resilience and greater digitalisation of services for the benefit of customers across the sector. However, there is a need to develop requirements holistically across both of these areas to manage inherent tensions. For example, between the need to provide increased amounts of open data as well as minimising overall cyber-risk.
 5. **Confirming future approaches to smart metering in gas:** Whilst the draft plan includes work to further smart meter roll-out to enable markets for flexibility, actions set out are largely focussed on changes required in electricity. In gas, existing Post Emergency Metering Service (PEMS) arrangements end in 2024. Therefore, a review of their role and obligations for networks, particularly in the context of smart-metering, should be included in the plan to ensure a smooth transition between requirements.

We also note the draft plan does not include the significant work required from Ofgem and networks to administer ongoing network price controls. For example, such as increased regulatory reporting, re-opener applications and assessment and disaggregation of totex allowances – some of which have been paused with Ofgem resource reprofiled onto other activities.

To support managing these activities we believe significant and enduring reductions in regulatory burden should be targeted. Following the first year of RIIO-GD2, we continue to see a trend of increased burden placed on Ofgem and network companies, leading to increased customer costs. We are keen to build on our ongoing engagement with Ofgem in this area and look forward to the update on Ofgem's ongoing review of regulatory burden promised in the finalised plan.

We consent to our views being published and look forward to working with you and your team as you deliver against the Forward Work Programme. In the meantime, if there is anything that you would like to discuss further in finalising the plan, please do not hesitate to contact us.

Yours sincerely

Tony Ballance

Chief Strategy and Regulation Officer

By email.

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