



Ofgem Strategic priorities and Future Work Programme

Response from Vattenfall

Introduction

Vattenfall, the Swedish state owned energy company, is pleased to be able to submit this response to Ofgem's proposed Future Work Programme for 2023/24,

Our comments are submitted from the perspective of our established onshore and offshore wind business but also our growing UK heat networks business. Regulation for heat networks is much needed to build confidence in the sector, to allow it to grow. Consumer rights and consumer protection should feature strongly within a regulatory framework. It is important that the cost of this regulation should be shared fairly across a wide customer base, including customers of other utilities, to ensure cost effectiveness and affordability.

Short-term priorities

Ensuring prices are fair With sustained gas price volatility driving-up energy costs, Ofgem will work with government, acting fast to protect consumers, to help ensure 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 Recently, 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 expect the sector to go further to support consumers, especially for the most vulnerable.

Longer-term priorities

Facilitating infrastructure investment Decarbonisation of energy will require a new 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. As we continue to assess the benefits of our strategic approach to transforming the energy sector, we would welcome your views on whether these priorities are those that Ofgem should focus on in 2023/24 and beyond.

Vattenfall comment: We welcome these priorities and agree with them in so far as they go. Clearly there needs to be a focus on price and affordability balanced with security of supply. We would add that from a heat perspective facilitating infrastructure investment should also be key a shorter time priority given pressing need to decarbonise.

From a wind perspective we are of the view that Ofgem need to prioritise restarting the TNUoS taskforce to ensure that charging regimes provide certainty and stability for generators going forward. The taskforce will ensure that charging provides a predictable and useful signal for generators.

Detailed objectives

Ofgem have identified a set of twenty key regulatory projects and programmes (short term and long term) that they propose to deliver during 2023/24 and beyond and on which they would welcome views

Short term

1. Ensuring prices are fair

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

Objective Across Ofgem activity, we will continue to consider our particular duties to vulnerable customers and look for areas where we could intervene further to support them while maintaining alignment with BEIS-led work. This will include reviewing and potentially updating our Consumer Vulnerability Strategy, looking further at the prepayment market and assessing whether more can be done to protect these consumers.

Vattenfall comment. From the perspective of our heat networks business we welcome this and especially in relation to heat networks consumers where Ofgem will, subject to the passage of the Energy Security Bill, have a new locus. We would note however that in terms of the cost of living crisis this is society wide, so we view it as important that we see Ofgem joining up with other utility regulators to ensure consistency on what is expected of suppliers

2. 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, 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.

No comment

3. 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

Vattenfall comment. We agree with this priority and the identified objective but consider that it needs to be balanced with the need for energy investment and for businesses willing to invest to earn a return on those investments - specifically those contributing to the energy transition. As well as the cost of supplying energy, there will be costs passed on to customers for decarbonisation. This investment is needed as part of the energy transition. Ofgem needs to consider how not only the cost of supply but also the cost of investment will fall on customer bills.

4. Creating resilience across the energy sector Security of supply

Description Work with government and the sector to support a secure energy supply for winter 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:

- undertake short to medium-term measures to prevent avoidable disruptions to supply in 2023/24 and beyond, and to help ensure markets are functioning to support security of supply
- carry-out monitoring to assess wholesale market and market participant resilience, and to inform mitigations where needed
- review commercial and market arrangements and assess need for intervention: so that GB remains a competitive destination for gas; to mitigate risks that could undermine market resilience; and to keep downward pressure on costs for consumers
- review security of supply legislative framework to ensure roles and responsibilities are clear
- verify emergency protocols are clear and fit-for-purpose.

Vattenfall comment We are of that view that Ofgem needs to pay their part in ensuring fast and efficient deployment of domestic renewable generation and the wires needed to transport the electricity, and that this should be included as part of this particular priority.

5. 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 two areas of focus:

- Accelerated resilience – Embed accelerated cyber and security resilience into the changes within 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, in order to minimise the impact of an incident on consumers.

No comment

6. Power market liquidity

Description Undertake, with BEIS, exploration of potential wholesale market power liquidity issues.

Objective Explore whether the wholesale power market liquidity is sufficient to meet market participant requirements, and to enable effective management of risk.

No comment

7. 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, covering both domestic and non-domestic suppliers
- proposed ringfencing of Renewable Obligation receipts attributable to domestic supply from 1 April 2023.

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) whilst enabling an environment for investment and sustainable competition.

Vattenfall comment. We support this as a priority and assume that these general principles will apply to new emerging regulated markets like heat networks
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8. Setting, monitoring and enforcing quality standards Proactive and robust compliance and enforcement

Description Undertake a programme of compliance and enforcement activity, ensuring we support consumers are protected with regard to all aspects of the sector within our regulatory remit.

Objective Our objective through our compliance and enforcement strategy is to achieve a culture where businesses put energy consumers first and act in line with their obligations.

Vattenfall comment. We fully support this as a priority. We share the objective of ensuring consumers are fairly treated
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9. Heat network regulation

Description Prepare to regulate heat networks in line with government plans (expected to be 2024) and support BEIS in developing the market framework.

Objective We will have two main heat network regulation objectives: to help to ensure consumers get a fair price, fair treatment and a reliable supply of heat; and 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 performance and efficiency improve over time
- facilitating BEIS promotion of market growth, by ensuring that heat network developers can access powers equivalent to other utilities, such as gas and electricity.

Vattenfall comment. We fully support this priority and the supporting objectives. They reflect the goals which the heat network sector has set itself. We especially welcome the recognition that with extra responsibilities, eg compliance and consumer protection, go additional powers with begin to establish a level planning field with other utilities. We would welcome early clarity on how Ofgem will regulate on these issues and the time frame it will set for the sector to meet new standards.
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Longer-term

10. Facilitating infrastructure investment Enable time-critical investment in infrastructure

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

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

- work with electricity transmission network companies on delivery of accelerated strategic investments from the 'holistic network design', driving a step change in their capacity to build new connections and 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, to enable government targets of 18GW of interconnector capacity by 2030
- implement the second electricity distribution price control, 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, in order to significantly reduce the current queue for connection

Vattenfall comment: We support longer term network planning activity including the HND and CNTP. We note that clarity on these processes, and the underlying regulatory change, is key to swift delivery on new renewable and interconnector projects. We note that regulatory uncertainty is currently impacting on investment. We look forward to working with Ofgem on these reforms and welcome the work completed to date, including Ofgem's involvement in the OTNR process.

We would encourage Ofgem to unpause the TNUoS taskforce and believe that urgent reforms are needed to stabilise TNUoS charging.

11. 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

Vattenfall comment: We support this as a priority. We would add that the 'optimal approach to gas grid' has implications for other technologies, ie heat networks, and this should be borne in mind

12. Carbon Capture Utilisation and Storage (CCUS) RAB model

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

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 on ensuring that current and future consumers and network users are protected and receive value for money.

No comments

13. 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 more clear. We will work to:

- use RIIIO-2 mechanisms 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 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, to direct future work
- work with government and industry to develop an appropriate regulatory framework for hydrogen network infrastructure investment, e.g., by co-designing an appropriate business model for hydrogen transport, while seeking to ensure value for money for consumers
- prepare for the evolution of other regulatory models (e.g. in potential retail supply of hydrogen, and in the interaction of hydrogen producers with Ofgem-administered schemes such as the Renewables Obligation), which may be required to protect consumers as the hydrogen economy evolves.

Vattenfall comment. We share the view that the future use of hydrogen has to deliver clear consumer benefits and value for money.

14. 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.

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

No comments

15. 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, and move to implementation, 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. Also, that we have 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 also 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.

Vattenfall comment: We would encourage Ofgem to unpause the TNUoS taskforce and believe that urgent reforms are needed to stabilize TNUoS charging.

We note that the locational placement of generation is complex and is often driven by other elements. Including leasing round locations, access to appropriate land and resource. In addition, the timing of a locational decision is extremely early in the project development cycle. Therefore, locational signal reform needs to be considered carefully.

16. Reforming governance arrangements Future System Operator (FSO) and local governance

Description Work alongside BEIS to deliver the successful launch and maturation of the FSO to deliver key functions, including strategic planning, and Distribution System Operator (DSO) development for local energy planning and coordination.

Objective Regarding the FSO, we will develop necessary regulations and licences, alongside government, to enable effective performance of the FSO. On local energy planning and co-ordination, we will come to a 'minded to' position on the future local institutions and governance required to facilitate sub-national reforms required to deliver a low-cost transition to net zero. We will also work to deliver the roles, responsibilities and capabilities required to enable coordinated and efficient GB-wide planning on the electricity transmission network, and undertake further work to consider, and where justified implement, the role of cross sector strategic planning, including at a subnational level

Vattenfall comment. Whilst we support this, from a heat networks perspective it is important that heat networks should be able to benefit from wider system savings from flexibility and avoided/ deferred grid reinforcement costs. It is our current understanding that under current RII02 market reforms/ Whole System Cost-Benefit Assessment, there is no provision for heat networks.

17. Energy code reform

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

Objective We will work closely with stakeholders to develop our approach to implement energy code reforms.

Vattenfall comment: We support this priority.

18. Energy sector digitalisation

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

Objective Our objectives for energy sector digitalisation are to

- : ▪ establish regulatory expectations and levers to support market stability for digital services and initiatives
- embed digitalisation best practices into regulatory rules and anticipate data-driven market failure risks, including data standards, reforms and a compliance and enforcement framework
- ensure sector data is visible, accessible, interoperable and standards for structure and quality are established
- 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.

Vattenfall comment. Again, from a heat networks perspective, Vattenfall supports digitalization and innovation in regulated entities and examination of how we can use data to improve service and customer outcomes. Across the heat sector is particular there is a lack of data therefore we are keen to work with Ofgem to support the collections and use of better data on heat networks.
