

Forward Work Plan Team
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

8 February 2022

Dear Forward Work Plan Team,

OFGEM'S FORWARD WORK PROGRAMME – 2023/24

We welcome the opportunity to respond to Ofgem's consultation on its draft Forward Work Programme (FWP) for 2023/24. This response reflects the views of our supply, renewables generation and network businesses.

Strategic priorities

We agree with the six high-level strategic priorities Ofgem has identified as its focus for 2023/24 and beyond, but note that the distinction between short-term and long-term time horizons for individual priorities should not be interpreted too rigidly. Many of the longer term priorities need action now to achieve successful outcomes in the longer term. Conversely, many of the shorter term priorities should remain on Ofgem's agenda. We have provided more detailed comments on the proposed work items under each of these priorities in Annex 1 attached.

Level of detail provided

In previous years Ofgem has provided more detail in its FWP around the dates of key publications and outputs, and which internal Ofgem teams are responsible for different areas. This information is helpful to external stakeholders in planning their own engagement with Ofgem, and we would encourage Ofgem to find other ways of communicating this so that engagement can be as targeted and effective as possible.

Consumer Interest Framework

Ofgem has included a Consumer Interest Framework in the FWP which details how it intends to balance trade-offs between different competing objectives. We welcome the creation of this framework and agree all four pillars of the framework are relevant to short and long term consumer interests, but would appreciate further explanation or worked

examples of how this framework would be applied in practice to actual policy development.

We would also suggest that:

- the 'Low-Cost transition' pillar could be renamed as 'Net Zero transition' – to better reflect Ofgem's role in administering and regulating a speedy transition to Net Zero, in accordance with legislation and any strategic steer given to it by Government.
- Ofgem might consider including sub-pillars focused on how it intends to achieve the key objectives of the framework, for example a statement of intent committing to evidence-based regulatory practice.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

**OFGEM'S FORWARD WORK PROGRAMME 2023/24
– SCOTTISHPOWER RESPONSE**

Ofgem has divided its projects and programmes for the year 2023/24 into six strategic priorities, split between three short-term and three long-term priorities, and has identified twenty key regulatory projects and programmes under these priorities. We offer comments below on some of the projects and programmes identified, and then on Ofgem's role in delivering environmental and social schemes for Government.

Though we generally agree with the proposed priorities, we would stress that the split between short-term and long-term should not be interpreted too rigidly. Some of Ofgem's longer-term policies, such as hydrogen or infrastructure development, also contain elements which should receive immediate attention, and vice versa.

1. Short-term priority – Ensuring prices are fair

We are pleased that Ofgem has made supporting **vulnerable customers** a short-term priority, with an objective of working with BEIS and Government to implement a new approach for protecting vulnerable customers. Whilst it is possible that some options for a social tariff may involve less regressive funding mechanisms, it must be recognised that strengthening protections for vulnerable customers (eg customers in payment difficulty) will often come at a cost which will ultimately be socialised across other customers. This raises difficult questions of distributional fairness which Ofgem and Government will be best placed to decide on – and which could benefit from development of a better model to identify which customers are vulnerable and should benefit from different protections. It is important that any changes in policy are reflected in formal guidance and licence conditions so as to maintain a level playing field for all suppliers. It is also essential, while the price cap remains in place, that suppliers can be confident of recovering any additional efficiently incurred costs.

We think the work item '**Retail market reform**' would be better titled 'Consumer non-price protections'; this would better reflect its substance and complement the next item 'Consumer price protections'. (As noted below, we think there should be a separate Retail market reform item under the Developing and delivering market reforms heading.)

2. Our short-term priority - Creating resilience across the energy sector

We agree with Ofgem prioritising resilience across the energy sector. We would suggest that Ofgem focus particularly on steps it can take to expand **security of supply** of the electricity system, which should become more resilient as the sector moves towards intermittent, renewable generation.

We do not disagree with Ofgem including a project on **power market liquidity** but would welcome more detail on what potential policy options Ofgem has in mind as an outcome from this project. Ofgem's exploration of the issues should include consideration of how far its recent decisions may have affected risk in the power market; for example, the move to a quarterly cap may have increased near-term demand which the market has not yet been able to respond to. Ofgem may also wish to respond to the effects of recent wholesale price volatility on power market liquidity.

We believe Ofgem's programme of work on **financial resilience and controls** is particularly important, and it is vital that this is brought to a timely conclusion without further delay to implementation of RO protections and capital adequacy requirements.

3. Short-term priority - Setting, monitoring and enforcing quality standards

Ofgem is proposing to undertake a programme of **proactive and robust compliance and enforcement** activity, to ensure that businesses act in line with obligations. We agree with the need to maintain standards of compliance and enforcement of supplier obligations, but stress the need for consistent communication between Ofgem and suppliers. This will best allow suppliers to understand and adjust their business activities in response to Ofgem's enduring approach, and will also send the right signals to consumers and the general market that quality standards are being met.

We are pleased that Ofgem will be focusing on **heat network regulation**, working with industry to facilitate market growth and achieve BEIS targets. Ofgem may wish to consider a workstream on whole systems thinking to generate understanding, engagement and consistency in a complex policy area that is now underpinned by licence obligations.

4. Long-term priority – facilitating infrastructure development:

We welcome the focus on **enabling time-critical investment in infrastructure** but wonder whether facilitating network development might better be categorised as a shorter-term priority given Ofgem's 2023 timetable for implementing the Accelerated Strategic Transmission Investment (ASTI) regulatory framework. More generally, we would note that a key enabler to unlocking faster infrastructure development is planning, and we would welcome any steps that Ofgem can take to facilitate network companies' activities in this respect, as well as other workforce and supply chain issues that are currently presenting challenges.

Similarly, while we are supportive of Ofgem's long-term vision for **hydrogen** development, there are short to medium objectives which could receive more attention. Specifically, Ofgem should work with industry and Government at:

- Developing a regulatory framework that can better facilitate hydrogen production co-located with renewable generation, such as any requirements for metering.
- Ensuring that any network charges for hydrogen projects importing electricity from the grid are cost-effective and efficient.
- Creating a co-location guidance document similar to that for storage at RO/CfD sites with a focus on metering type/location.

5. Long-term priority – Developing and Delivering market reforms

We agree with Ofgem's policy objective of **enabling markets for flexibility**. However, there are aspects of flexibility that we consider requires greater attention – Ofgem's Forward Work Programme does not cover intra-day flexibility or flexibility that may be enabled by developing energy storage systems. We are also concerned that Ofgem has not mentioned developing policy reforms that will remove barriers to co-location of storage solutions with low carbon generation. Finally, it may be possible that hydrogen could be considered as a source of flexible demand in the long-term, which is not considered in this policy objective or wider markets reform.

Ofgem has targeted the development and recommendation of options for **wholesale market reforms and network charging arrangements** as one of its policy objectives. We agree that it is important that Ofgem supports BEIS in its technical assessment of Locational Marginal Pricing and other options for wholesale market reform, but this should not be allowed to crowd out equally important work on potential alternatives to Locational Marginal Pricing (LMP) such as the work of the TNUoS Task Force which has been delayed and put on hold.

We think there should be a new item **Retail market reform** under this heading (distinct from the item included under that title under the short term priorities). This item should develop a vision for the longer term development of the retail market, considering what are the overall objectives (eg consumer protection, decarbonisation, market resilience, investability), how to strike a balance between them, and what sort of policy interventions might be required. Ofgem's work on the Consumer Interest Framework could be relevant here.

6. Long-term priority – Reforming Governance Arrangements

Ofgem is proposing to work alongside BEIS to deliver the successful launch of the **Future Systems Operator (FSO)**. We would ask Ofgem to be mindful of extending the scope of the ESO while maintaining high standards of performance in other areas – there may be some residual risk of expanding ESO duties without necessary expertise or knowledge in that area.

We believe developing and establishing Ofgem's role as Strategic Body should be the priority workstream under **Energy Code Reform** as it will deliver a significant proportion of the benefits associated with the code reforms, in particular facilitating cross code coordination needed to implement timely industry changes. Accordingly, we propose that this workstream is explicitly included and prioritised in this section of Ofgem's forward work programme.

7. Delivering environmental and social schemes for Government

Ofgem has given an overview of how it plans to administer a range of environmental and social schemes for Government in 2023/24. Under the Renewable Electricity Schemes subheading on page 27, we would suggest that Ofgem should include its role as an arbitrator of disputes between applicants and NGESO surrounding the Contracts for Difference qualification process and decisions. It may also be helpful to include a statement of how Ofgem manages the process for changing Capacity Market rules, in accordance with the CM rule change and disputes processes.

ScottishPower

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