

Sent by email to RetailFinancialResilience@ofgem.gov.uk on 14
December 2022

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Dear David

Statutory Consultation: Strengthening Financial Resilience

Thermal Storage UK welcomes Ofgem introducing a licence condition (SLC 4B) that references net zero. We understand that this is the first time that Ofgem has proposed referencing net zero in the licence for energy suppliers. We support Ofgem considering how regulated entities such as energy suppliers support the delivery of net zero, alongside other Ofgem duties around affordability, competition and financeability.

Concerns

However, we have two concerns about the licence drafting proposed for SLC 4B. Ofgem currently defines the “Low-Cost Transition to Net Zero” as meaning:

“the ability of gas / electricity supply licence holders to take the appropriate steps, at lowest cost to consumers, toward an energy system which relies on renewable, zero-emission sources and [to] facilitate the use of zero emission technologies that are connected to the energy network”

The first concern is “zero emission technologies” would exclude electric heating and transport until the UK generation mix is 100% renewable. This is expected at some point in the 2030s. To allow Ofgem to consider key decarbonisation technologies such as heat pumps, smart thermal

stores and electric vehicles in the 2020s, we recommend amending the definition to “net zero emission at point of use technologies”.

The second concern is that the definition of the “Low-Cost Transition to Net Zero” refers to the “energy network”. This could restrict Ofgem to only considering the connection of renewables or grid-scale batteries to the electricity grid. While renewables are key to the transition and grid-scale batteries are important, energy suppliers also need to deliver low carbon heating and transport solutions to homes and businesses. These technologies are connected behind the meter, rather than to the energy network. To allow Ofgem to consider heat pumps, smart thermal stores and electric vehicles, we recommend amending the definition to refer to the “energy system”.

Alternative drafting

To address the above concerns, we propose that Ofgem redrafts the definition of “Low-Cost Transition to Net Zero” as follows:

“the ability of gas / electricity supply licence holders to take the appropriate steps, at lowest cost to consumers, toward an energy system which relies on renewable, zero-emission sources and [to] facilitate the use of **net zero emission at point of use** technologies that are connected to the energy **system**”

We would welcome Ofgem providing more clarity on what framework it would use to determine whether suppliers are taking “appropriate steps”.

Net zero as a strategic priority

More broadly, we recommend that Ofgem introduces a licence condition to require energy suppliers to consider net zero in how they run their businesses. This licence condition could have the same effect as SLC 0 (Treating Customers Fairly) and SLC 4B (Financial Responsibility). We recommend that Ofgem’s first reference to net zero in the licence is not limited to the proportion of credit balances a supplier should protect.

We recognise that this might require a change to the Utilities Act 2000 to place a duty on Ofgem to deliver net zero, including in relation to heating. This net zero duty would empower Ofgem and energy code bodies to facilitate the transition to low carbon heating and transport at lowest cost. Such a duty may also encourage Ofgem to explore more deeply issues such as heating and energy efficiency.

Best wishes

A handwritten signature in black ink, appearing to read 'Tom Lowe', with a stylized, cursive script.

Tom Lowe

Founding Director
Thermal Storage UK

About Thermal Storage UK

We promote smart thermal storage in the heating and hot water systems of buildings in the United Kingdom and other countries to achieve net zero.