

Consultation

Ofgem's Forward Work Programme – 2024/25

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Response deadline: 9 February 2024

Team: Enterprise Portfolio Management Office

Email: FWP@Ofgem.gov.uk

We are consulting on our proposed Forward Work Programme for 2024/25. We would like views from people with an interest in our revised strategic framework and our proposed work programme for the year ahead. We would particularly welcome responses from industry, consumer groups and charities. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you would like us to treat as confidential, and if possible, put the confidential material in a separate appendix to your response.

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Foreword from the Chair and Chief Executive

Over the last two years, our energy system has faced the biggest challenges we have seen in living memory. We speak to energy customers regularly, and even with the support available, it is clear that many find themselves struggling to afford the energy they need.

This makes it more important than ever that we do everything we can to support customers and businesses, through this winter and beyond. Equally, we should recognise that a big part of the reason why energy bills are so high is our dependence on the international gas market. The gas crisis has made the economic case even stronger, and for Ofgem, that is underlined by the introduction of a net zero duty, which we welcome.

The urgent need to both look after customers today, and into the future, by building out the infrastructure we need to realise a cleaner, reliable, and secure energy system, is at the centre of this Forward Work Programme consultation.

First, we will continue to shape a retail market that works for consumers. While many retailers have stepped up, we are still not where we need to be. So, we will continue to focus on raising customer service standards, and take a more proactive approach to compliance and enforcement. We are also working with the sector on how they handle debt and are ensuring that prices are fair and profits are not excessive, while also promoting innovation and competition.

Second, this consultation lays out our proposals to unlock the infrastructure we need, supporting a massive increase in renewables and low carbon generation, flexible assets, and network capacity. To do this, we will need the system operators to produce plans, including at regional level, and make sure that infrastructure receives the investment it needs at pace and lowest cost to enable that infrastructure.

We will reform and streamline the connections queueing process, and accelerate electricity transmission network build. We are also proposing a range of activities to improve the resilience of our energy system, from financial stability, to mitigating climate risks, to boosting cyber security.

As the proportion of renewables sources in our energy system rises, we will need to unlock the benefits of digitalisation, where demand can start to follow the supply of our growing renewable power assets. However, we recognise that not all consumers are able to vary their energy use easily, and we are looking at how our regulatory tools may need to evolve.

Third, we will continue to focus on the effective delivery of government environmental and social schemes, supporting the deployment of renewable power and delivering the practical changes to make the energy transition happen: getting insulation into walls, heat pumps into homes, and ensuring the support government provides reaches the customers that need it the most.

Ofgem is no longer a narrow economic regulator, but a much broader organisation, taking on new and important responsibilities such as heat networks, which profoundly affect the energy sector and its customers. That is why we are keen to ensure that we engage with the widest possible range of stakeholders to shape our approach in the coming year, and would strongly encourage you to submit your feedback to this consultation.

Building on the impetus provided by our refreshed Board, and working closely with government, the industry and other stakeholders, we are determined that Ofgem can play its part in protecting vulnerable customers through the difficult challenges they face in the short-term, and realising the cleaner, reliable, and more secure energy system customers need in the long-term. To support this, we will be setting out Ofgem's priorities in our multi-year strategy in the spring of 2024.

Mark McAllister
Chair

Jonathan Brearley
Chief Executive Officer

1. Introduction





- 1.1 This draft Forward Work Programme sets out for consultation Ofgem's proposed priorities in 2024/25 and beyond for our regulatory work (section 3) and the environmental and social schemes that we deliver for government (section 4). We are also taking the opportunity to set out a refreshed strategic framework for our regulatory work, clarifying the projects that Ofgem intends to carry out in the coming years, to deliver an energy system that works for consumers and for the climate (section 2). We welcome your comments on both the framework and the proposed work programme, ahead of the publication of our strategy and post consultation Forward Work Programme in 2024.
- 1.2 As always, our final work programme may change to respond to unforeseen challenges that the energy market may face between now and publication. We will also carefully consider your feedback through this consultation, as we agree a final programme of work for 2024/25.

Who we are and our principal objective

- 1.3 Ofgem is Great Britain's independent energy regulator. Our principal objective, set out in law, is to protect the interests of existing and future gas and electricity consumers.
- 1.4 We operate in a statutory framework set by Parliament. This establishes our duties and gives us powers to achieve our objectives. We are governed by the Gas and Electricity Markets Authority ('GEMA'), which consists of non-executive and executive members, and a non-executive chair. GEMA determines Ofgem's strategy, sets policy priorities and makes decisions on a wide range of regulatory matters, including price controls and enforcement.
- 1.5 Ofgem also delivers environmental and social schemes for government.

Consumer interest framework

- 1.6 Given both the complexity of the energy system and the multiple duties we have, it is important that our regulatory decisions are made with the full range of consumer interests in mind. To that end, last year, we consulted on a 'consumer interest framework' (see below), to articulate what consumers need and want from the energy system.
- 1.7 While GEMA's decisions are ultimately guided by our statutory duties, we use this framework to ensure that we are clear what our duty to protect consumers means in practice, and to help us identify trade-offs between different consumer interests.

	 Fair Prices	 Quality & Standards	 Low Cost Transition	 Resilience
Description	<p>Costs are efficient and fairly distributed. Undue price discrimination is prevented and action to minimise consumer welfare risks (e.g. fuel poverty and self-disconnection) is supported.</p>	<p>Customer services throughout the energy supply chain are accessible, transparent and responsive. Consumers are suitably empowered and protected from harm, with enhanced protections for the vulnerable.</p>	<p>Sustainable, carbon-free energy and associated infrastructure at least cost to consumers (and taxpayers). Consumers are supported to make greener choices and are fairly rewarded for their contributions to the system.</p>	<p>Consumers have a secure supply and trust that industry participants are resilient to market shocks. The sector attracts sufficient long-term investment to deliver consumer interests.</p>
Sub-objective	Prevent excessive profits	Accessible and responsive	Enable infrastructure and markets required for net zero transition	Maintain security of supply
Sub-objective	Achieve cost efficiency	Transparent and enables choice	Minimise net cost of transition	Robustness to market developments and external shocks
Sub-objective	Protect consumer welfare	Enhanced protections for the vulnerable	Apply innovative solutions to support and protect consumers	Ensure the sector is investable

Recent and anticipated changes to our responsibilities

1.8 In the past year, the Government has made, or initiated the process for, three important changes that affect our responsibilities:

- the Energy Act (2023) has given Ofgem a net zero duty
- Government has indicated its intent to give us a growth duty
- Government has also consulted on a strategy and policy statement, setting out its priorities for Ofgem.

1.9 We are in the process of considering the full implications of these changes and will set this out in due course.

Net zero duty

1.10 Since 2010, Ofgem's duty to protect consumers' interests has included the reduction of greenhouse gases emissions in electricity and gas supply. The 2023 Energy Act replaced this with a specific net zero mandate – to protect existing and future consumers' interests in, "the Secretary of State's compliance with the duties 1 and 4(1)(b) of the Climate Change Act 2008".

1.11 This mandate means that for the first time, there is a specific duty directly linking consumers' interests to specific net zero targets, and that Ofgem will play a key role in supporting the Government to meet its legal obligation to get to net zero by 2050. This will build on work we are already doing, for example, to accelerate approvals for new electricity network build, establish regulatory regimes to support investment in new nuclear, and deliver reforms for a renewables dominated electricity sector.

Other responsibilities through the Energy Act

1.12 As well as the net zero duty, the Energy Act (2023) gave Ofgem new responsibilities, including:

- establishing the Future System Operator (the 'FSO') – for which Ofgem will act as the regulator
- appointing Ofgem as the regulator for heat networks
- appointing Ofgem as the economic regulator for carbon capture, utilisation and storage and transport infrastructure.

Growth duty

1.13 The Government announced in November 2023, that it will be taking forward proposals to extend a growth duty to Ofgem. This (subject to consultation on statutory guidance) will require Ofgem to have regard to the desirability of promoting sustainable economic growth. This duty is expected to take effect in April 2024, and will be a relevant consideration in Ofgem decision-making. Ofgem already plays an important role in supporting growth, facilitating investment in Great Britain's energy infrastructure, ensuring reliable and resilient energy supplies, and helping to reduce the costs of our energy system.

Strategy and policy statement

1.14 Following consultation earlier in 2023, we expect the Government to lay a strategy and policy statement in Parliament, which set out its strategic priorities for the energy system. Ofgem will have a duty to have regard to this statement, when carrying out our functions. Ofgem retains the freedom of decision-making in how best to help deliver the policy outcomes in the statement. Subject to designation of the strategy and policy statement, we will respond in due course, setting out how we will further deliver these priorities.

<p>Q1. We would welcome your views on our refreshed strategic framework and proposed programme of work for 2024/25.</p>

How to respond

- 1.15 We want to hear from anyone interested in this consultation. You can respond by emailing your submission to FWP@Ofgem.gov.uk by 17:00, Friday, 9 February 2024. Unless you ask us not to, we will publish your submission on our website.
- 1.16 Ofgem's final Forward Work Programme for 2024/25 will be published by 31 March 2024.
- 1.17 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.18 You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.19 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.20 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ('UK GDPR'), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations in Appendix 1.
- 1.21 If you wish to respond confidentially, we will keep your response confidential, but we will publish the number (but not the names) of confidential responses that we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits, without undermining your right to confidentiality.

General feedback

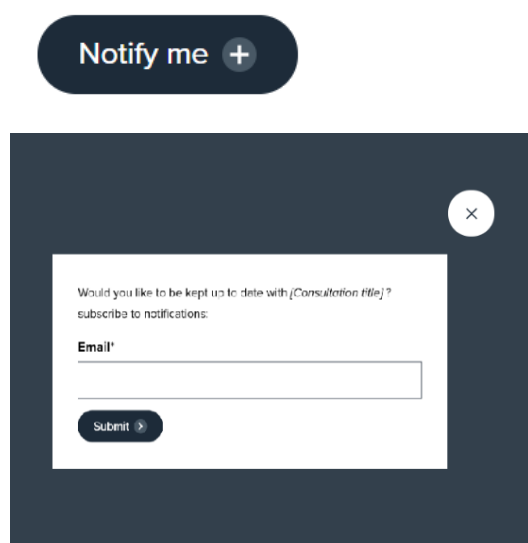
1.22 We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

1.23 Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

1.24 You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



1.25 Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

- Upcoming > Open > Closed (awaiting decision) > Closed (with decision)

2. Proposed strategic framework for Ofgem's regulatory work

- 2.1 With the immediate challenges facing consumers and longer-term changes needed to reach net zero, it is vital that Ofgem has a clear and coherent strategy across its short, medium, and long-term work.
- 2.2 Energy prices remain high, placing continued pressure on households and businesses. And, we are entering a period of rapid change as we move to a renewables dominated electricity system and the transition to net zero broadens, including the electrification of road transport and decarbonisation of heat.
- 2.3 There are also opportunities from cheap renewables and storage, from the digitalisation of the sector, and from the rise of smart technologies. These can combine to deliver a more efficient energy system that is low carbon and low cost. The resulting electricity market will be larger, more complex and more diverse.
- 2.4 Ofgem's role is to protect the interests of energy consumers. We will act to support consumers as they face continued high prices, working to drive up standards and by delivering a retail market that works better for households and businesses, even as it becomes more complex and diverse. We will facilitate the investments needed for net zero, using our regulatory regimes to ensure delivery at pace and lowest cost. And, we will work with government to reform the energy system to enable a renewables dominated electricity market that can work securely and efficiently.
- 2.5 We plan to set out these challenges and Ofgem's proposed priorities to address them in a multi-year strategy, to be published in the spring of 2024. We have grouped our regulatory work and core activities into three proposed strategic priorities:

1. shaping a retail market that works for consumers

2. enabling infrastructure for net zero

3. establishing an efficient, flexible energy system.

1. Shaping a retail market that works for consumers

- 2.6 The retail market has not been delivering well enough for domestic and non-domestic consumers. In the short-term, with prices remaining high, we have to ensure that consumers – particularly the most vulnerable – are protected. In the longer-term, we need to reform the retail market, finding the right balance between competition and regulation, unlocking innovation to facilitate the journey to net zero, and protecting consumers as the retail market changes, including with new regulatory models (e.g. for heat networks).
- 2.7 Areas where we intend to focus in the coming years, to deliver a retail market that works for consumers:
- drive up standards
 - ensure fair prices
 - promote competition and investability
 - support innovative and evolving markets.

2. Enabling infrastructure for net zero

- 2.8 To deliver the government's 2035 target requires a massive increase in infrastructure: in renewables, other low carbon generation, flexible assets, and the network capacity to connect them all to rising electricity demand. Ofgem has a vital role: supporting a more planned system, enabling new investment to be delivered at pace and low cost, and boosting resilience to cyber threats and climate risks. We will also need to manage the declining and potentially transitioning use of the gas grid.
- 2.9 What we need to do in the coming years, to deliver infrastructure for a net zero energy system:
- establish strategic planning
 - facilitate low carbon generation
 - expand electricity networks
 - ensure high service standards at reasonable cost
 - ensure resilient supplies
 - enable the future of the gas grid.

3. Establishing an efficient, flexible energy system

2.10 The transition to a renewables dominated grid requires reforms to how the energy market functions; we need to enable greater flexibility to reduce overall costs and deliver an efficient system. This requires the right incentives and signals, supported by enabling systems, with increased data available through digitalisation, underpinned by reformed rules and institutions.

2.11 What we need to do in the coming years, to establish an efficient and flexible energy system:

- deliver effective and efficient market incentives and signals
- ensure the enabling systems are in place.

4. Delivering environmental and social schemes

2.12 We will also continue to deliver environmental and social schemes for government, ensuring we are set up to deliver a growing number of schemes effectively and efficiently. The main areas of this work are set out in section 4.

3. Delivery of policy projects and core regulatory activities

Shaping a retail market that works for consumers

- 3.1 While the retail energy market has stabilised compared with last year, energy prices are still around double what they were, and risks remain in international energy markets. In this context, we recognise that there are a significant group of vulnerable customers who struggle to get their energy needs met. Our short-term priority is to ensure that protections are in place through this winter and beyond.
- 3.2 Looking ahead, we intend to pursue targeted programmes of work that make the retail market work better for consumers in a smart world, more resilient and investable, and able to leverage the opportunities of the net zero transition. This will include activities aligned to our four consumer interests, informed and supported by projects in the other sections of this document, particularly how the reform of wholesale markets will shape future retail markets.
- 3.3 In recent months, we have implemented robust new rules to enhance the resilience of market participants, limiting the risks and costs to consumers from supplier failure. As the market shows signs of stabilising, we need to ensure that we retain the right balance between a price-regulated market and a market that encourages competition and is investable for sustainable and resilient businesses. We will look to ensure our regulation does not become a major barrier to entry and competition, which will involve projects that look at our approach to the default tariff price cap and the impact it has on market dynamics.
- 3.4 Our approach to monitoring, compliance, supervision and enforcement must incentivise suppliers to improve the customer experience. We want to ensure our approach is data-driven and outcome focused. We expect to evolve our current monitoring tools and approach to increase automation for monitoring key market health metrics, to triangulate our data with that of other bodies, and to regularly publish performance insights including by supplier (where appropriate) as well as cross-market.
- 3.5 In 2024/25, we are proposing to carry out the following policy projects and ongoing core regulatory activities, to support this strategic priority.

Drive up standards

<p>Objective: We need to ensure vulnerable consumers are protected, and find the right balance of competition and regulation to drive up standards for all consumers. We need to hold suppliers to account, through monitoring, compliance and enforcement - as consumer needs, the system, and the market evolve.</p>	
Protecting vulnerable consumers	<p>We will continue to closely monitor suppliers to ensure that they are meeting their obligations to vulnerable consumers in full, including the new rules for prepayment meter installations, as involuntary prepayment meter installations restart (for those households for which they are deemed safe and reasonably practicable).</p> <p>We will also continue our work to expand the scope and effectiveness of the Priority Services Register, promoting the sharing of information across sectors to help energy companies to identify vulnerable consumers.</p> <p>We plan to review our Consumer Vulnerability Strategy 2019-25, to determine what further changes could support consumers in vulnerable situations.</p>
Proactive market monitoring, supervision, compliance and enforcement	<p>We will continue to use our monitoring and enforcement powers to drive improved industry behaviours, performance and outcomes for consumers, both in relation to the domestic and non-domestic retail sectors, and in wholesale markets and networks.</p>
New approach to supervision, compliance and enforcement	<p>We intend to develop a more outcome-focused approach to compliance and enforcement, proactively deploying supplier performance and other market data to identify and tackle poor performance and drive up standards.</p> <p>We will develop and implement a risk-based, proportionate, and forward-looking approach to financial supervision and monitoring, which builds on timely and accurate data flows and constructive relationship with suppliers.</p>
Protecting the interests of non-domestic consumers	<p>We intend to build on our ongoing work to drive up standards and to improve outcomes for non-domestic customers. We will conclude and implement the current range of intended rule changes and embed our approach to increased monitoring of the non-domestic sector.</p> <p>We will also consider the implications of our expected growth duty and work with the Department for Energy Security and Net Zero ('DESNZ'), as it considers energy broker regulation.</p>

Ensure fair prices

<p>Objective: As customers continue to struggle with high energy prices, the current default tariff price cap may not be sustainable in a more flexible and diverse domestic market; we will look at our approach.</p>	
<p>Price protection and fair prices</p>	<p>We will implement the first phase of levelisation (levelising standing charges between prepayment meters and direct debit) and, subject to consultation, work with industry to implement levelisation of debt related costs across payment types.</p> <p>We will continue to review elements of the default tariff price cap (the 'price cap'), including operating costs to ensure that customers pay a fair price and suppliers' legitimate costs are covered.</p> <p>Ofgem has launched a 'call for input' into standing charges (retail and non-domestic). Policy and next steps will become clearer once we have more evidence from the 'call for input' and stakeholder roundtable meetings.</p> <p>We will also continue to support government policy on any potential interventions to support consumers struggling to afford their energy.</p>
<p>Dynamic price protection</p>	<p>The price cap is currently designed for relatively simple tariffs and may need to be adapted to work effectively under market-wide half-hourly settlement (see <i>ensure the enabling systems are in place</i>).</p> <p>We will review whether this is possible within the current arrangements, or whether more fundamental changes to price protection arrangements are needed.</p>

Promote competition and investability

<p>Objective: We need to continue to limit the risks and costs to consumers from supplier failure, while ensuring regulations do not become a major barrier to entry and competition.</p>	
<p>Improved approach to data to drive up supplier performance</p>	<p>As we emerge from the gas crisis, we will reassess our data requirements against our consumer interest and competition frameworks, in order to:</p> <ul style="list-style-type: none"> ▪ improve our collection, use and dissemination of supplier performance data, reducing duplication and increasing automation ▪ explore the development of new, bespoke measures to assess customer service standards ▪ publish more information on supplier customer service standards, to inform consumer choices and incentivise better performance.
<p>Facilitating a dynamic market with entry and exit</p>	<p>As we deliver an investable market, we will support entry and growth by appropriately resilient and responsible firms, running our new license application, milestone assessment, and other authorisation processes in an efficient and effective manner.</p> <p>We believe that the retail market should include a risk of supplier failure and exit, so we will maintain readiness for supplier exit, with the aim of minimising any costs to consumers, if market exits occur.</p>
<p>Consumer participation in the future retail market</p>	<p>We will protect the interests of consumers as new products and services (such as hydrogen, electric vehicles, energy as a service) emerge and spread, identifying and addressing potential consumer harms for both domestic and non-domestic customers, while seeking to avoid creating regulatory burdens, that hinder the growth of these new products and services.</p>
<p>Domestic consumers with non-domestic contracts</p>	<p>We will work with government to improve outcomes for those domestic consumers who get their energy supply via someone else's non-domestic contract.</p>
<p>Implementing our financial resilience regime</p>	<p>We will work to ensure that the financial resilience of suppliers continues to improve as they transition to the new capital adequacy and asset control requirements. We will be vigilant to market developments, adjusting the financial resilience framework where necessary.</p> <p>We will also focus our monitoring and supervisory activity where it matters most, taking into account the impact of potential failure on consumers and the risk of failure.</p>

Balancing price regulation and competition	<p>We recognise that the current approach to the price cap could dampen incentives for new market entrants that could improve competition and product offerings to consumers.</p> <p>We will consider whether price cap allowances and adjustment thresholds continue to strike the right balance between consumer protection and investability for resilient and well-run firms.</p>
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Support innovative and evolving markets

<p>Objective: The retail market is becoming more diverse with the growth of electric vehicles, heat pumps and solar panels, and the rollout of smart meters. We need to promote innovation and consumer engagement, while protecting consumers who do not or cannot engage. Ofgem has been asked to regulate the growing heat networks sector, to ensure consumer protections in line with other domestic energy markets.</p>	
Remove barriers to innovation	<p>We will work with DESNZ to finalise recommendations to remove barriers to innovation, following a ‘call for evidence’ published in summer of 2023. We will identify and address undue barriers to consumers participating in products and services that can benefit them.</p>
Innovation Link service	<p>We will continue to support innovators to trial and bring new products, services and methodologies to market.</p>
Heat network regulation	<p>We will develop a proportionate regulatory framework to protect the customers of heat networks, while supporting investments in the sector. Specifically, we will:</p> <ul style="list-style-type: none"> ▪ consult on regulations, including ‘guaranteed standards of performance’ for heat network customers ▪ confirm an approach to licencing and authorising heat networks ▪ work with DESNZ to implement technical standards ▪ appoint a heat networks code manager ▪ establish an exit regime for failed heat network operators.

Enabling infrastructure for net zero

- 3.6 To deliver the government's 2035 target requires a massive increase in infrastructure: in renewables, other low carbon generation, flexible assets, and the network capacity to connect them all to rising electricity demand. Ofgem has a vital role in supporting the delivery of net zero ambitions and targets.
- 3.7 The scale, complexity and long lead times of new infrastructure build requires strategic planning at local and national levels, to ensure coordination and system optimisation. Alongside Government, we will work to establish the necessary frameworks, institutions and governance arrangements that support this.
- 3.8 With 'what infrastructure needs to be built where and by when' established, delivery of the required network infrastructure will be key to facilitate the building of low carbon generation, both onshore and offshore. We will continue to further develop the relevant regulatory frameworks to support delivery at low cost. We expect to continue to build on the developments of this year, for example for our Accelerated Strategic Transmission Investment framework.
- 3.9 Given the scale of network build will dwarf anything in Ofgem's history, it is important that we ensure energy network companies do so in a way that delivers a high quality of service to consumers at reasonable cost. This includes the ongoing performance management of existing RIIO price controls, ensuring the ability of low carbon generation to connect as required, and encouraging ongoing innovation.
- 3.10 Resilience will also be a key feature for the years ahead, and we will need to strengthen the resilience of our energy infrastructure, including to threats from cyber attack and climate change.
- 3.11 And finally, to ensure that the gas networks remain safe, secure and reliable, alongside Government, we will need to plan for any decline and transition of use of the existing gas grid, and to better understand the role of hydrogen, any potential re-purposing and associated impacts.
- 3.12 In 2024/25, we are proposing to carry out the following policy projects and ongoing core regulatory activities, to support this strategic priority.

Establish strategic planning

<p>Objective: The scale, complexity and long lead times of new infrastructure build requires strategic planning at local and national levels, to ensure co-ordination and system optimisation. We will work with DESNZ and industry stakeholders to put these arrangements in place.</p>	
<p>Establishing the FSO</p>	<p>We will continue to work with DESNZ to establish the FSO, including:</p> <ul style="list-style-type: none"> ▪ completing new licence conditions for the FSO and consequential modifications to the licences of others, where required ▪ coordinating code changes ▪ developing new financial and regulatory frameworks for 'Day One' of the FSO ▪ ongoing transformation and separation cost recovery work ▪ transferring Elexon into industry ownership. <p>Following the FSO's establishment, we will focus on:</p> <ul style="list-style-type: none"> ▪ setting clear performance objectives, to ensure focused and effective delivery and value-for-money ▪ establishing the enduring FSO regulatory framework ▪ the FSO's continued development, including 'Day Two' roles.
<p>Improved planning: the Centralised Strategic Network Plan ('CSNP') and Strategic Spatial Energy Plan ('SSEP')</p>	<p>We will continue to work with the Electricity System Operator (the 'ESO'), DESNZ, transmission network company owners and others to:</p> <ul style="list-style-type: none"> ▪ support the FSO and Government to shape and deliver the SSEP, which, in turn will inform the FSO's enduring approach to CSNP ▪ establish the regulatory framework for the FSO, to fully deliver the CSNP by 2026.
<p>Local energy governance</p>	<p>In November 2023, we published our decision to proceed with reforming local governance arrangements, as an outcome of our review into the future of local energy institutions and governance. We will pursue:</p> <ul style="list-style-type: none"> ▪ the introduction of multiple new 'regional energy strategic planning' roles across the Great Britain market, alongside a Flexibility Market Facilitator ▪ greater coordination across Distribution System Operator and ESO level markets. <p>We will also undertake the detailed design of these arrangements and begin their implementation.</p>

Facilitate low carbon generation

<p>Objective: Major investment is needed in low carbon generation and storage assets. Ofgem's regulatory frameworks can help to facilitate this investment at low cost.</p>	
<p>Low-carbon technologies</p>	<p>We will assist in the design and implementation of the economic and regulatory regimes for:</p> <ul style="list-style-type: none"> ▪ new nuclear build generation plants, supporting the Government's development of the model for Sizewell C ▪ carbon capture, utilisation and storage – transport and storage networks. <p>We will continue to advise and assist government to inform decisions on hydrogen, through developing the evidence base, and by preparing the required regulatory frameworks alongside DESNZ.</p>
<p>Large-scale and long duration electricity storage ('LLES')</p>	<p>We will support government as it develops an appropriate policy and framework for investment into LLES, to support electricity storage for times when it is most needed.</p>

Expand electricity networks

<p>Objective: There will need to be a major expansion of electricity networks to connect new generation and low carbon technologies. Ofgem will develop and deliver new approaches to enable this infrastructure to be approved quickly while delivering value for consumers.</p>	
<p>Electricity transmission and distribution price control reviews</p>	<p>We will continue work on the next round of price controls, with price control setting becoming 'active' across all regulated sectors, by:</p> <ul style="list-style-type: none"> ▪ developing sector methodology for the electricity transmission price control and preparing for company business plan submissions, covering their spending needs between 2026 and 2031 ('ET3') ▪ developing a 'major projects regime', that adapts our regulation to the structural challenges within the energy industry and the need for pace in delivery of network build ▪ commencing work on the 2028 electricity distribution price control review ('ED3'), with a consultation and decision on the new regulatory framework.
<p>Accelerated strategic transmission investment ('ASTI') and large onshore transmission infrastructure ('LOTI')</p>	<p>We will support strategic transmission investment across onshore, offshore and cross-border networks, and enable faster connections and coordinated infrastructure development by:</p> <ul style="list-style-type: none"> ▪ implementing the new ASTI process, to accelerate over £20bn of funding to 26 onshore transmission projects deemed essential to connecting an additional 50GW of renewable energy by 2030 ▪ accelerating the 'project assessment' process and enhanced upfront engagement and monitoring with Transmission Operators ('TOs'), to meet ASTI timescales, while driving value for the consumer ▪ continuing to deliver the LOTI and small and medium project reopener processes, taking account of any distortion from the size and impact of ASTI.
<p>Early onshore competition model</p>	<p>We will continue to work with the ESO and DESNZ, to finalise an 'early competition model' for investment in the electricity transmission network. We will announce the launch of a competitive process once a suitable model for competition has been finalised with the ESO.</p>

<p>Independent Distribution Network Operators ('DNOs') and TOs</p>	<p>We will consider whether there is need to review the regulatory framework for independent DNOs and TOs, in particular for financial resilience, governance and service delivery including:</p> <ul style="list-style-type: none"> ▪ protections for service levels, continuity of supply and company failures ▪ interaction with DNOs and TOs, by offering connections that minimise electricity charges, accelerate connections, with potential detriment to other network users ▪ assets investment (new and replacement activity), compared with expected network requirements for net zero.
<p>Offshore hybrid assets (formerly multi-purpose interconnectors)</p>	<p>We will conclude an 'initial project assessment' for new interconnectors and the pilot project for 'offshore hybrid assets', to support the Government's ambition of 18GW of interconnector capacity by 2030 to be met.</p>
<p>Offshore coordination</p>	<p>We will deliver and implement new, coordinated offshore tender frameworks, alongside the delivery of current projects and wider policy interactions.</p>
<p>Offshore Transmission Owner ('OFTO') regime</p>	<p>We will continue to carry out value-for-money tender processes, for the ownership and operation of OFTO assets.</p>
<p>Interconnector projects</p>	<p>We will continue to assess and decide the need for new interconnector projects through our 'Cap and Floor' regime, and monitor compliance with interconnector licences.</p>

Ensure high service standards at reasonable cost

<p>Objective: Consumers (and infrastructure users) should receive a high quality of service from regulated firms, at reasonable cost.</p>	
<p>Onshore RIIO price control operations</p>	<p>We will continue to manage the effective operation of the current RIIO-2 price controls and incentive frameworks, including transparent and rigorous ongoing performance assessment of network company performance.</p>
<p>Accelerating and reforming electricity network connections</p>	<p>We will deliver actions from the Connections Action Plan and wider connections reform, to significantly reduce connection delays, by:</p> <ul style="list-style-type: none"> ▪ chairing the new Connections Delivery Board, to give a strategic steer and to monitor the benefits of all connections reform initiatives, to keep focus on pace and impact (as part of this we will continue to support and monitor progress of initiatives being led by the ESO and the Energy Network Association's ('ENA') Strategic Connections Group) ▪ carrying out an end-to-end review of incentives and obligations on the ESO, DNOs and TOs ▪ codifying new connection reporting requirements for DNOs and TOs, via 'Regulatory Instructions and Guidance' consultation and licence modifications ▪ developing longer-term connections reform, aligned with strategic planning and market reform, to ensure that they are integrated to deliver strategic outcomes for a timely and efficient transition to a net zero energy system.
<p>Strategic Innovation Fund</p>	<p>We will support the delivery of innovations, that will help facilitate the net zero transition, through the £450m Strategic Innovation Fund and network innovation allowances.</p>

Ensure resilient supplies

<p>Objective: We need to strengthen the resilience of our energy infrastructure, including to threats from cyber attack and climate change.</p>	
Security of supply	We will continue to identify and implement mitigations, to maintain and improve security of gas and electricity supply.
Financial resilience for energy networks	We will carry out a risk review of financial resilience in the networks, to identify risk areas and develop recommendation options to drive systematic, proportionate improvements in the sector.
Cyber Competent Authority regulation	We will continue to assess and drive improvements in cyber and security resilience across energy sector 'operators of essential services'.
Climate resilience	<p>We will enhance the energy sector's resilience to the likely potential of climate change through Ofgem's new climate resilience programme, by:</p> <ul style="list-style-type: none"> ▪ developing resilience metrics ▪ reviewing economic frameworks for valuing resilience in price controls ▪ reviewing options and stress testing ▪ embedding climate resilience into systems planning ▪ supporting Government to develop resilience goals and to update standards.

Enable the future of the gas grid

<p>Objective: To ensure the gas networks remain safe, secure and reliable as part of our future price control review. Recognising that natural gas usage will continue to decline, we will also work with government on strategic issues including decommissioning and repurposing of assets for hydrogen to protect current and future gas customers, as well as investors, in how future costs are recovered.</p>	
<p>Gas distribution and transmission price control reviews</p>	<p>To enable the shift to a net zero energy system – while maintaining a high-quality gas network – we will:</p> <ul style="list-style-type: none"> ▪ develop sector methodologies for gas distribution and transmission sectors and prepare for company business plan submissions, covering their spending needs between 2026 and 2031 (the RIIO-3 period) ▪ investigate the future role of gas networks to support the energy transition, including considering the potential to re-purpose network assets to hydrogen and how to mitigate the impact of potential decommissioning scenarios.
<p>Hydrogen</p>	<p>We will develop improved understanding of the strategic role for hydrogen in delivering net zero, especially in hard-to-decarbonise end-use sectors and power, in the context of ongoing hydrogen projects and the RIIO-3 price control development.</p>

Establishing an efficient, flexible energy system

- 3.13 The transition to a renewables dominated grid requires reforms to how the energy market functions.
- 3.14 We need to enable greater flexibility to increase the 'smartness' of the energy system, to reduce overall costs and deliver an efficient system, so that the scale of infrastructure build for net zero can be kept to an achievable and efficient level. This requires the right incentives and signals to be received by market participants and consumers, as well as the ability to respond. This will ensure that we minimise system costs, while maintaining fairness.
- 3.15 A range of enabling infrastructure is also required to deliver incentives, with increased data available through digitalisation, underpinned by reformed rules and institutions. This will support improved knowledge of the system, as well as managing and making best use of that increased information.
- 3.16 In 2024/25, we are proposing to carry out the following policy projects and ongoing core regulatory activities, to support this strategic priority.

Deliver effective and efficient market incentives and signals

<p>Objective: We need market participants and consumers to receive and respond to market signals and other incentives or requirements, to minimise system costs, while maintaining fairness.</p>	
Wholesale market reform	<p>We will continue to support DESNZ with the development and assessment of wholesale market reforms, through the Review of Electricity Market Arrangements ('REMA') project.</p>
Network charging reform – strategic transmission charging	<p>Our work will centre on ensuring that signals being sent through markets and through network charges and access arrangements work well together.</p> <p>Following on from our September open letter on strategic transmission charging reform, we plan to publish a policy paper and a 'call for input' in the spring, outlining policy options for transmission charging and access rights, in the context of wholesale market reforms and any policies and packages being progressed through REMA.</p>
Network charging reform – distribution charging	<p>We will investigate significant Distribution Use of System charging issues, prioritising actions for those with a clear evidence base and whose solutions do not have major interactions with other relevant reforms - such as REMA and strategic transmission charging. Options include:</p> <ul style="list-style-type: none"> ▪ reviewing the evidence base for distribution charging credits for new distribution-connection generation ▪ reviewing the 'extra high voltage charging' methodology to assess whether charges can be improved and volatility addressed.
Efficient regulatory arrangements	<p>We will continue to develop and implement domestic and cross-border regulatory arrangements, code modifications and reforms.</p> <p>For transmission network charging, we are continuing to facilitate accelerated changes to the current arrangements, through the Transmission Charging Task Force, focused on specific areas for near-term improvement.</p>

Ensure the enabling systems are in place

<p>Objective: A range of enabling infrastructure is required to deliver incentives, to provide improved knowledge of the system, with reformed rules and institutions to manage and make best use of that increased information.</p>	
Code governance reform	<p>We will continue to develop and implement a regulatory framework for code reform as set out in the Energy Act 2023, including:</p> <ul style="list-style-type: none"> ▪ utilising transitional powers, to enable new code governance arrangements to be established ▪ consulting on our approach to establishing Ofgem's Strategic Direction Statement ▪ working jointly with DESNZ, to establish secondary legislation and code manager licence conditions.
Smart metering	<p>We will continue to promote progress in the rollout of smart meters, overseeing supplier licence obligations, and where necessary, taking action to ensure that they meet installation targets.</p>
Data Communications Company ('DCC') regulatory review	<p>We will continue to conduct the DCC's ex-post price control process, as well as setting preparation for 'DCC 2' - the future not-for-profit successor to the current for-profit body. During 2024/25, there will be extensive work to be completed on the Business Handover Plan and transitional arrangements.</p>
Market-wide half-hourly settlement	<p>The market-wide half-hourly settlement programme will increase incentives for suppliers to create time-of-use tariffs and encourage consumers who can load-shift their usage to cheaper times of day, to do so. We will continue to support the timely delivery of the new systems and processes required for half-hourly settlement. With the first electricity suppliers expected to begin transitioning in April 2025, we expect all suppliers and DNOs to be making fundamental changes to their systems during 2024/25.</p>
Customer data access	<p>We will develop an options appraisal with stakeholders, for a consumer data access service, which could potentially hold centralised industry and tariff data.</p>

<p>Aggregator regulatory regime</p>	<p>We will continue to work with government to develop a competitive regulatory regime for the aggregation and control of smart energy appliances and demand-side response, ensuring that consumers and the electricity system are protected. We will also begin preparatory activities to deliver this new regulatory role.</p>
<p>Future of Data Transfer Network ('DTN') data flows</p>	<p>We will carry out a scoping review to assess how to best adapt to changing use of the DTN, as DNOs switch to faster, more efficient and flexible data solutions, which is reducing the DTN’s traffic.</p> <p>The DTN is a network that carries industry data between retail industry parties and industry systems, and its provision is a licence condition for DNOs.</p>
<p>Energy system digitalisation</p>	<p>We will work with our key stakeholders, including DESNZ, Innovate UK and industry participants, to accelerate digitalisation innovation and improvement in regulated entities. We will also further develop and embed digital and data regulations, standards and reforms.</p>
<p>Distributed flexibility and energy sector decentralisation</p>	<p>We will continue to focus on ensuring flexibility’s potential, so that a low-cost transition can be maximised, by taking steps to enable wider participation in markets by:</p> <ul style="list-style-type: none"> ▪ working with government and industry, to ensure there is a clear vision for enabling distributed flexibility and a strategy for achieving this ▪ continuing to consider what is most needed to unlock the potential for consumer flexibility – post the discovery phase – to better understand the market landscape ▪ consulting on what flexibility digital infrastructure is required for transparent and coordinated markets, to unlock distributed flexibility.
<p>Artificial Intelligence ('AI') in the energy sector</p>	<p>AI may have significant implications for the energy sector. We intend to consult with industry on the issue and develop recommendations for actions to ensure that AI works in the interests of consumers and that any risks are managed.</p> <p>We will work with DESNZ and the Office of AI to develop options for regulations and standards.</p>

4. Delivering environmental and social schemes for government

- 4.1 Ofgem administers a range of environmental and social schemes for government, which during 2024/25, will see some changes. Our administration will continue to deliver the transition towards decarbonisation of domestic and non-domestic electricity generation, the adoption of renewable heat solutions, and support vulnerable consumers and energy efficiency measures.
- 4.2 Our administration of the schemes is complementary to our core regulatory role and supports the key pillars of our consumer interest framework, in particular, by supporting customers to make greener choices in the low-cost transition. The schemes provide around £10 billion of support each year.
- 4.3 Our core focus is to administer the schemes efficiently, provide an excellent user experience, deliver for government and ensure risks are well managed. The core schemes administration work programme is described under the three main categories below. This section is provided for information only; our role in administering the schemes is not subject to consultation.

Energy efficiency and social schemes

Economy Company Obligation ('ECO')

- 4.4 ECO is a government energy efficiency scheme in Great Britain, designed to tackle fuel poverty and help reduce carbon emissions.
- 4.5 The scheme works by placing a Home Heating Cost Reduction Obligation ('HHCRO') on medium and large energy suppliers. Under HHCRO, obligated suppliers must promote measures that improve the ability of low-income, fuel-poor and vulnerable households to heat their homes. This includes actions that result in reduced energy usage, such as installing insulation or upgrading a heating system. The overall target for these measures is divided between suppliers based on their relative share of the domestic gas and electricity market.

Great British Insulation Scheme

- 4.6 Launched in 2023, the Great British Insulation Scheme is an ECO scheme, that aims to deliver insulation measures to the least efficient homes in Great Britain. It aims to tackle fuel poverty and reduce energy bills.

Warm Home Discount

- 4.7 The Warm Home Discount offers less well-off pensioners and low-income households a rebate for their electricity or gas account. Other assistance provided by energy suppliers can include industry initiatives, such as entitlement checks, debt assistance, energy and smart meter advice, and energy efficiency measures for low income and vulnerable households.

Renewable heat schemes

Boiler Upgrade Scheme

- 4.8 Launched in May 2022, the Boiler Upgrade Scheme supports property owners to install low-carbon heating systems, to support the transition to net zero through upfront capital grants, for the installation of heat pumps and biomass boilers in homes and non-domestic buildings. £450 million of grant funding is available between 2022 and 2025.
- 4.9 Government has confirmed that the scheme will be extended by three years, meaning it will be open to applications until 2028. The grant levels for air source heat pumps and ground source heat pumps were increased by DESNZ from £5000 and £6000 to £7500 in October 2023. DESNZ has also consulted on potential changes to the scheme.

Green Gas Support Scheme and Green Gas Levy

- 4.10 The Green Gas Support Scheme provides financial support for plants that produce biomethane via anaerobic digestion and inject it into the gas grid. The plants will receive a quarterly tariff for 15 years, assuming they continue to meet all relevant eligibility criteria. The scheme is funded by the Green Gas Levy, which places an obligation on licenced gas suppliers to make quarterly levy payments.
- 4.11 Government has confirmed that the scheme will be extended by two years and four months, meaning it will be open to applicants until March 2028. DESNZ made changes to the Green Gas Levy regulations that came into force in November 2023. DESNZ has also consulted on potential changes to the Green Gas Support Scheme.

Renewable Heat Incentive

- 4.12 While the domestic, non-domestic and Northern Ireland Renewable Heat Incentive schemes have now all closed to new entrants, Ofgem will continue to administer the schemes as per the regulations, including issuing associated payments to households, businesses, the public sector and non-profit organisations, and will ensure compliance with scheme rules.

Renewable electricity schemes

Renewables Obligation ('RO')

- 4.13 The Renewables Obligation scheme supports production of renewable electricity on a large-scale, by requiring suppliers to purchase a set amount from those sources. Certificates are issued to operators of accredited renewable generating stations for the electricity that they generate, and which are sold to, and can be traded with other suppliers. Those suppliers that do not meet their obligations are required to pay an equivalent amount into a buy-out fund. Improved financial resilience measures should mean a reduction in suppliers who fail to meet their obligations through either of the above routes.
- 4.14 Government issued a 'call for evidence' on moving the RO to a fixed-price certificate approach from 2027 onwards, as generation capacity reaches the end of its support through the scheme. We expect a consultation to lead on from this in the coming year, which may fundamentally change how the scheme is administered.

Feed-in-Tariffs

- 4.15 Smaller-scale renewable and low-carbon electricity generation is supported through the Feed-in-Tariffs scheme, in which suppliers make payments to participants that install electricity generating installations, such as solar photovoltaic panels. The scheme is closed to new generators.

Renewable Energy Guarantees of Origin ('REGO')

- 4.16 The REGO scheme provides transparency to consumers about the proportion of electricity that suppliers source from renewable electricity.
- 4.17 This scheme provides certificates called REGOs, which demonstrate electricity has been generated from renewable sources. Suppliers then present these to validate environmental claims made on their tariffs through the Fuel Mix Disclosure ('FMD'). The current year is the first where European Guarantees of Origin (equivalent to REGOs) can no longer be presented for FMD.

4.18 REGO usage has expanded beyond FMD, and is potentially being used across multiple schemes, including some outside of Ofgem's remit. Government has announced a review of REGOs and further details are expected.

Smart Export Guarantee ('SEG')

4.19 The SEG requires some electricity suppliers, known as SEG licensees, to pay small-scale generators, known as SEG generators, for low-carbon electricity, which they export back to the National Grid, as a replacement for the Feed-in-Tariff. We have seen an increase in the number of generators participating in SEG and there are no current plans to reform the scheme.

5. Estimated expenditure

- 5.1 In 2021, the Chancellor of the Exchequer announced the three-year spending review for the period 1 April 2022 to 31 March 2025. Our initial settlement for 2024/25 was £100.18m.
- 5.2 In May 2023, HM Treasury approved an uplift in Ofgem's budget of £27.3m for 2024/25, above the 2021 settlement, reflecting the impact of the energy crisis on our role, and supporting additional regulatory roles and functions needed to deliver a cost-effective transition to net zero at pace. This represents a budget increase of £8.79m above 2023/24 funding.

Funding source – Licence fee (levy)	2022/23	2023/24	2024/25
2021 Comprehensive Spending Review settlement	£90.69m	£94.28m	£100.18m
2022/23 Approved uplift	£11m		
2023/24 Approved uplift		£24.4m	£27.3m
Revised gross licence fee funding	£101.68m	£118.68m	£127.48m

- 5.3 The 2023/24 approved uplift is to support new and significantly changed activities in our delivery, as follows:
- conduct regulation and consumer protections
 - prudential regulation of energy suppliers
 - 'default tariff price cap' delivery and reform
 - 'strategic codes body' development
 - retail systems and processes
 - network expansion
 - enabling low-carbon technology
 - Cyber Competent Authority regulation and security of supply.
- 5.4 A new spending review is expected take place during 2024, for the period beyond April 2025.

Appendix 1 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for *(be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')*

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with third parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner ('ICO') if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".