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Forward Work Plan Team
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Dear Forward Work Plan Team,

OFGEM'S FORWARD WORK PROGRAMME – 2024/25

We welcome the opportunity to respond to Ofgem's consultation on its draft Forward Work Programme (FWP) for 2024/25. This response reflects the views of our supply, renewables generation and network businesses.

We broadly agree with the three strategic priorities identified by Ofgem for its regulatory work and core activities, and we look forward to the publication of the multi-year strategy in spring 2024.

Whilst we welcome Ofgem providing an overview of its planned projects and priorities over the coming year, we would have found it helpful for Ofgem to provide more information on the projects. In previous years Ofgem has provided more detail in its FWP around the dates of key publications and deliverables, and which internal Ofgem teams are responsible for different areas. This information is helpful to external stakeholders in planning their own engagement with Ofgem, as well as Ofgem itself in being able to measure itself to judge success. We would encourage Ofgem to communicate this within the FWP so that engagement can be as targeted and effective as possible.

We have provided more detailed comments on the proposed work items under each of these priorities in Annex 1 attached.

Yours sincerely,

Richard Sweet
Director of Regulatory Policy

Annex 1

OFGEM'S FORWARD WORK PROGRAMME 2024/25 – SCOTTISHPOWER RESPONSE

1. Introduction

Ofgem has grouped its forward work plan under three high level strategic priorities:

1. Shaping a retail market that works for consumers;
2. Enabling infrastructure for net zero; and
3. Establishing an efficient, flexible energy system.

We discuss each in turn below:

2. Shaping a retail market that works for consumers

The FWP hardly mentions the **increasing levels of debt** in the sector, and there is no proposed work package linked to this. This increased debt is due to a combination of the cost-of-living crisis, higher underlying costs being passed through to consumers, and also the changes Ofgem made to licences in relation to prepayment meters (PPM) that increased the number of customers for whom involuntary PPMs are not suitable. Added to this is the impact of the PPM moratorium which affected most of 2023 and remains in place for the majority of suppliers into this year, which has led to further accumulation of bad debt. The growing consumer debt risks becoming unsustainable, which would affect the resilience and investability of the sector.[1] It is vital for the future of the retail market that Ofgem ensures that financially responsible suppliers are in a position to fairly recover the costs incurred in meeting their customers' needs. Therefore, in our view, Ofgem should consider enabling recovery of certain categories of bad debt via separate mechanisms, such as ScottishPower's proposal for a levy-based process for customers who meet the criteria for "Do Not Install" prepayment meters (PPM). We request further clarity on Ofgem's plans for addressing debt-related issues.

It is essential, while the price cap remains in place, that suppliers can be confident of **recovering any additional efficiently incurred costs**. Ofgem must continue work on the increasing debt costs but also be conscious of other areas of cost such as Unidentified gas (UIG), group correction factor (GCF) and industry/supplier costs for implementing the market-wide half hourly settlement (MHHS) programme and any similar programmes. For the latter, Ofgem should in the short term consider how such costs can be recovered under the cap outside of the operating cost allowance which is not suited to recovering peaky costs for time limited programmes.

We agree that monitoring, compliance and tackling poor performance are important and in the interests of consumers, however we are concerned about the **negative characterisation of the retail energy market** in public discourse. This can and does lead to trust between customers and suppliers being damaged, often meaning customers engage less with suppliers, which is not ultimately to either party's benefit. Lack of trust is also likely to impact smart meter roll out. Driving up standards can also be achieved positively. An effective regulatory framework is one which enables innovation and the growth of new products and services, as well as addressing any potential harms to consumers. To reach net zero at best value, Ofgem **needs to give both consumers and suppliers confidence to invest in smart solutions and low carbon technologies.**

[1] Research Paper - Shock proof: breaking the cycle of energy crises (citizensadvice.org.uk)

Whilst promoting competition and investability are listed as a focus for Ofgem, there is little detail on how the planned projects and activities will achieve investability. Investability in the retail energy sector is closely linked to delivery of the outcomes in Ofgem's consumer interest framework, as set out on page 7 of the FWP. A resilient and investable market is essential for sustainable competition and delivering the best outcomes for consumers.

We are pleased that Ofgem recognises that the current approach to the **Energy Price Cap may not facilitate competition and improved product offerings** to consumers. The price cap is also unsuited to a future in which time of use tariffs become more prevalent. Furthermore, allowances under the price cap are by definition a "one size fits all" approach and carry a risk of competitive distortion between suppliers with different customer mixes. Ofgem should seek to use levelisation mechanisms, to achieve the same social objectives without distorting competition and reducing overall market resilience. It is in customers' interests that the regulatory framework facilitates sustainable competition.

3. Enabling infrastructure for net zero

In the FWP, Ofgem refers many times to 'low cost', where we consider that instead should be promoting 'best value' for the consumer.

We welcome Ofgem's focus on the need for delivering infrastructure build and improved planning and the impact this should have on constraint costs in the late 2020s. We are supportive of Ofgem continuing to engage with relevant stakeholders and using their different points of view to shape its approach to **strategic planning**. We believe that Ofgem should consider the skills and expertise that incumbent TOs have in relation to strategic planning, detailed network design and local energy governance, among other skills, which could be relied on when determining the enabling infrastructure for Net Zero. We are supportive of continued engagement by Ofgem with infrastructure providers in terms of ensuring high service standards, resilient energy supplies and establishing an efficient, flexible energy system.

Whilst we recognise the need for the pace of delivery, establishing the Future System Operator (FSO) and the transfer of ELEXON into industry ownership of Elexon, we consider that industry needs to be brought along in the journey and the process should be transparent with timely communication throughout.

In relation to the FSO's future role, we are supportive of the proposed **Spatial Energy Plans**. Given the current connections landscape, with a 300% increase in the volume of connections received by SP Transmission alone since 2018, a Spatial Energy Plan is important to ensure that connections on the network are sited where they will best serve the needs of users. However, we are conscious of the fact that the proposed role for the FSO is extremely wide and we urge Ofgem to monitor progress to ensure that this does not reduce focus on key deliverables, in particular with regard to resilience.

Alongside the regulatory framework for FSO, and the improved planning, we consider an appropriate charging regime is needed to provide predictable and stable investment signals for users. ScottishPower Renewables will shortly be raising a modification to the CUSC to deliver an appropriate transmission charging scheme called OpTIC.

We note that Ofgem will continue to work with the FSO and DESNZ, to finalise an **'early competition model**' for investment in the electricity transmission network. We are supportive of competition where this has proven benefits to the consumer, however, we have not yet seen any detailed or robust assessments that set out how competition in transmission will ensure

such benefits. Therefore, once Ofgem launches a suitable model for competition, we believe that a new independent workstream should be developed that solely focusses on assessing the value delivered by competition, utilising the first competition trial as a case study before any future tenders are progressed. This will ensure that any enduring regime will deliver the best value for GB consumers.

We question why the **hydrogen policy** section comes under the heading 'Enable the future of the gas grid' and would encourage Ofgem to keep an open mind on whether hydrogen may have any role in the future of the gas grid. Specifically, Ofgem should work with industry and Government to develop a regulatory framework that can better facilitate hydrogen production co-located with renewable generation, such as any requirements for metering. Ofgem should also work with the NESO within the framework of their Constraints Collaboration Project to consider ways to encourage hydrogen production projects to locate in areas that would be beneficial in terms of constraints management.

On **interconnectors**, Ofgem has listed its work on interconnector projects and cross-border regulatory arrangements. We think it is essential that Ofgem looks at the regime for interconnectors more holistically, including options to mitigate their adverse impact on constraints. This is particularly important and must be taken into account when approving cap and floor support for additional interconnectors.

4. Establishing an efficient, flexible energy system

Demand-Side Response (DSR) at scale is crucial to the transition to a net zero energy system.[2] It will mean all industry participants taking a more coordinated, whole system approach, and requires clear regulatory direction. Ofgem also has an important role in ensuring that future DSR schemes do not cause undue detriment to those who have relatively little ability to respond. For example, DSR schemes that over-incentivise domestic flexibility will benefit the, generally wealthier, consumers who can offer this. The costs of over incentivising that flexibility will be recovered through network charges from all consumers, including those with vulnerable characteristics.

The risks of over-incentivising flexibility must be weighed against the risks of under-incentivising, if the appropriate incentive is not there to drive efficient use of the system, this will mean increased costs for consumers overall. We are glad that Ofgem is considering how regulatory tools may need to evolve and we look forward to engaging on issues such as the regulatory approach to stacking, which is key to unlocking **distributed flexibility**. We believe that we can bring insights from a customer perspective to help build a transparent and co-ordinated market and address what can be a confusing landscape for customers.[3]

We support Ofgem progressing further with its network charging reform - strategic transmission charging, in particular in the context of potential wholesale market reforms under REMA.

There is no direct mention of Ofgem's continuing work on the Capacity Market (CM), though we assume this falls under the various workstreams associated with market arrangements. In that context, we would welcome further information on how Ofgem manages the process for changing CM rules in accordance with the CM rule change and disputes processes.

[2] The Energy System Operator (ESO)'s 2023 Leading the Way future energy scenario indicates that flexibility solutions could credibly reduce peak electricity demand from residential heating by 38% in 2050.
[3] We are a supporting partner in a DESNZ project delivering performance testing and interoperability demonstrations in settings indicative of real-world conditions. We look forward to sharing the learnings from the project and any other insights to help inform development of the new regulatory regime.

ScottishPower
February 2024