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Wales & West Utilities (WWU) response to Consultation on Ofgem's Forward Work Plan 24/25

Thank you for the opportunity to respond to this consultation. WWU is a gas transporter serving 2.5 million supply points in Wales and south-west England. This response is not confidential and may be published by Ofgem. We respond under the headings used in the consultation. A key theme of our response is that there are linkages between work areas and these issues need to be recognised by the teams involved. Examples include strategic planning and the future of the gas grid; and heat network regulation and energy code reform.

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

Shaping a retail market that works for consumers

Drive up standards

We agree that there needs to be a focus on Supplier standards particularly around Suppliers responding to metering faults out of hours. In some cases, failure to provide an adequate out of hours service results in displacement of calls to the gas emergency number as frustrated customers seek a resolution to their metering problem.

Promote competition and investability

We agree that the energy market should include a risk of supplier failure and exit; however, Ofgem's work also needs to include shipper failure and exit in gas. Likewise financial resilience tests should also be applied to Shippers. Suppliers in electricity cover both the retail and wholesale functions whereas these are split in gas. It is important that policies are not designed for electricity and then applied to gas without considering the differences between the two.

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Support innovative and evolving markets

The work under heat network regulation needs to fit in with the thinking on code governance reform to avoid creating a code that does not fit neatly into the design of future code governance.

Enabling infrastructure for net zero

Establish strategic planning

We agree that the establishment of the Network Energy System Operator should be a focus of activity along with the development of the Regional Energy Strategic Planner role. It is essential that the duties and obligations of these new roles are clearly defined together with clarity on how they interface with networks' existing obligations and duties and also with Ofgem's process for setting price controls.

Facilitate low carbon generation

An expansion of low carbon generation will be required whether future domestic heating is provided by electricity or hydrogen. Storage is a key requirement as domestic heat demand is highly seasonal. Electrolysis of water to produce hydrogen from curtailed electricity generation is an option and Revised Electricity Market Arrangements (REMA) should not preclude this as an option and should enable curtailed electricity generation to be used locally to produce hydrogen that can then be used to supply hydrogen or used to generate electricity when required. We encourage Ofgem to ensure that the work on electricity storage considers all options and does not just focus on batteries.

Enable the future of the gas grid

Work on how to address issues caused by the energy transition on gas network charges is important and needs to involve government to address some or all of the issues. These include the risk that customer numbers reduce while the network cannot reduce in size, decommissioning costs and ongoing liabilities. Some of these uncertainties might be able to be reduced if the option of a more directed energy transition is chosen over one that prioritises customer choice on timing of their Individual transition. This feeds into both the strategic planning activity and also the one of the four aims of Ofgem's Customer Interest Framework of Sustainable namely *carbon-free energy and associated infrastructure at least cost to consumers (and taxpayers)*.

Establishing an efficient, flexible energy system

Ensure the enabling systems are in place

We agree that code reform should proceed but observe that this needs to consider future energy codes that may be required such as a heat network code and a hydrogen code. The framework needs to be able to accommodate these new codes into its structure.

In regard to gas, it is important to realise that as natural gas demand reduces over time as customers migrate to hydrogen or electricity that changes will be required to systems. Over time liquidity in the gas market may reduce and in addition processes will need to be developed to accommodate increased numbers of disconnections. Xoserve has started to look at these issues.

Estimated expenditure

The consultation states that

“Our initial settlement for 2024/25 was £100.18m. 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.”

We note that many of the reasons for increasing expenditure relate to retail markets not networks. We also question whether the strategic codes body development, which we assume refers to energy code reform, is actually a new or significantly changed activity as this work has been ongoing for several years and pre-dates 2021 when the original settlements were made by the Chancellor of the Exchequer.

Yours sincerely,



Richard Pomroy

Regulation Manager

Wales & West Utilities