

Response to Ofgem's Forward Work Programme

13th February 2024

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide task-force to tackle Inclusion and Diversity across energy.

Consultation overview

On 14th December, Ofgem published their draft [Forward Work Programme for 2024 and 2025](#). Ofgem's final workplan will be published on 31st March 2024. It is inviting stakeholder feedback on the following question by the 9th of February:

The Ofgem work programme is split into 3 sections:

- A. Overview of its emerging new responsibilities
- B. Three new strategic priorities
- C. Delivery of environmental and social schemes for Government

The second section outlines Ofgem's proposed new strategic priorities:

- i) Shaping a retail market that works for consumers
- ii) Enabling infrastructure for net zero
- iii) Establishing an efficient, flexible energy system

These will form the basis of a new multi-year strategy to be published in spring 2024 and as such, are the focus of Energy UK's response.

EUK's previous responses to Ofgem's draft annual work programme consultations can be found here: [Publications - Energy UK \(energy-uk.org.uk\)](#)

Summary of our response

There are three overarching points that Energy UK would like to highlight:

Ambition

It is not clear from the summary document that ambition of the work proposed is commensurate with the challenges and opportunities facing the sector in the medium term.

Whilst the headings look broadly right, the document feels like a continuation of business as usual/ existing activities. Significant progress has been achieved over the past 12-24 months (despite the gas crisis and subsequent economic downturn) including

- a clear consensus and good progress made on the shift to a centralised system, the need for anticipatory investment, faster deployment of networks and connections reform
- progress on the business models/ delivery of building blocks of the transition (including hydrogen, CCUS, new nuclear, LDES)
- more stability for the retail sector (both Europe and the UK managed the gas crisis without blackouts and the demand side is starting to show progress. However, there has been an unparalleled increase in consumer debt that needs to be addressed).

With the Future System Operator (NESO) beginning operation and Ofgem's new strategic duty for net zero (with the Strategy and Policy Statement - SPS), this feels like an inflection point in the transition. The context provides Ofgem with an opportunity to really begin to grapple with strategic challenges that the industry faces, and how regulatory tools could be used to drive this change. The document does not feel like it reflects this inflection point or the scale of the opportunity that it represents.

In the retail sector, for example, there are current unparalleled challenges (for example, consumer debt) as well as emerging ones such as how vulnerable customers will be protected in a fast-changing half-hourly world. Whilst it is always important to continue to drive up standards, the programme feels focussed on improvement rather than how it will meet these current and new strategic challenges.

There is a similar concern on the supply side - with a seeming mismatch between the incremental regulatory approach and the urgent need for the UK to compete to secure the investment required to transform the system. The regulatory frameworks – the ease and predictability of investing in UK projects and how reliable the revenue streams are a large part of this. We would welcome a more single-minded focus on these overarching strategic challenges.

The role of the market

The market and innovation will be a key tool for delivering on these strategic challenges. This is not reflected in the summary document. As an example, in the retail section, innovation is a workstream rather than innovation being positioned as a means of using the market to deliver on some of the emerging issues.

Prioritisation

Building on the first point of 'ambition', we would support a clear identification of Ofgem's priorities for 24/25. In the current draft, there is no indication of what the priority work areas are, or what areas will be deprioritised. Members appreciate the workload that Ofgem faces is significant. Careful management of this - including clear roles and responsibilities to avoid duplication, and appropriate focus for regulatory activities, will be essential to deliver for consumers. We would also welcome indicative dates assigned to work areas – with dates for projects and ongoing activities set out on a quarterly basis.

Members would welcome clearer accountability throughout the programme including measurable deliverables of success within the FWP. For example, each annual publication could be reviewed retrospectively by external parties, such as select committees, to ensure the FWP is creating value. Finally, regulatory resource must be able to maintain pace with industry developments – we welcome that expenditure here reflects the significance of Ofgem's role.

1. Views on emerging new responsibilities

- ❖ **Net Zero Duty**
- ❖ **Energy Act** (gave Ofgem new responsibilities to establish and regulate the FSO, to regulate heat networks as well as CCUS and the related transport infrastructure)
- ❖ **Growth duty** (Govt announced in Nov 2023 that Ofgem will be required to have regard to the desirability of promoting sustainable economic growth from April 2024)
- ❖ **Strategy and Policy Statement** (Government will lay SPS in Parliament to set out its energy strategic priorities. Ofgem will have a duty to have regard to this statement but retains the freedom of decision-making on 'how')

Energy UK welcomes the new duties and the allocated responsibilities with regards to the development and governance arrangement surrounding the FSO. However, members caution that taking on new responsibilities must not negatively impact delivery of business as usual activities such as RIIO 2 uncertainty mechanisms.

With these new duties, it is critical that the SPS is used to set out specific intended outcomes and definitions of how these duties will interact when Ofgem is developing regulatory frameworks. It is further important that resources are attributed appropriately to ensure clear prioritisation (given the wide range of potentially competing priorities now tied to the regulator).

We do not find the current SPS to be clear enough on roles and responsibilities or how competing priorities should be balanced. This means that there is not sufficient clarity for a shift to outcome-based regulation that focusses on long-term certainty and delivery. Given this, we will continue to ask for more detail to be added to that document and wider measures to ensure Ofgem can be held accountable for delivery by both the Government and the industry.

Throughout the development of the FSO, regulation of heat networks, development of CCUS infrastructure and wider consideration of the build-out of network infrastructure in line with Net Zero, it will be vital that Ofgem continue to engage effectively with the industry at all levels of seniority. We welcome renewed efforts from Ofgem to ensure this, and will continue to facilitate open discussions with industry throughout 2024.

2. Activities listed under the 3 strategic priorities

Priority 1 Shaping a retail market that works for consumers

Ofgem activities

- 1. Drive up standards:** *ensure vulnerable consumers are protected, and find the right balance of competition and regulation and hold suppliers to account, Protecting vulnerable consumers*
 - Proactive market monitoring, supervision, compliance and enforcement
 - New approach to supervision, compliance and enforcement
 - Protecting the interests of non-domestic consumers
- 2. Ensure fair prices** *(current default tariff price cap may not be sustainable in a more flexible and diverse domestic market)*
 - Price protection and fair prices
 - Dynamic price protection
- 3. Promote competition and investability** *(limit the risks and costs to consumers from supplier failure, while ensuring regulations do not become a major barrier to entry and competition)*
 - Improved approach to data to drive up supplier performance
 - Facilitating a dynamic market with entry and exit
 - Consumer participation in the future retail market
 - Domestic consumers with non-domestic contracts
 - Implementing our financial resilience regime
 - Balancing price regulation and competition
- 4. Support innovative and evolving markets** *(retail market is becoming more diverse - need to promote innovation and consumer engagement, while protecting consumers who do not or cannot engage)*
 - Remove barriers to innovation (building on CfE summer 2023)
 - Innovation Link service
 - Heat network regulation

While we are broadly supportive of the retail market activities laid out in the work programme, Energy UK members are concerned that they may not amount to a coherent, forward-looking programme of work that is commensurate with the challenges and opportunities facing the sector in the medium term. Given this, we urge a clearer focus on improving market design and incentives aligned to the key outcomes.

This should focus on:

- The ability to tailor tariffs and products to consumer and system needs with market-wide half hourly settlement under the price cap;
- Setting clear direction for market arrangements and customer protections under MHHS;
- Market direction on vulnerable customer management, price cap reform, smart meter rollout, fair market access and flexibility benefits realisation to create the confidence for investment in energy services.

There are two clear streams of work we think under shaping the retail market. Firstly, activities Ofgem undertakes that look to shape the development of the market offerings or 'market making'. Secondly, reforms to existing protections or compliance activity to prescribe short-term changes to market deliverables. These are two key considerations should be balanced in Ofgem's strategy. We suggest Ofgem set these out so that it is clear that Ofgem recognise the implications for innovation and competition on elements of driving up standards and ensuring fair prices.

Further we suggest that Ofgem should take the following steps with the forward work plan:

- Provide further clarity on how Ofgem will seek to rationalise and avoid duplication of its regulatory data requirements. Our members would also welcome further clarity on how Ofgem plans to evolve its current monitoring tools and techniques for monitoring key market health metrics.
- Avoid using regulation as a substitute for competition in 'driving up standards'. While we continue to support the need for minimum standards and that there will be cases where these need

strengthening over time, we urge Ofgem not to crowd out competition and innovation by using them as a default way to continually shift baseline regulation. Instead, Ofgem should focus on protecting a fair basis and incentive for industry to compete for the provision and retention of all energy customers as the primary way to deliver a retail market. This also requires Ofgem to ensure price cap allowances provide the funding and/or margin to deliver improved service and technology to consumers.

- Where Ofgem wants to better represent supplier performance as a driver for competition our members are keen that Ofgem should use a wide variety of supplier performance data, including internally gathered data (RFIs) and externally gathered data such as CAB, Trustpilot, Which and social media to get a balanced view of performance and not rely on singular sources where the data may be skewed.
- Set out clearly a theme of work beyond levelisation to tackle the growth in customer energy debt alongside a refreshed vulnerability strategy

We welcome key pieces of work that impact the short and medium term. For example, work on the Price Cap Operational Cost Review and the Flexibility and Digitalisation Strategies . However, our concern is that Ofgem's approach does not clearly articulate or prioritise the overall energy market dynamic involving regulation that they think will work best for consumers. This will be key to guide industry as they seek to manage ongoing changes to the price cap, debt, PPM and the delivery of MHHS.

Smart metering – the future of the rollout

Ofgem has a critical role in setting the framework to ensure smart meters are rolled out into every home and business in the UK. This involves working alongside suppliers to help preserve the reputation of the rollout so that customers benefit from an efficient, affordable smart meter framework. This includes holding the Smart DCC to account, and setting the approach for the next stage in the life of the Smart DCC. A fresh approach from Ofgem will be needed to meet these ambitions, including full independence from DESNZ at a point in future and tying the smart rollout objectives into the MHHS programme that it will enable.

Priority 2: Enabling infrastructure for net zero

Ofgem activities

1. **Establish strategic planning:** NZ requires strategic planning at local and national levels, to ensure co-ordination and system optimisation
 - FSO
 - Centralised planning (CSNP and SSEP)
 - Local Energy Governance
2. **Facilitate low carbon generation:** Ofgem's regulatory frameworks can help to facilitate this investment at low cost
 - Nuclear / CCUS/ LDES
3. **Expand electricity networks:** major expansion needed Ofgem to develop and deliver new approaches
 - Electricity transmission and distribution price control reviews
 - Accelerated strategic transmission investment ('ASTI') and large onshore transmission infrastructure ('LOTI')
 - Early onshore competition model
 - Independent Distribution Network Operators ('DNOs') and TOs (consider review of regulatory framework for independent DNOs and TOs - financial resilience, governance and service delivery)
 - Offshore hybrid assets (formerly multi-purpose interconnectors)
 - Offshore coordination
 - Offshore Transmission Owner ('OFTO') regime
 - Interconnector projects
4. **Ensure high service standards at reasonable cost**
 - Onshore RIIO price control operations
 - Accelerating and reforming electricity network connections
 - Strategic Innovation Fund
5. **Ensure resilient supplies**
 - Security of supply
 - Financial resilience
 - Cyber
 - Climate resilience
6. **Enable the future of the gas grid.**
 - Gas distribution and transmission price control reviews
 - Hydrogen

Energy UK broadly supports the priorities identified in this section. However, we believe that certain objectives could benefit from further clarity.

Future System Operator

FSO will play a fundamental role in the future energy system - industry will rely on this being a high-performing organisation with appropriate accountability and incentives set by Ofgem. Delivery of a suitable regulatory framework will be essential. As yet, further clarity is required around Ofgem's role and responsibility in setting up and overseeing the Future System Operator including its governance and accountability mechanisms. The Forward Work Programme should provide further information on the regulatory relationship with the FSO – including what will replace the ESO Performance Panel to scrutinise the delivery of projects and provide important feedback to the system operator on its performance.

Ofgem also needs to provide oversight in ensuring the FSO is sufficiently resourced and has the skills and capabilities to deliver its objectives. Further clarity is also required around Ofgem and Government's role in overseeing centralised planning (both through the Strategic Spatial Energy Plans and Centralised Strategic Network Plans) that the FSO will deliver. We believe that Ofgem needs to have regular oversight of the process and should outline its role more in more detail, including:

- A coherent framework for spatial planning that clearly presents the interactions between SSEP, CSNP and RESP.

- Definitive accountability and responsibility between Ofgem and the National Energy System Operator (NESO) – NESO is due to go live in summer 2024.
- Ensuring climate resilience is incorporated into policy decision-making – policy decisions should account for investment required in climate resilience.

Whole systems perspective

We believe that Forward Work Programme should reflect that Ofgem is approaching the regulation of electricity, gas and hydrogen in a holistic manner that considers their interdependencies. There is member concern that this does not always happen currently. An example here is examination of the impact wholesale changes will have on the Retail market.

The document should be clearer when stating objectives relating to 'energy,' 'networks' or 'systems' to clarify whether they pertain to electricity or gas arrangements (for example, 3.1. refers to electricity and therefore should be clearly labelled as such: 'wholesale electricity market reform').

Security of supply

We believe that Ofgem should consider its role in providing regulatory certainty and ensuring clear market signals for gas and the need for ensuring flexibility in the gas system to ensure security of supply. There is a need to provide more clarity around the UK's pathway to transition away from unabated gas while ensuring our energy security and meeting our Net Zero targets. Gas currently provides the vast majority of flexibility in the system and decisions need to be taken to improve the flexibility in the system alongside supporting the buildout of renewables. We would therefore suggest that Ofgem considers the transition from gas in a more holistic manner, through relevant sections rather than a stand-alone section.

Ofgem should also consider its role in ensuring a stable natural gas framework, including managing new requirements being implemented (such as the hydrogen levy focused on gas shippers and the potential use for the funds being generated).

We welcome the recognition of the importance of infrastructure resilience to ensure security of supply and would recommend that climate resilience is incorporated into wider policy decision-making. Policy decisions should account for investment required in climate resilience at the very outset.

Role of Hydrogen

Energy UK is concerned that the Forward Work Programme makes only very limited mention of the Ofgem work needed to develop the regulatory frameworks to supply the business models being developed by DESNZ for hydrogen production, transport storage and hydrogen to power. Delivering the supporting regulations alongside the business models is key for stimulating investment in this area, as well as unlocking markets for hydrogen production and consumption. This alongside an improved understanding of the strategic role for hydrogen in delivering Net Zero is needed to prevent a disconnect between wider policy objectives, net zero ambitions and the delivery of molecules.

Expanding electricity networks

Energy UK welcomes the focus placed on facilitating infrastructure investment in the draft Forward Work Programme. Ofgem must continue to build on the progress of the Transmission Acceleration Action Plan and ASTI to improve network rollout and increase investment and competition in networks.

Connection reform initiatives must be delivered at pace to ensure that they facilitate the investment required for net zero. This should focus on both transmission and distribution and meet a test of 'sufficiency' rather than 'improvement'.

The price control reviews must work together with SSEP/CSNP as well as accelerating early investments so that delivery can continue at pace. The successful delivery of the next price control is essential to deliver power sector decarbonisation by 2035 and net zero. Regulation should match and enable this ambition.

Priority 3: Establishing an efficient, flexible energy system

Ofgem activities

The transition to a renewables dominated grid requires reforms to how energy market functions; we need to enable greater flexibility to reduce overall costs and deliver an efficient system.

1. Deliver effective and efficient market incentives and signals

- Wholesale market reform
- Network charging reform – policy paper and a ‘call for input’ in the spring
- Distribution charging – will prioritise issues/ solutions which do not have major interactions with REMA, strategic transmission charging. (E.g. reviewing the evidence base for distribution charging credits for new distribution-connection generation, reviewing the ‘extra high voltage charging’ methodology).
- Efficient regulatory arrangements

2. Ensure the enabling systems are in place

- Code governance reform
- Smart metering
- Data Communications Company (‘DCC’) regulatory review
- Market-wide half hourly settlement
- Customer data access - develop an options appraisal with stakeholders, for a consumer data access service, which could potentially hold centralised industry and tariff data
- Aggregator regulatory regime - develop a competitive regulatory regime for the aggregation and control of smart energy appliances and DSR
- Future of Data Transfer Network (‘DTN’) data flows - DTN is a network that carries industry data between retail industry parties and industry systems - its provision is a licence condition for DNOs.
- Energy system digitalisation - accelerate digitalisation and develop and embed digital and data regulations, standards and reforms.
- Distributed flexibility and energy sector decentralisation - ensure there is a clear vision and a strategy, consulting on what flexibility digital infrastructure is required
- Artificial Intelligence (‘AI’) in the energy sector

Reform of market frameworks

We would welcome further clarity around Ofgem’s role in a future electricity market and the Government’s work around the Review of the Electricity Market Arrangements. Further consideration of alternative incremental reforms could help to reduce uncertainty and disruption at a time when significant investment in renewable generation is needed’.

It is important that reforms do not undermine investor confidence by creating uncertainty in the market that leads to existing developments stalling (for example by undermining the financial or needs case for certain infrastructure).

Members would also welcome a more holistic approach to REMA, including considering the impact REMA proposals would have on the diversity of operations and competition in the Retail market. (for example, particularly price cap and retail competition for non-vertically integrated suppliers).

Additionally, liquidity in forward markets is declining and it is important to consider the impact of any REMA changes on liquidity. Liquid forward markets are vital for risk management, especially for suppliers and for business energy consumers, and provide important scheduling signals for generators that help to ensure security of supply.

We appreciate Ofgem’s recent engagement on matters related to the future of the DCC. We welcome this review and the transition to DCC2 as an opportunity to improve the smart meter service for customers.

A primary challenge over the next licence period will be the transition to 4G Communication Hubs. We are concerned that Ofgem is not paying significant attention to this key programme which will maintain continuity of smart services into the future. 4G Communications Hubs are scheduled to be available from mid-2025. Any slippage or quality issues with the supply of these will create programme risks.

3. Delivery of environmental and social schemes for Government

- *Energy efficiency and social schemes (ECO, GBIS, WHD)*
- *Renewable heat schemes (BUS, GGSS, GGL, RHI)*
- *Renewable electricity schemes (RO, FIT, REGO, SEG)*

GBIS Scheme Issues

Industry is delighted to see high volumes of demand for the scheme and aims to ensure that the scheme is deliverable under the original costings. This can be done by streamlining the scheme approach in terms of both its viability and how it is advertised to consumers.

Government messaging should be based on the impact assessment and thus be consistent with what is needed to deliver effectively. To assist in achieving this, the government should make it very clear as regards what the scheme is designed to achieve.

EUK members have experienced considerable frustration with the scheme's deliverability. The high administrative burden created by the process for determining if a recipient is eligible for the scheme results in an estimated 50% of costs being spent on search and PAS requirements, which impacts the commercial viability of the scheme.

Equally, GBIS has only been allocated a budget to reach around 300,000 households, but industry does not think this is achievable. The lack of available labour and components to deliver on these targets due to the installer supplier chain being concentrated in other more lucrative schemes is a major impediment. The scheme ultimately needs to be more attractive to the installer supply chain to be deliverable.

This impedes suppliers from delivering on their obligation volume in the required timeframe which in turn risks a poor consumer journey where suppliers must both turn their customers away and fail to meet their GBIS targets.

GBIS Scheme Reforms

Energy UK has raised these points consistently in previous consultation responses and engagement with DESNZ and Ofgem. In previous discussions, DESNZ has expressed a desire for industry to focus on getting more GBIS measures installed, but this is not workable if the scheme is not viable. Industry wants to work with the government to improve the design of the scheme so that it can be delivered to customers.

The key focus should be DESNZ & Ofgem working in concert with industry to make the scheme workable. We encourage the government to ensure that the scheme is given a feasible schedule for supply chain growth and that suppliers have clear deadlines for the delivery of their obligations before the parliamentary summer recess.

To achieve this, we suggest the following reforms should be considered:

1. The scoring for GBIS measures should be reviewed to ensure it is accurate, appropriate and enables installations in a viable approach.
2. The scheme should be reformed to allow homes to have multi-measures installed (e.g. loft and cavity).
3. Allow heating controls to be installed in the Able to Pay group as well as the Low-Income group.
4. Review the scope for customer contributions to upgrades.
5. Reduce the compliance costs associated with lofts.
6. We want Government to promote the scheme to customers. However, it should only be promoted for measures that can be delivered within the scheme cost (e.g., cavity wall insulation and loft insulation).
7. Introduce an uplift to EPC D-rated homes. The current scheme disincentivises insulation upgrades in D-rated homes due to the current relative costs between gas and electricity. As

these costs will be rebalanced over time (with gas becoming more expensive) an uplift anticipates this change providing a more efficient way to reduce carbon emissions over the long term.

8. Allow air source heat pumps to be included in the lowest EPC band properties. The benefits of a single insulation measure in a G-rated property are not fully realised unless accompanied by heating upgrades.
9. Allow homes with a council tax Band E in England to participate in the scheme. This will increase the pool of customers eligible for GBIS by up to 2.5 million households in England alone.

Potential Compliance Actions

GBIS has been changed significantly from the scheme industry had expected, with uncertainty and delays resulting in supply chain companies being focused on other schemes. Industry is concerned by the possibility of compliance actions being brought against obligated suppliers by Ofgem as the current GBIS terms & conditions render it impossible for targets to be met.

A recent Ofgem Request for Information on GBIS stated that the approach to compliance actions would be “proportional.” In light of the flaws in the design of the scheme, the scheme is not deliverable. Enforcement action from Ofgem is therefore not appropriate. Equally, suppliers who manage to meet Year 1 targets through additional expenditure under the current scheme should not be penalised via further delivery obligations in the event the scheme is reformed.

Energy Company Obligation (ECO) Scheme

Suppliers have also expressed significant concerns about the ECO scheme. We remain concerned that the ECO policy design often leads to the cost of ECO energy efficiency upgrades being underestimated, which in turn is likely to result in under delivery of measures.

We remain concerned that the scheme's terms & conditions are not sufficiently open to facilitate delivery to those in need. A potential solution to this would be to include social housing band C residents within ECO so more measures can be installed in homes that are likely to experience fuel poverty.

Equally, a consultation on an update to the ECO terms & conditions has been delayed on several occasions. These uncertainties in the current scheme design and potential changes to the scheme design contribute to an escalation of costs as suppliers struggle to plan the delivery of their obligations efficiently