

# Ofgem's Forward Work Programme – 2024/25 consultation

## *National Grid plc response*

**This response to Ofgem's "Forward Work Programme – 2024/25" dated 14 December 2023 (the consultation) is from National Grid plc (NG), on behalf only of our electricity distribution business, National Grid Electricity Distribution Holdings Limited (NGED), our transmission business, National Grid Electricity Transmission plc (NGET) and our interconnector business, National Grid Ventures (NGV). It does not cover the separate National Grid Electricity System Operator (ESO) business.**

We are grateful for the opportunity to provide our views on Ofgem's forward work programme for 2024/35 (FWP). We have split our feedback into two parts. The first part covers our overarching comments on the strategic priorities and how this aligns with our view and the wider energy landscape. The second part contains responses to specific aspects of the work programme.

### **Overarching comments**

#### Strategic framework

The refreshed framework lays out clearly the areas of Ofgem focus, which aligns with Government's strategic priorities for energy policy (as laid out in the draft Strategy and Policy Statement for energy) and the key areas of focus we identified in our 'Delivering for 2035' publication last year<sup>1</sup>. We believe that coherence and consistency across the various responsible organisations is essential to facilitate delivery, and the FWP strategic framework helps achieve this.

In addition to the FWP being finalised by the end of March, we also note Ofgem's commitment to publish a multi-year strategy in Spring 2024. Effective prioritisation will be difficult and will need to recognise the interactions between activities. We would welcome further engagement to ensure that activities are prioritised in a way that will deliver value to consumers at the same time as speeding up delivery.

#### Importance of 2024/25 FWP

The energy system is undergoing a huge transition. The projects and processes detailed in this 2024/25 FWP will lay the groundwork for that ongoing transition. Getting it right will be key to delivering power sector decarbonisation and net zero.

As part of that transition, roles and responsibilities are changing across organisations. Section 1 of the consultation details the significant changes for Ofgem itself, taking on new roles and gaining additional responsibilities. It will be essential that current delivery, such as focus on RIIO-2 uncertainty mechanisms and reopeners, is able to be maintained while growing new capabilities. As new organisations such as the National Energy System Operator (NESO) and processes such as the Independent Technical Advisor under RIIO3 are established, Ofgem should ensure that its resources are focussed on activities not covered by these new entities to prevent duplication and slowing down the overall process.

We welcome Ofgem's commitment to streamlining the Sector Specific Methodology for T3, and the broader shift in focus to streamlining regulatory approvals and processes to speed up delivery, both of which will help to manage workload pressures. Appropriate scrutiny from Ofgem is an important part of the regulatory framework, so this should be directed to those issues of greatest value for consumers. Through our work with you on ASTI and the early needs case work for projects starting early in the T3 period we have seen this commitment make a practical difference for working at pace. One of the key aspects for facilitating the transition in the next work period for Ofgem is the T3 framework. Alongside a fundamental shift in the way that the network is designed, the volume of infrastructure to be delivered is on a scale not seen for decades. Making sure that the SSEP, CSNP and T3 framework are complimentary, and work together to provide an investible portfolio is essential and that together they provide the certainty needed for networks to manage the global supply chain pressures facing the sector. For National Grid to play its role in delivering net zero there will need to be timely decisions on T3 approvals, uncertainty mechanisms and ASTI project assessments.

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<sup>1</sup> <https://www.nationalgrid.com/deliveringfor2035>

We encourage Ofgem to maintain its focus on streamlining, efficiency and proportionality when designing the next set of price controls; decisions it makes in the next 12 months will have an impact on resource requirements for Ofgem (and industry) for the next five years and beyond. Given the significant increase in investment plans and introduction of “out-of-cycle” processes like the Major Projects framework, we encourage Ofgem to use forecasting of resource requirements to assess the implications on them (and industry) when making design decisions for the RIIO3 framework and subsequent reporting requirements (such as RRP). Processes are likely to be executed many times over across all of industry, amplifying the impact of decisions and the associated resource impacts. Without such an approach, there is a risk that the volume of additional work down the line could lead to delays both in the short and the long term.

From an electricity distribution perspective, the government’s focus on decarbonisation of heat and transport will continue to drive significant changes. The increase in electricity consumption at a distribution level, alongside more consumers also becoming producers will have profound implications on future network use. We welcome Ofgem’s work on significant industry changes such as Regional Energy Strategic Planners (RESPs) working at a local level to improve understanding of the infrastructure needed in different parts of the country and attract investment for projects.

Ofgem should also continue to engage and coordinate with interconnector developers and overseas Transmission System Operators to ensure alignment between the CSNP and the development of further interconnection and a future North Seas Grid.

Alongside Ofgem’s broadening remit, 2024 will see the creation of the FSO. We appreciate the level of engagement and consultation on the creation of the FSO to date, but there remains uncertainty on roles and responsibilities across Ofgem, FSO and Government. Clarity on this will help to inform the detail of many of the work streams listed in the consultation and we would reiterate that the final SPS should provide clearer direction to Ofgem and the FSO on their respective roles and the relative importance of Government’s strategic priorities and how trade-offs should be managed.

#### Key priorities for 2024/25

In summary, we believe the following work areas should be prioritised by Ofgem for the 2024/25 Forward Work Programme.

- Finalise the framework for FSO regulation, as well as providing clarity over the roles and responsibilities of the FSO, Government and Ofgem;
- Deliver the recommendations set out within the Connections Action Plan, with an urgent need to focus on further necessary measures to tackle the oversubscribed pipeline;
- Facilitate and ensure a seamless transition for cost recovery for National Grid and provision of essential operational support for FSO from Day 1;
- Develop appropriate CSNP governance, with involvement and defined roles for NESO, network operators, Ofgem and government, which reflect their roles and expertise;
- Deliver a coherent framework for spatial network planning with clear presentation of the interactions between SSEP, CSNP and RESP;
- Set an investible long-term framework for the next transmission price control that works together with CSNP and SSEP, as well accelerating early T3 investments to ensure that delivery can continue at pace for key infrastructure;
- Finalise the Initial Project Assessment for Offshore Hybrid Assets, recognising the strategic importance of these assets for GB security of supply; and
- Support the move to a more flexible energy system, through retail market reform to support demand flexibility and for this work to proceed in tandem with Ofgem’s work on wholesale market reform and the Government’s REMA programme.

### Specific comments

The table below details specific comments on the individual projects and processes contained in the forward work programme.

Priority Area 1: Shaping a retail market that works for consumers	
Project/programme of work	Commentary/ feedback
Protecting vulnerable consumers	<p>We support Ofgem's work in this area. We are working with DNOs, Gas Distribution Networks and Water Companies to improve and automate PSR data sharing. We see the additional value of the PSR in providing a route to offer wider support to customers beyond power cut resilience and we are working to expand the fuel poverty support services we offer customers through our dedicated expert partnerships.</p> <p>The proposal for a universal, cross-sector PSR, can support the provision of these wider support services for customers, we have therefore contributed to the ENA proposal for a data-ecosystem to deliver these outcomes.</p> <p>Many customers in vulnerable situations have been left in severe circumstances due to the ongoing cost of living crisis. We continue to see a significant increase in demand on our services and support partnerships helping customers with fuel poverty. This situation could be worsened if customers are not supported through the energy transition, to participate in the opportunities it presents. Our work in this area, providing smart energy advice, is already showing the benefits this can bring to customers in vulnerable situations. We would therefore encourage Ofgem to have a strong focus on energy transition support in their review of their Consumer Vulnerability Strategy.</p>

Priority Area 2: Enabling infrastructure for net zero	
Project/programme of work	Commentary/ feedback
Establishing the FSO	<p>With the FSO's broadening remit it will take on both strategic and operational roles. An outward facing, inclusive and collaborative approach to developing wider energy strategy will be key to success. With regards to increasing levels of interconnection and more offshore hybrid assets, engagement with EU counterparts will increase and this engagement will require effective regulation. The FSO will play a fundamental role in the future energy system, and all other industry licensees will be dependent on this being a high performing organisation, with appropriate incentives and accountability framework to Ofgem and their direct stakeholders including industry parties. We encourage Ofgem to put in place an appropriate framework with a level of scrutiny and incentivisation which reflects the critical role the FSO will play across the sector and knock on implications of their performance on the ability of the rest of industry to execute their responsibilities.</p> <p>We welcome Ofgem's commitment to ongoing transformation and separation cost recovery work. Ofgem has established a mechanism for National Grid to recover economic and efficient costs incurred in relation to the separation of ESO prior to 'Day One'. However, further separation, transformation, and operational support activities are needed from 'Day One' for FSO to become fully independent. These activities include:</p> <ul style="list-style-type: none"><li>• Transitional service agreements (TSAs) for operational support including decommissioning these services as FSO exit them;</li><li>• FSO separation or transformation costs incurred post 'Day One' (eg early life support, data separation/deletion, and technology decommissioning); and</li><li>• The time value of money (eg for delays to cost recovery).</li></ul> <p>Creating a seamless transition for the recovery of costs incurred by National Grid from 'Day One' will facilitate the completion of separation and the provision of essential operational support for the newly established FSO.</p> <p>As Ofgem finalises the regulatory framework for the FSO, we believe a holistic approach is needed to reviewing and updating the entire institutional landscape, taking into account the changing roles of network companies and Ofgem to ensure the integrity of the overall sector.</p>

Improved planning: CSNP and SSEP	<p>We welcome the commitment to continue working with stakeholders to deliver fully the CSNP by 2026. Clarity regarding interactions between the RESP regional plans and the CSNP/SSEP is something that requires further work, and we would like to see this included as a key action for Ofgem's work programme.</p> <p>International aspects of CSNP must also be considered so that these are well coordinated with interconnector developers and transmission operators (TOs). Consideration also needs to be given to how the UK will ensure there is a joined-up plan for interconnection and the design of a North Sea grid following signing of an MoU with the North Seas Energy Cooperation.</p>
Local energy governance	<p>The FWP does not include an activity to define how the RESP plans fit with CSNP/SSEP outputs. Ensuring that these processes work together to provide a coherent framework will be essential to avoid complications/delays. We would also welcome clarification from Ofgem that the RESP is a singular role fulfilled through multiple locations of the FSO; the FWP drafting of "multiple new 'regional energy strategic planning' roles" could suggest that each RESP would fulfil their role differently.</p> <p>Introduction of the Flexibility Market Facilitator is a significant endeavour in itself, and we would welcome further recognition of this in the work programme as a separate activity. In addition, ensuring that the process for appointing the FMF is inclusive and transparent to stakeholders will be important.</p>
Electricity transmission and distribution price control reviews	<p>The success of the next price control period for both transmission and distribution will be essential to deliver power sector decarbonisation by 2035 and our longer-term net zero goals. Timely decisions on T3 approvals and ASTI project assessments will be essential for NG to play its role in delivering net zero.</p>
Early onshore competition model	<p>We welcome Ofgem's commitment to launching a competitive process in the coming months and are ready to work with them and the ESO to finalise a suitable model and identify suitable pilot projects. In addition, clarity around aspects of the framework such as the provider of last resort and the Transmission Owner's role and responsibilities will be essential to allow this work to progress.</p>
Independent DNOs and TOs	<p>We support Ofgem's suggestion to review the regulatory framework for independent DNOs and TOs. We have already responded to a recent call for evidence on this topic, highlighting the potential for the new regulatory sandbox as a way to accelerate testing the potential for independent providers to offer last mile connections for transmission customers – we think this provides a resource-efficient way for Ofgem to progress this regulatory agenda.</p>
Offshore hybrid assets	<p>We welcome Ofgem's intention to conclude the initial project assessments (IPA) for Offshore Hybrid Assets (OHA) and new interconnectors and thank Ofgem for the continued progress to date. NGV seeks that the OHA IPA decision is concluded by Ofgem's current proposed date of June 2024.</p> <p>We request Ofgem to continue developing the OHA regulatory regime at pace, including but not limited to, licensing, market arrangements, trading arrangements, congestion revenue and charging arrangements.</p>
Offshore coordination	<p>Ofgem will need to consider how offshore coordination can proceed while accounting for the views of UK developers of interconnectors and also overseas TOs, Regulators and Governments. As above, an inclusive and collaborative approach will be essential to success.</p>
Interconnector projects	<p>We welcome Ofgem continuing to assess the need for new interconnectors and OHA projects through the Cap and Floor regime.</p>
Onshore RIIO price control operations	<p>Ofgem introduced a range of uncertainty mechanisms in the RIIO-2 price controls as part of their proposals. It is important that Ofgem includes the timely assessment of any uncertainty mechanism or reopener claims as a key part of the Forward Work Programme.</p>
Accelerating and reforming electricity network connections	<p>There has been significant progress on connections reform, which is why we welcomed the recent Connections Action Plan. We hope that the Connections Delivery Board (CDB) will facilitate the inclusive and collaborative approach necessary for lasting success.</p> <p>Given the pipeline's continued rapid growth, we believe that further action, to both reduce and reorder it, is required now. Our analysis suggests that additional reform will require interventionist decisions on the part of Government, Ofgem and ESO. We are engaging with CDB members on potential options which will need to be formally considered by the CDB in the first half of this year.</p>

Security of supply	During the period from September 2023, we have already had 10 named storms in the UK. Networks look to design, build and maintain resilient networks. At the time of the ED2 price control DESNZ and Ofgem had just published their reports into Storm Arwen. Under the ED2 price control, DNOs have the opportunity to assess additional network requirements required to build more resilient networks and we submitted our ED2 uncertainty mechanism claims to Ofgem at the end of January 2024. It is important Ofgem assesses these in a timely way to enable DNOs to take the necessary steps to improve resilience following the Storm Arwen reports.
Cyber Competent Authority regulation	We support Ofgem's work in this area.

Priority Area 3: Establishing an efficient, flexible energy system	
Project/programme of work	Commentary/ feedback
Wholesale market reform	We support Ofgem's work in this area and, recognising the uncertainty that REMA brings, we would welcome further consideration of alternative incremental reforms to the introduction of Locational Marginal Pricing without the same level of disruption and uncertainty to market participants at a time when significant investments in renewable generation is needed. For example, Spatial Energy Planning, Strategic Network planning and Network Charging Reform can deliver incentives for demand, generation, interconnection and transmission network investments. Further innovation in balancing markets could ease the operational costs faced by the Electricity System Operator. We consider Ofgem and industry can support the Government's REMA process to build the evidence and analysis to allow a detailed consideration of both zonal wholesale markets and the alternative incremental approach.
Network charging reform – strategic transmission charging	Linked to the comment above on wholesale market reform, we see charging reform as one of the incremental market reforms that could reduce uncertainty but deliver against some of the REMA objectives.
Network charging reform – distribution charging	We support Ofgem's work in this area
Code governance reform	We will continue to engage with this process and welcome the opportunity to attend the workshops to be facilitated by Ofgem. This shall be a collaborative effort, bringing the expertise of those interfacing with the numerous codes together to respond.
Smart metering	We welcome the continuation of the Smart Meter roll out. We are engaged in a range of forums with the DNO community and Suppliers, to ensure that we are aware of the evolving landscape.
Data Communications Company (DCC regulatory review)	We welcome the plans for 'DCC 2' and will support the Business Handover Plan - the move to a not-for-profit model will hopefully enable the reduction of charges for energy customers. We appreciate the consultation periods surrounding these future plans.
Market-wide half-hourly settlement	We are fully engaged in the MHHS programme and are currently working with software providers and internal IT team to make changes to: registration services, billing, unmetered and LDSO systems to ensure we meet all 24/25 MHHS milestones and to enable suppliers to commence migration in April 2025. Data cleansing is ongoing to enable the success of the MHHS programme. NGED are ensuring that they are aware of the undertakings of Qualification in Oct 2024 and preparing accordingly.
Customer data access	We support Ofgem's work in this area.
Future of Data Transfer Network (DTN) network flows	The MHHS programme will result in the loss of 75% of traffic volume from the DTN, there must therefore be some thought on the future funding of the DTN as currently the costs are shared by customer volume, therefore the same costs will need to be recovered from customers sending less volume and a fairer alternative recovery method should be implemented. DNO's are the owners of Electralink due to LC37 and need to be sure they are not left with a stranded asset.
Artificial Intelligence (AI) in the energy sector	We support Ofgem's work in this area.