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09 February 2024

Sent by email to: FWP@Ofgem.gov.uk

Ofgem's Forward Work Programme – 2024/25

Dear FWP Consultation team,

Thank you for the opportunity to respond to Ofgem's draft Forward Work Programme (FWP) for 2024/25, outlining its refreshed strategic framework and areas of focus for the year ahead.

As individual programmes of work, Ofgem's FWP is in line with our expectations. However, as a major energy supplier and producer, with interests across the full value chain, Centrica would like Ofgem to take a more holistic approach to how it structures its work, particularly in how it contributes to work that is being led by government on future market designs. We also urge Ofgem to give more weight to the interests of future consumers, which we believe have not received enough focus in the past compared to the interests of current consumers. We hope that the new net zero duty will positively contribute to this shift.

Our response below covers the following themes:

- **Ofgem's principal objective and the need to give more weight to the interests of future consumers;**
- **The need for Ofgem to adopt a more holistic approach to its work programmes;**
- **The need for Ofgem review its working practices to reduce the reporting burden on industry participants; and**
- **The need for Ofgem to consider how subsidy regimes will interact with the market in the long-term.**

We attach to this response Centrica's position on the future of wholesale and retail markets, as submitted to DESNZ and Ofgem in July 2023. This attachment is confidential but the rest of our response is not.

Ofgem's principal objective and the need to give more weight to the interests of future consumers

Centrica has long argued¹ that Ofgem's policies in the retail energy market were too focussed on increasing switching levels and lowering prices in the short term, both inside and outside of the default tariff cap. This narrow focus on the interests of current consumers contributed to the supplier failures that followed the gas price crisis. To help learn lessons, Ofgem commissioned Oxera to undertake an independent review of its regulation of the retail market. Ofgem is now introducing new supplier financial resilience requirements such as the capital floor and capital target. We urge Ofgem to monitor and enforce these requirements robustly – and be seen to be doing so – to send a message to other existing and potential suppliers, consumer representatives and other stakeholders.

We believe that it would be worth considering a similar approach – i.e. an independent review – for how we arrived at the situation we see today with respect to net zero electricity infrastructure. Two of the key related issues we see are: (1) unacceptably long grid connection timescales; and (2) underutilisation of intermittent renewables. There has been insufficient grid build out to cope with the additional renewable generation infrastructure needed for net zero. The UK is not making the best use of existing generation capacity nor private sector potential to develop new capacity. Whilst we welcome the various actions being taken to address these issues, including the Connections Action Plan, we still believe there is merit in commissioning an independent review to investigate why we find ourselves where we are – given the valuable lessons such a study may provide.

We believe that there may be a common possible explanation for the issues we have seen in the retail market and in electricity infrastructure – which is that Ofgem has not given enough weight to the interests of future consumers. Ofgem's principal objective is to protect the interests of current and future consumers, not just the former.

We are similarly concerned that focussing on the interests of current consumers compared to future consumers may also be driving Ofgem's preoccupation with locational wholesale pricing. For the reasons we communicated to DESNZ and Ofgem in July last year – in a submission we reattach to this response - we believe that locational wholesale pricing would add an unacceptable risk to the delivery of our net zero power system targets.

We would welcome Ofgem's reflections on our hypothesis regarding the weight it gives to the interests of current compared to future consumers. We would also welcome Ofgem's reaction to our suggestion to commission a second independent review into how we arrived in our current circumstances regarding electricity infrastructure.

Ofgem should adopt a more holistic approach to its work programmes

As noted in the CEO and Chairman's foreword to the FWP, Ofgem's role and responsibilities have expanded in recent years beyond that of a narrow economic regulator. However, Ofgem must ensure it arranges this expanded work in a holistic manner, particularly work supporting government on market design and policy. We are concerned that in some areas of Ofgem's FWP, projects are still being looked at in silos. An example of this is DESNZ's Review of Electricity Market Reform (REMA): Ofgem has committed to continue to support government with the development and assessment of wholesale market reforms, but has not drawn a link to how these reforms will impact the retail market.

¹ For example we wrote to Ofgem's Partner for Consumers and Competition in December 2016 raising the concern that "Suppliers such as GB Energy appear to be using customers' credit balances to fund unsustainably cheap tariffs".

Centrica strongly believes that REMA must be looked at in the context of the whole energy market, including how any locational pricing reforms would interact with a p/kWh price cap and a sustainable retail market (again see attached Centrica's position on future wholesale and retail market design). We request that Ofgem sets out how any reforms it considers for the wholesale market will impact the retail market, and vice versa – and at the same time, not as an afterthought.

Ofgem's proposed approach to 'ensuring enabling systems are in place' as described in the draft FWP is a helpful example of how a more holistic approach to work packages can be defined. In this regard, we are very supportive of Ofgem's focus on ensuring the key industry institutions are reformed to ensure the system operates effectively – particularly the proposed continued focus on DCC regulation (including introduction of an *ex ante* regulatory regime and preparation for 'DCC 2').

While we support Ofgem's ambition to "promote progress in the rollout of smart meters", we believe that near-universal rollout of smart metering will only be achieved by a fundamental review of the smart mandate; focusing merely on enforcing (unachievable) targets is not in interests of consumers. We believe Ofgem has a key role to play in working with Government and the sector more widely to develop and implement a framework for smart meter delivery that is fit for purpose.

Ofgem should review its working practices to reduce the reporting burden on industry participants

Leading on from the theme of working in silos, we often find that different departments within Ofgem request the same data at differing intervals throughout the year. The requests enter Centrica via differing routes, with short deadlines and changed templates. The changed templates mean our employees need to start from scratch the data extraction and analysis removing any efficiency in processes previously established. We also need to manage the different routes Ofgem requests the data to be submitted.

We request that Ofgem plans out the data requirements needed from industry participants and produces a data catalogue alongside a database, which can be accessed by the relevant departments and projects within Ofgem. The data catalogue should inform the collection and use of the data, including the assumptions (i.e., date / day each month price data is collected on) or exceptions within the data set.

Once established, perhaps Ofgem could share this database with relevant government departments and Citizens' Advice, making industry reporting significantly more efficient.

Ofgem should consider how subsidy regimes will interact with the market in the long-term

Ofgem's FWP identifies a number of workstreams where it is working alongside government to develop and implement new support for investment in low carbon generation and storage. Examples include RAB for new nuclear power stations, dispatchable power agreements for CCUS and hydrogen to power, long duration electricity storage, and hydrogen production, transportation and storage. These incentives will add to those already in the market such as CfDs, interconnector cap and floor, the capacity market, and Renewables Obligation.

We believe that Ofgem has an important role to consider the impact these different support mechanisms will have on the long-term functioning of the market. While we recognise the need to incentivise investment in more novel technology, we are concerned that there is a

lack of a joined-up approach to how different mechanisms will interact and, in particular, the impact they will have on future competition and market efficiency. Further, as more technology-specific mechanisms are put in place, the market is becoming increasingly complex, with less clarity around how these subsidies will interact and eventually end.

We believe Ofgem as part of its FWP should support DESNZ in developing a clear long-term plan for how these incentive mechanisms will interact and a roadmap for how they will evolve into a future net zero electricity market up to 2050 and beyond.

We hope that this response is useful – we would be pleased to meet with Ofgem to discuss our points in more detail.

Yours sincerely,

Alun Rees

Head of Wholesale and Retail Market Design and Policy