

Consultation on Ofgem's proposed Forward Work Programme for 2025 and 2026 - Energy UK's response

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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 28m 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, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Introduction

Energy UK would like to highlight the following overarching points:

More concrete direction is needed on the nature and timing of the reform projects identified

It is difficult to comment on whether Ofgem has identified the right set of problems to tackle, and the relative priorities between them, because the draft Forward Work Programme lacks sufficient detail on the key reform projects it identifies. Considering that these are "new" reform projects, it would be helpful to better understand what work they might include, and how they differ from, or will be informed by, Ofgem work that is already underway.

The lack of information on the timing of each project also makes it particularly challenging to provide an informed perspective. Providing more practical elements would allow stakeholders to better align their own forward work plan with Ofgem's, where appropriate, to ensure that they can contribute to these projects effectively and can adequately prepare for any upcoming reform changes.

There lacks a clear link between the reform projects and how they will be prioritised to best deliver on Ofgem's interpretation of its duties

While Ofgem is seeking views on the relative priority of reform projects, it is unclear what framework Ofgem will ultimately use to prioritise (and deprioritise) these activities, underpinned by a lack of clarity regarding the interplay of Ofgem's duties. Energy UK appreciates that the breadth of work Ofgem could or should undertake is significant, which is why a robust framework is needed to judge where it should best focus its efforts (and how it can best meet its strategic priorities).

Further, this requires a clearer understanding of the roles and responsibilities both within and beyond Ofgem to mitigate duplication and support efficiencies.

It is not clear if Ofgem is planning to ascertain if it has the focus and powers needed to deliver the scale of change and these new reforms

Energy UK notes that the consultation document does not set out work to clarify Ofgem's function, by reviewing its related duties and responsibilities (except with respect to heat networks). Energy UK has previously highlighted the significant challenges and opportunities facing the sector in the medium term, which will require ambition from Ofgem to meet these.¹ This is also evident given the new Net Zero Duty and extended Growth Duty.²

Energy UK recommends that Ofgem spend the necessary time to consider what regulatory tools can best deliver upon its strategic priorities, and given the Department for Energy Security and Net Zero's (DESNZ) review of Ofgem, reflect upon and implement any learnings that arise through this work.

Please see the following response for feedback on the specific reform projects Ofgem sets out in the draft Forward Work Programme.

For further information or to discuss our response in more detail please contact Isabella Darin, Policy Manager at isabella.darin@energy-uk.org.uk.

¹ [Energy UK response to Ofgem's Forward Work Programme](#)

² [Ofgem welcomes Energy Act getting Royal Assent](#) and [Statutory guidance: Growth duty](#)

Energy UK Response

Clean Power 2030

Reforming the connections queue

Energy UK sees connection reforms as a key lever to enabling the Clean Power 2030 policy objective, and largely supports the proposed reforms and efforts to align the connection queue with the move to strategic planning. However, we do not support the need for flexibility within the National Energy System Operator's (NESO's) approach should market interest not align with the assigned 'regional technology buckets' that will determine the connection queue. Reform should also be balanced with maintaining the confidence of projects that have their connection position pushed back. These tensions are key for Ofgem to focus.

Further work is needed on how to align connection reform for large demand-side connections with wider ongoing reforms to better facilitate Government decarbonisation and growth plans. On this latter point, Energy UK was glad to see a commitment from NESO as part of its latest business plan to work with Ofgem and the Government this year on potential arrangement for demand-side connections.

Approving the network build needed

Energy UK supports Ofgem's initiatives regarding network build through the Accelerated Strategic Transmission Investment (ASTI). Based on NESO's analysis, work will need to commence shortly to expedite three transmission projects that are currently expected post 2030 to be completed prior to 2030, to meet *Clean Power by 2030 (CP30)* objectives.

We largely support the shift proposed in RIIO-3 plans towards more proactive investment that is more input focused to support accountability for network adequacy. Combining this with efforts to secure the supply chain and skills base through measures including the Advanced Procurement Mechanism (APM) are highly welcome. Ofgem should also consider the extent to which the APM can be implemented into the other RIIO-3 price controls besides RIIO-T3. Members also note the need for clarity on exactly how Ofgem intends to incentivise least-worst network investments, instead of the historic 'flexibility first' approach.

Concerning RIIO-ED3 and RIIO-GD3, we support efforts to align them with the emerging Regional Energy System Plans (RESPs), however both price controls should be considered holistically and adaptively given the many uncertainties at the distribution level in the coming years.

The first RESP outputs are due to be completed towards the end of 2025. While this might form sufficient time to feed into RIIO-ED3 in 2028, Gas Distribution Networks

(GDNs) will already be formulating their business plans for RIIO-GD3 for a start date in 2026. It is concerning that Ofgem appears to consider the RESP function to be limited with respect to the RIIO-GD3 price control. Given the RESPs are to be finalised in 2025 and the decision on hydrogen's role in gas is due in 2026 (when the five-year RIIO-GD3 begins), the RESP will inevitably have implications for the price control.

Further, it is welcome that Ofgem is open to ideas for integrating adaptive planning into ED3. The regulator must prioritise in the work plan attempts to marry the top-down inputs of the price control to align it with spatial plans that have more bottom-up adaptive pathway planning elements.

Establishing a regime for long-duration energy storage

Energy UK notes the importance of implementing the cap and floor financing scheme according to the timescales set out in Ofgem's recent Open letter (Q1 2025 - scheme opens for applications; Q2 2026 - first decisions/contracts awarded through the scheme). Members in this space are working at risk, and administrative delays push up the cost of capital for projects. Greater clarity on the metrics for the cost benefit analysis is needed before the application window opens.

Supporting incentives for the large-scale deployment of demand-side response

Ofgem should prioritise fulfilling its commitment to evaluate the impacts of the Targeted Charging Review (TCR), given the significant rises in network charges faced by many companies and much higher costs now being paid compared to international competitors. In some circumstances, it will be necessary to create carve-outs for the residual network charges some types of consumers are liable for if they are facing particularly high network charges. This is essential for decarbonisation and economic growth, and customers are largely incapable of taking action on their own to meaningfully reduce their network costs.

Ofgem also needs to prioritise introducing incentives for Demand Side Response (DSR) to capture the consumer benefit of avoiding inefficient over-investment in network capacity, something essential for the delivery of a cost-effective energy system in the coming years and as promised during the TCR process but which has yet to materialise. It is essential that Ofgem ensure that upcoming TCR reviews which involve code modifications are subject to wider consultation than code panel members. At present, businesses and small energy users largely can only rely on panel members to represent their interests. Given the direct impact these charges have on those users, this current governance arrangement is insufficient.

A large-scale deployment of demand-side response will require a shift from an 'enablers-focussed approach' to centre the *customer proposition* for flexibility. Until this is sufficiently attractive, there will not be the mass-market adoption that

Government is relying on to reduce both the wholesale price and the cost of the transition (reduced generation and network infrastructure). Whilst MHHS will enable and incentivise off-peak usage, wholesale costs make up a relatively small proportion of the bill (with this price signal blunted by other charges such as policy levies and network charges). For a compelling offer, providers require a range of revenue streams and price signals (including network charging) that they can stack together. The previous 'enablers-focussed' approach overlooked the structural problems that prevent the business case for flexibility from adding up in today's market. Principally:

- the inability of DSR to compete in most network services (design/ metering issues etc);
- the lack of market coordination and primacy rules, plus the use of exclusivity contracts that prevent revenue stacking; and
- the inability of almost all domestic flex (non-half-hourly settled) to access capacity market support (putting it at a financial disadvantage to other technology classes).

Energy UK welcomes Ofgem's work to set up a new Market Facilitator (MF) role, charged with improving market access and coordinating markets. However, we also emphasise that this will be a challenging role, and the MF will need the ongoing and active support of Ofgem to ensure that this asset class can compete and be successful. This is central to Ofgem role in ensuring fair, effective and competitive markets.

Efficient dispatch

Energy UK recommends that an additional objective is needed in this section, on efficient dispatch. The NESO's key role is to keep the lights on by dispatching assets *in merit order* to reduce costs for consumers. Whilst we appreciate the recent initiatives from the NESO here, this will be an important area for the regulator to monitor closely. As a merchant-funded asset, the investment costs for the 5-6-fold expansion by 2030 will increase if current assets do not realise their projected returns. This increase will be reflected in higher energy costs for consumers. The suggested focus on efficient dispatch should extend to demand flexibility as it gets access to the market.

Code reform

Energy UK also notes the need for clarity of industry code objectives, given that code reform is being undertaken at the same time as other essential initiatives. Members would also welcome greater clarity on how code administrators will be held to account, stakeholder input on code administration, and routes to recourse.

Shaping a retail market that works for consumers

There is a non-domestic gap in the reform projects set out

Energy UK has been supportive of Ofgem's efforts to enable better outcomes for non-domestic customers through its recent review of the non-domestic energy supply market, and understands that further key work is forthcoming for the non-domestic supply market. As such, we consider that recognition should also be paid within this forward work programme to these initiatives.

One project which may arise and have a sizeable impact on Ofgem's work programme is a regulatory regime for third party intermediaries operating in the non-domestic energy market (if this is introduced by DESNZ). This was recommended by Ofgem in the non-domestic market review and has been named in the DESNZ consultation as a potential body to take the role of the new regulator. Energy UK supports the introduction of such a regulatory regime.

Further, Energy UK understands Ofgem is assessing the nature of bills and policy costs to better comprehend the impact on the non-domestic market and its customers. Energy UK would like to see this, and other key pieces of non-domestic supply regulatory work planned for the next financial year, reflected in the forward work programme, as we believe it is likely to be of interest to market participants.

Domestic and non-domestic retail markets

The latest update on standing charges in December 2024 noted that, as well as making short-term changes to domestic tariffs to enable a wider range of tariffs to be provided, Ofgem would initiate a new project to review and assess the recovery of system wide energy costs, such as electricity and gas network costs.³ This is essential for both the domestic and non-domestic sectors due to the high costs of electricity relative to gas (which is preventing electrification in both). However, this project is not mentioned in the consultation.

DESNZ and Ofgem should enable a rebalancing of electricity and gas prices in 2025 and implement short-term and enduring solutions from 2026, so that improved price signals can be in place to enable heat decarbonisation.

Reforms to REGOs and fuel mix disclosures

Ofgem needs to work with DESNZ (who last consulted on this issue in 2023)⁴ to implement reforms to both the Renewable Energy Guarantees of Origin (REGO) and fuel mix disclosure schemes. This should be a priority as the current scheme is

³ Ofgem (2024), [Standing charges: update on our review](#)

⁴ DESNZ (2023), [Designing a framework for transparency of carbon content in energy products – Government response](#)

creating operational challenges for suppliers and a lack of transparency for consumers.

Such reforms would help drive increased investment in new renewable and low carbon generation projects (through the growth of the Corporate Power Purchase Agreement market), and potentially unlock greater flexibility (investment and operation) across the energy system reducing consumers costs.⁵

Regulating heat networks

The process of Ofgem collecting data on the heat networks sector through its authorisation and regulatory regime will support the implementation of the consumer protections framework. It will also ensure that Ofgem can adopt an approach to monitoring and audit that is led by evidence of consumer detriment.

Energy UK encourages Ofgem to engage more closely with heat network companies to understand how different businesses operate in the sector. Ofgem could raise its understanding of how the financials work in different types of heat network setups (e.g. larger organisations with multiple networks, smaller networks, and those run by local authorities) to inform a more tailored approach to the regulation of the heat networks sector. The upfront investment into a heat network is recovered over a long period of time and different metrics need to be considered to account for this. The same approach to oversight for the gas and electricity sector should not be applied to heat networks for these reasons.

As part of preparing for its regulatory responsibilities, Ofgem should prioritise working with industry to provide more detail about the operational responsibilities, roles and rights of legal entities within each type of heat network system, and how these interact. For example, the responsibilities that will sit within the operator of a large district network supplying bulk heat versus the responsibilities of a connect building system operator. Furthermore, producing guidance where appropriate to support compliance in areas of the consumer protections framework with minimum standards would also help to drive up compliance within the sector, which is ultimately the best way of protecting consumers.

Ofgem should engage extensively with the heat networks sector on the approach to pricing, including the methodology behind determining fair prices and how best to approach delivering price transparency to customers. Energy UK is also calling for further engagement with industry and DESNZ on the approach to step-in arrangements, as there are concerns that the current proposals, as set out in the implementing consumer protections consultation, are disproportionate, costly and delivering minimal quantifiable benefit to the customer.

⁵ Energy UK (2024), [Maximising the Corporate Power Purchase Agreement market](#)

Enabling infrastructure for net zero at pace

Progress spatial energy planning

Energy UK generally supports the governance and methodology proposed by NESO. However, we do urge NESO to consider a wider range of stakeholders from across economic sectors in its proposed governance structure for the SSEP and to give them a greater role than currently proposed.

We also stress the need for wider economic plans (most notably plans on the data centre sector) and policy workstreams to be included in the model and for clarity on how the environmental assessment will interact with existing processes led by environmental authorities, especially the Crown Estate.

Overall, the SSEP must provide clear policy recommendations aligned to its scenario outputs and hold legal weight with respect to its application to local planning.

Ensure the necessary investment in energy networks is secured at lowest cost to consumers

Energy UK supports Ofgem's commitment to publishing final draft determinations on the RIIO-3 price controls in line with strategic planning. We agree with the shift towards more proactive planning and efforts to secure the supply chain and skills base ahead of need.

We do note a concern, however, that the RESPs will be insufficiently formulated by the time some of the price controls go live, notably RIIO-GD3. Serious consideration is needed given the upcoming decision on hydrogen's role in heating and the need to design a mechanism to pay for the cost of decommissioning large swathes of the gas network in the coming years. While the transitional RESP (tRESP) should help to formulate the next electricity distribution price control, given the tight timescales, close coordination with Distribution Network Operators (DNOs) and the emerging RESPs is needed as they take further shape and business plans are developed.

Introduce regulatory enablers for supply chain management

Energy UK strongly supports the APM proposed for the RIIO-T3 price control to secure the supply chain and skills base for the transmission network. We propose that similar mechanisms are explored, as far as possible, for the other RIIO-3 price controls.

Ofgem should explore enabling collaboration in pooling buying power and coordinating procurement ahead of need across non-network energy sectors. This

role could potentially be led by Great British Energy (GBE) or the National Wealth Fund (NWF). Following this, cooperation with neighbouring markets in Ireland and mainland Europe to secure equipment ahead of need could be examined. This could go a long way to driving down costs and increasing the attractiveness of the GB market for component manufacturers over other major global markets.

Introduce competition for the delivery of onshore network infrastructure

A pilot project for increasing the speed of delivery for onshore network infrastructure is of great interest to Energy UK. Ofgem needs bold and early ambition for the pilot project, given the scale of the challenges required.

Faster delivery of onshore network infrastructure needs to be done around wider reform of connections, planning and environmental consent processes, and following through on the proposals from the Clean Power Plan.

Support improving the energy sector's resilience to climate change

Climate change is expected to result in more erratic weather patterns in the decades to come. Industry has highlighted this will create numerous technical risks for distribution networks, such as overhead lines' thermal capacity being affected by higher temperatures and substations being damaged by flooding. Various actions are required to mitigate these risks, including increased flood defence investment and regular condition monitoring of infrastructure and their operation.

To enable these actions, Ofgem should prioritise establishing regulatory arrangements that facilitate the distribution networks adapting their assets to a changing climate. There also needs to be measures in place to ensure that the right adaptations are being made.

These actions should align with the need for greater substation capacity, resulting from greater electrification and the expected increased number of connections. Greater understanding of potential conflicts between the need for adaption and network buildout is also needed. Energy UK is working with industry and Government to better understand what challenges may emerge, namely through work under DEFRA's Adaption Round 4 investigation, in collaboration with other bodies across the sector.

Expand cyber-regulation

Integrating incentives in the next price controls through a more input-led approach would be more resource intensive than existing approaches. It would likely require access to a more in-depth and wider array of datasets from various bodies, including those of experts in cybersecurity. Approaches to integrating these datasets into

incentives for asset health should similarly be adaptive to various possibilities of cybersecurity risks where possible.

While Energy UK understands the reasoning behind Ofgem's current desire to streamline the use-it-or-lose-it (UIOLI) price control allowance for cyber security planning by shifting to a principles-led approach, Energy UK would caution against this approach.

The number of emerging cybersecurity risks to DNOs is growing at an alarming rate, especially following the emergence of AI and Large Language Models (LLMs). The International Energy Agency has noted that there has been steep growth in the number of cyber-attacks on electricity networks worldwide since 2018. They also correctly assess that plans for cybersecurity by networks have historically been reactive. A more proactive planning approach for cybersecurity risks is critical.

While the current approach to developing cyber resilience plans is a resource intensive exercise, in an era of growing geopolitical risks and exponentially growing pathways of attack against DNOs, it is worth the investment.

Future incentive systems should adopt the UIOLI approach to consider the risks posed by AI and consider a forward look to how cybersecurity risks to their network might evolve.

Ofgem must not shift to a principles-based structure of incentivising cybersecurity for networks.

Establishing an efficient, fair, and flexible energy system

Introduce a regulatory framework for the NESO

Energy UK broadly welcomes the proposed changes to the Associated Documents (ADs) that would be established under the NESO's proposed new licences. Energy UK agrees that further consultation on an enduring NESO regulatory framework would also be appropriate and further work in embedding the NESO's evolving role.

For Ofgem to hold the NESO to account effectively, particularly in the context of significant staff turnover (risking a loss of Ofgem's institutional knowledge), there must be sufficient transparency for both Ofgem and external stakeholders to scrutinise the NESO's performance. The NESO's own monitoring and Ofgem's investigations/assessments must make service level issues sufficiently visible for them to be included in the strategic assessment, to enable the sector to continue to hold the NESO to account for delivery.

Market participants are best placed to inform the NESO's priorities and challenge performance across the organisational priorities. The NESO should enable

customers and stakeholders to engage on these matters effectively. An obligation to respond to stakeholders, particularly where an established quota of the number of inquiries on a specific topic is set out, should require the NESO to take appropriate action to address concerns or set out why action is not being taken.

Ofgem must further review how to drive incentives and penalties and be realistic about the impact that the various levers might have in practice. Reputational risk is key to holding the NESO to account. It is for this reason that some deeper measures pertaining to reputational risk should be implemented into the governance framework.

While the Performance Panel has improved transparency and engagement with the industry, both essential for this assessment role, Energy UK members have raised concerns that it is too resource intensive. There are also concerns about the Panel's over-reliance on the ESO, meaning failings are not always identified or managed. Efforts to address these shortcomings might involve implemented guidance on the use of the Transparency Forum and the Data Portal with respect to performance assessment. Both of these processes have been well received. Further Energy UK would support the Board being required to make information on bonuses public. This information would support external scrutiny, and would need to be supported by a robust, consistently applied, and transparent approach to awarding bonuses.

Progress reforms to the retail market to support Clean Power 2030 targets for flexible demand

As noted in Energy UK's response to Ofgem's consultation on barriers to innovation in the retail market, the market is already providing a range of innovative products and services (including Time of Use tariffs) and trust scores are improving.⁶ The most impactful action Ofgem can take is to ensure it has a consistent approach to regulation and enforcement. This will drive the trust and certainty needed to create investment that supports innovation.

The successful rollout of smart meters is critical to meeting the Clean Power 2030 targets, and Ofgem must ensure its approach to regulation and enforcement supports the benefits of smart being delivered to customers.

Progress a Cap and Floor regime to stabilise transmission network charges

Energy UK notes the need for greater harmony across Ofgem and Government with respect to DESNZ's Review of Electricity Market Arrangements REMA and transmission network use of system (TNUoS) charging. While we agree with the cap and floor scheme as a temporary intervention to meet CP30 objectives, in the long

⁶ <https://www.energy-uk.org.uk/wp-content/uploads/2024/12/Energy-UK-response-to-Ofgem-consultation-on-innovation-in-the-energy-retail-market-28-November-2024.pdf>

term, a more nuanced shift towards aligning TNUoS with broader strategic planning is needed. To improve market certainty, clear signalling now is needed to reflect if cost reflexivity is no longer a core principle of TNUoS. Consultation and clear coded guidance on what the new set of principles are would be needed. If the TNUoS generation cap and floor is indeed a temporary intervention, this too needs clear signalling from Ofgem.

Establish arrangements to license and regulate aggregators and remote load controllers

Ensuring proportionate consumer protections that provide a level-playing field between both suppliers and aggregators will be essential in increasing consumer trust and facilitating true competition; essential for the uptake of low carbon technologies on the demand side. Greater detail therefore is needed on how the licensing arrangements for aggregators will interact, for example where a supplier is offering DSR services to their own supply customers.

Ensuring a level-playing field for all parties – the balancing principles incentivise flex that is in the wider system interests by requiring parties to account for the costs of imbalance, which occur as a result of their actions. There is a concern that recent changes (for example the decision to socialise these costs amongst all bill payers in P415) break with this, and incentivise customer flexing whether or not it supports the system. Ofgem will need to carefully monitor activity to ensure that low-income customers are not underwriting the costs of flex that does not reduce system costs.

Continue to enforce the roll-out of smart meters and the introduction of market-wide half-hourly settlement

As noted above, Ofgem's approach to industry delivery of smart and market wide half-hourly settlement should be consistent with the wider objectives of the smart rollout. A customer outcomes-led approach to regulation and enforcement will drive support for these programmes and the customer uptake desperately needed.

Continue to support making it easier for consumers to benefit from informed and consensual sharing of data about their energy use

A robust customer consent system will help to develop a smart and secure electricity system that empowers customers to engage safely in activities, such as participating in data sharing and flexibility markets, whilst enabling room for innovation in the GB retail market.

Ofgem will need to address several critical concerns to deliver this goal, such as the specific form the solution will take, the funding mechanisms, and how customer engagement will be managed to ensure cost-effectiveness and mutual benefit for both consumers and the energy system.

Communicating the complexities around how suppliers manage consent to customers in a digestible format, whilst covering all of their legalities, needs addressing to ensure any solution is simple and low friction for consumers.

Provide clear regulatory guidance to the energy sector on the use of AI

Energy UK supports the positive, pragmatic and principles-led approach Ofgem is taking to its oversight of AI in the energy sector. While Ofgem is right to be mindful of risks, the potential benefits to customers cannot be underestimated.