

By Email - FWP@ofgem.gov.uk

10 February 2025

Comments on the Ofgem Forward Work Plan 2024/25

Thank you for the opportunity to comment on the draft FWP for 2024/25. The need for very clear priorities in Ofgem is higher than ever. Your draft plan acknowledges the new and pivotal role you must play in supporting Clean Power 2030. Since the draft was published, Government's expectation of regulators' support for its growth agenda has become clear. Importantly, the cost of living crisis has not ended and energy bills continue to rise.

In this context, **action by Ofgem to help stabilise, if not reduce, bills is central to protecting the interests of customers, key to maintaining public support for the energy transition and will help drive investment in the country and economic growth.**

In this response we have set out **four priorities which will help achieve these objectives and which need more attention in Ofgem's work in the year ahead.** Our plea is not simply to add these to the workload but for Ofgem to consider how it may reallocate resources from projects that are less essential for delivering lower bills, CP2030 and economic growth.

1. Reforming compliance to build a trusted and innovative retail market

Ofgem's approach to compliance is standing in the way of investment and innovation in energy retail and the development of products and services that will help customers manage their energy costs and decarbonise their homes. Serious misconduct from individual companies that harm the whole market's reputation often attract low level penalties with companies allowed to continue to operate. Unpredictable and burdensome and ill-targeted market reviews can increase risk and hamper internal resources. The current approach risks undermining customer trust and investor confidence, and discouraging innovation in well run suppliers.

We support Ofgem's signals (e.g. the Consumer Confidence programme and Jonathan Brearley's public remarks about need for clearer, cleaner simpler outcomes¹) that it is seeking to move to an outcomes-based retail market with high customer trust and great service. However, we do not see this ambition reflected in Ofgem's compliance approach, nor is there any commitment to review compliance in the forward work plan.

¹ [Ofgem CEO: 'Monster' licence conditions must be clearer](#), Utility Week, 11 September 2024.

We ask Ofgem to devote management leadership and resources to reviewing its approach to compliance, drawing on best practice in other sectors and considering options like a self recording regime for good performing suppliers (like is used by the CAA) or applying higher standards and 'special measures' for firms that fail to meet the outcomes.

2. A fair and proportionate approach to regulating a changing retail market

In 2025/26 Ofgem is preparing for an expanded regulatory role in the retail market. Ofgem will be regulating heat networks and new flexibility firms like aggregators. This could expand further still. Government seems likely to ask Ofgem to regulate third party intermediaries (including price comparison websites, energy brokers and autoswitchers); and pressure is growing from consumer groups for greater scrutiny of installers of low carbon technology.

This is a unique opportunity for Ofgem to put outcomes-based regulation at the centre of its approach across all retail energy activities, stripping away unnecessary and overly prescriptive consumer regulations, making regulation more efficient and ensuring a consistent framework and a level playing field for firms that compete with each other.

We encourage Ofgem to open up discussion on how it plans to approach this expanded remit. Specifically, we would like to see clear principles guiding its approach, including: ensuring a level playing field, fostering competition and innovation, avoiding duplicative licensing, ensuring proportionate regulation, and fairly distributing the costs market infrastructure (rather than placing the burden solely on existing licensees). Transparency in these considerations would be particularly valuable, given the Government's focus on how regulators can support economic growth.

3. A concerted focus on driving up efficiency, service and innovation in energy networks

Alongside facilitating the timely delivery of the investment needed in networks, Ofgem should focus its time and resources on driving up efficiency, service and innovation in energy networks. This should be an essential plank of the strategy to deliver lower bills, faster decarbonisation and support the Government's growth agenda. In this regard we ask:

- that Ofgem does not delay imposing stronger standards on customer service and connection delivery from the network companies. This must also apply to connections for consumer low carbon technology (LCT) such as heat pumps as well as higher voltage generation and demand, as problems are growing in the LCT market and this risks putting off customers and dampening demand.
- Ofgem prioritises work to develop strong incentives on network companies to improve utilisation of the use of existing grids. There is significant potential to get faster connections and accommodate new demand through co-location, shared

access rights, enhanced bay allocation, microgrids, Dynamic Line Rating etc. RIIO-3 is an opportunity to make sure networks have a strong incentive to innovate, invest and focus on better grid utilisation as well as improving queue management.

- Ofgem reviews its approach to driving innovation through the Strategic Innovation Fund. We think this is an expensive and relatively ineffective approach which could be better served through stronger incentives along the lines noted above.

When refining the strategic plans for new network build, we ask Ofgem to commit to providing transparency, and seeking market participant views on the transmission and distribution planning methodologies, which will now involve both NESO and networks. This will help contain the cost and ensure the coherence of the plans by ensuring:

- assumptions reflect latest insight on customer preference and behaviour,
- potential of grid-enhancing technologies and flexibility is maximised; and
- The plans crowd in the best innovative ideas from across the sector.

4. A strong and co-ordinated strategy for consumer flexibility

The Clean Power 2030 plan recognises the important role consumer flexibility must play in reducing dependence on gas quickly and affordably and has set ambitious growth targets for its deployment. With growing adoption of EVs especially, there is potential to go beyond the 12GW goal in the CP30 plan, allowing even more customers to save money by flexing their demand and allowing further efficiencies in system operation and development and lower prices for everyone. Large scale deployment of consumer flex, has the potential to drive innovation, investment and export potential from the growing number of tech providers in this market, with benefits for economic growth.

Achieving - or even exceeding - CP30 targets for consumer flex will require swift and very significant improvements in the market and regulatory framework for consumer flex. This needs all bodies responsible pushing in the same direction with a consistent agenda.

We appreciate Ofgem's commitment in the draft work plan to prioritising the removal of barriers to large scale deployment of demand flexibility, and the mention of joined up working across a range of teams in Ofgem. But recent experience has seen backwards steps (for example a reduction in the value of DFS, delays to the MHHS programme and a suggestion that "flexibility first" would not be part of RIIO ED3). Progress over many years has been very slow, including in the actions required from the system operator which Ofgem regulates.

To set a new tone and pace for work in this area we ask Ofgem to commit to publishing a detailed programme of work for consumer flexibility, derived from conversations with flex providers, and to use its powers to drive through changes needed in the bodies it regulates.

We would like to see action across all levels and all policy teams in Ofgem, including:

- Leadership from the top shining a spotlight and using the “Ofgem megaphone” to drive focus on the role of flexibility in CP2030 within Government, NESO, network companies, ELEXON and others.
- An immediate and urgent focus on opening up the range of markets available for energy services to flex services so that the market does not take further backward steps. Alongside BM and other markets openness, this should also include encouraging use of flex in constraint management - reducing the £350m+ paid in wind curtailment through customer actions and completely reforming the Local Constraints Market, which has not worked.
- Incentives on networks to use flexibility to reduce delivery risks of network build plans, maximise volumes connected for any given network capacity and use existing capacity most efficiently. Including making DuoS charges dynamic to incentivise flex implicitly on the local level. Ofgem needs to make sure local flexibility is being delivered in a standardised, scalable way, including taking a much stronger oversight role in Open Networks, plus enforcing greater uniformity between DNO flex schemes.
- A consistent and proportionate approach to regulating new firms offering flexibility services to ensure all customers get equal protections, including removing measures by which VLP/VTP aggregators can game the baseline.
- A focus on ensuring MHHS does not slip further and the smart meter rollout plans post-2025 are designed with customers in mind.
- Removal of the barriers to innovation in the retail market, especially by introducing a more proportionate and predictable approach to compliance.

We trust that this is a useful contribution. We would be happy to discuss this further.

Yours faithfully

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