

Andrew Venn
Ofgem
9 Millbank
London
SW1P 3GE

Sent via e-mail: pmg@ofgem.gov.uk

18 August 2014

Dear Andrew,

Consultation on Ofgem's Forward Work Programme 2015-16

I am pleased to attach Energy UK's response to Ofgem's Forward Work Programme 2015-16. It is not confidential.

If you have any questions, please do not hesitate to contact me on 020 7747 2968 or paul.taylor@energy-uk.org.uk.

Yours sincerely

Paul Taylor
Policy Executive

Ofgem Forward Work Programme 2015-16

Energy UK response

February 2015

1. Introduction

- 1.1. Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and supplies and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and last year invested £10billion in the British economy.
- 1.2. Energy UK strongly believes in the value of a competitive energy market and a stable and independent regulatory regime. Together these can foster innovation, support market development, bring benefits to consumers and help provide the certainty that is needed to encourage investment and enhance the competitiveness of the energy sector a key part of the British economy.
- 1.3. These high-level principles underpin Energy UK's response to Ofgem's Forward Work Programme. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.
- 1.4. Energy UK welcomes the opportunity to respond to Ofgem's Forward Work Programme and commends Ofgem's open engagement and transparency over upcoming work. To keep our response as concise and useful as possible the format of this response follows the outline of the forward work programme consultation document. Energy UK's comments are made by exception.

2. Executive Summary

- 2.1. Energy UK welcomes Ofgem's Forward Work Programme, and will continue to support Ofgem in its objective to promote a competitive energy market that produces good outcomes for domestic and business consumers, and which enables energy customers to trust and engage with energy suppliers.

- 2.1. Energy UK supports a culture of open and transparent dialogue with Ofgem. Members commend Ofgem's use of stakeholder workshops and encourage Ofgem to continue working in this collaborative manner, which is particularly effective in the early stages of policy development.
- 2.2. Energy UK calls for Ofgem to create an interpretation and advice function that sits between license condition and enforcement. This would enable speedier intervention when problems arise and facilitate dialogue between the regulator and the regulated, assisting all parties in delivering Ofgem's desired outcomes.
- 2.3. We are committed to continuing to work with Ofgem in the year ahead to monitor the outcomes of the Retail Market Review and how it is impacting consumers.
- 2.4. Energy UK wish to support Ofgem in continuing to promote a Third Party Intermediary (TPI) environment which supports customers getting clear, fair, transparent and accurate information to improve their experience when interacting with the market.
- 2.5. As progress towards the smart meter rollout continues, Energy UK will continue its Smart programme and close working with government and Ofgem to ensure the programme is a success and delivers the expected consumer benefits.
- 2.6. Energy UK welcomes Ofgem's involvement in European regulation and anticipates Ofgem will do its best to ensure that the direction of travel in EU regulation does not negatively conflict with developments in the UK regime.
- 2.7. If Ofgem progresses with activity around developing its approach towards principles based regulation then Energy UK believe its members should be actively engaged in this process.

3. Regulation of Monopolies and Enabling Markets

- 3.1. Electricity Market Reform (EMR) is now bedding-in following implementation and Ofgem plays a vital role in the ongoing management of the Capacity Market Rules. It is important that Ofgem undertakes this role in a transparent manner with full engagement with industry.
- 3.2. Energy UK supports Ofgem's role in developing and implementing the European Network Codes (NC) for gas and electricity, as well as Ofgem's commitment to continue engaging with DECC and the industry. This engagement will be key to ensure that the outcome of the Network Codes elaboration process results in a set of robust EU Regulations which help realise Europe's energy policy goals, without imposing unnecessary obligations or costs on industry or at the Member State level, that will ultimately affect consumers. The correct, timely and proportionate implementation of European Network Codes will be a significant task, requiring a number of changes to the existing industry commercial arrangements impacting all GB market participants and actors.
- 3.3. Energy UK would urge Ofgem to remain conscious of its gas transmission charging review with respect to the European Network Codes on the harmonisation of gas tariffs, as these areas are progressing in parallel.
- 3.4. To ensure that RIIO drives best practice and delivers on customers' interests, Energy UK would like to highlight the importance of the new ED1 license obligation SLC 50 which requires DNOs to report against their RIIO ED1 business plan commitments.
- 3.5. Energy UK members support Ofgem's ongoing work on electricity interconnectors, but would encourage Ofgem to undertake further analysis on the impacts of increased European interconnection on GB security of supply, particularly at times of simultaneous stress events in GB and interconnected markets, and the effects of this on consumer affordability. Ofgem also needs to consider the impact of differing arrangements between GB and other European markets in terms of network charges and taxes on interconnector flows.

- 3.6. Energy UK would like to emphasise the importance of transparency in relation to Ofgem's cap and floor regulatory regimes for new interconnectors. This will enable stakeholders to scrutinise the financial implications of new interconnection and protect present and future consumers' interests.
- 3.7. With regards to the Smart Meter Programme, Energy UK urges greater transparency over the DCC charge control process.
- 3.8. With regards to Demand Side Response (DSR), Energy UK welcomes Ofgem's commitment to developing opportunities in this area, in particular smarter markets. We would advocate knowledge sharing to support demand side flexibility. As part of this approach Energy UK would welcome the opportunity to take part in the DECC-Ofgem Smart Grid Forum Steering Group.
- 3.9. Energy UK urges Ofgem to arrive at a timely decision on the 'cash-out' modifications to the Balancing and Settlement Code, to ensure that there is more certainty about the impact for market participants and sufficient lead times to make required changes.

4. Effective Competition

- 4.1. Energy UK welcomes Ofgem's commitment to lifting barriers to new entrants accessing the market.
- 4.2. Energy UK members report that they have found Ofgem's small supplier open forum events useful and would welcome further opportunities to engage with Ofgem in this manner.
- 4.3. There is strong support amongst Energy UK members, as well as consumer groups, that customers could benefit from the development of a policy interpretation and advice function within Ofgem. Energy UK believes this resource would assist all suppliers in delivering Ofgem's desired outcomes and could be particularly important in building trust and understanding if Ofgem intends to move towards principles-based regulation.
- 4.4. Energy UK is pleased to see Ofgem's early engagement with stakeholders as it develops its methodology to monitor the outcomes of the Retail Market Review (RMR). Energy UK is keen to continue to be involved in this work, particularly with regards to reviewing the impacts of RMR and any recommendations emerging from the CMA process.
- 4.5. Having worked with Ofgem to halve switching times through Quicker Switching, Energy UK is committed to continuing to work to improve the switching process for customers.
- 4.6. Energy UK is working with suppliers to develop a set of smart meter billing commitments to help meet the objectives set out in Ofgem's consumer empowerment and protection strategy around billing.
- 4.7. We note that Ofgem proposes to review its customer contact functions in order to ensure they offer an effective service to consumers (paragraph 2.11). We would be interested to understand if this represents a change in approach as regards dealing with consumers directly and how it will relate to services provided by Citizens Advice.

5. High Standards of Outputs and Protection

- 5.1. Energy UK welcomes the intention behind Ofgem's desire to progress towards principles-based regulation. For this approach to be successful in the interests of consumers, greater trust is needed between the industry and the regulator. Energy UK is happy to engage with Ofgem on any activity to achieve this.
- 5.2. Energy UK would welcome the opportunity to engage further with Ofgem as it develops the next steps of its review of the Priority Services Register (PSR). In Energy UK's view, the PSR

is - and should remain - a common, tightly defined, minimum set of services to assist and protect those customers who most need those services. It is therefore more important than ever, that Ofgem clearly sets out what it is hoping to deliver via the PSR for consumers, so that suppliers can meet (and go beyond) this vision. Energy UK remains very keen to work with Ofgem, suppliers and the networks with regards to how it can best take forward both the development of the PSR and its Consumer Vulnerability Strategy more generally.

- 5.3. Energy UK and its members are always keen to engage with Ofgem and Citizens Advice about ways in which to improve and develop Energy Best Deal and Energy Best Deal Extra, particularly as Warm Home Discount obligated parties seek to make a decision on whether to continue funding Energy Best Deal as an Industry Initiative for Warm Home Discount scheme year 5.
- 5.4. Energy UK believes trusted third party intermediaries (TPIs) provide key customer engagement tools. It is important that Ofgem, through its development of a non-domestic TPI Code of Practice and its review of the Confidence Code, continues to promote a TPI environment which means customers get a clear, fair, transparent and accurate experience when procuring electricity and gas, regardless of the route they choose to access the market. Energy UK will continue to support Ofgem in this area.
- 5.5. Security of electricity supply is a key priority for the energy industry. Ofgem must ensure that the Supplemental Balancing Reserve is used appropriately and does not distort the market by displacing plant that would have otherwise run. Consequently, it is important that Ofgem monitor the effect this and the Demand Side Balancing Reserve have on the market. Both balancing services should be discontinued when the Capacity Market starts delivering in 2018.
- 5.6. Ofgem E-Serve currently has an important role in relation to supplier obligations for environmental schemes, however Energy UK would support the simplification of Ofgem's approach to the administration of supplier obligations in order to:
 - a) Make obligations more achievable for suppliers,
 - b) Make schemes more cost effective, and
 - c) Ensure that schemes and the role of suppliers is more comprehensible to consumers.
- 5.7. Energy UK encourages Ofgem and DECC to keep under review energy efficiency installation work and standards, including accreditation. We strongly believe that ECO administration should support the existing quality and certification frameworks for energy efficiency improvements and encourage their further development. Where possible, existing certification schemes and standards should be relied upon to demonstrate compliance with Building Regulations e.g. Competent Person Schemes, PAS 2030. If there are evidence-based concerns that such schemes are not fit for purpose, the relevant authorities should be addressing this with accreditation bodies and drive improvements.

6. Partnership with Government and Stakeholders

- 6.1. Energy UK welcomes increased interaction between Ofgem and other government agencies and departments as part of an effective approach to project and policy development.
- 6.2. Energy UK supports the open workshop-based approach Ofgem has been using when developing its policies. Energy UK believes that Ofgem should continue this positive dialogue beyond its development of current policy to existing regulation and advocates a policy interpretation advice resource as an effective way of doing this (see paragraph 4.5).
- 6.3. Energy UK is supportive of Ofgem's engagement with trade and consumer groups who provide constructive and evidence-based feedback and hold informed positions on policy issues.

- 6.4. With regards to Ofgem E-Serve's role in implementing government policy, Energy UK believes that the administration of future social environmental schemes should be subject to a formal tender process. In the instance that Ofgem E-Serve remain a scheme administrator, Energy UK would expect it to engage effectively and provide relevant information to all participating stakeholders. For ECO this should include installers and product manufacturers in addition to obligated suppliers.
- 6.5. Energy UK is supportive of Ofgem's planned initiatives for the smart meter rollout.
- 6.6. In relation to the Smart Grid, Energy UK would ask Ofgem to increase the transparency around ongoing activity, specifically disclosing the findings of the Low Carbon Network Fund with other stakeholders, particularly Smart Energy GB and the DECC smart programme.
- 6.7. Energy UK welcomes Ofgem's involvement in vital European regulation. Energy UK anticipates Ofgem will do its best to ensure that the direction of travel in EU regulation does not conflict with developments in the UK regime, where there are discrepancies Energy UK expects Ofgem to take the appropriate action to minimise any negative effects on energy consumers in the UK. This expectation extends to the European Network Codes and the way they will be implemented.

7. Trust and Confidence

- 7.1. Energy UK recognises the importance of trust in the industry, something for which both suppliers and Ofgem have a responsibility – and an interest - to promote.
- 7.2. Recent Ipsos MORI research undertaken on behalf of Energy UK found that nearly two-thirds of customers were satisfied with the services of their supplier provided and that 75% found it easy to switch supplier.
- 7.3. Energy UK believes that openness and transparency are vital in the industry and support any efforts that contribute to better understanding of the energy market, indeed Energy UK produces its own monthly wholesale reports that contribute to this aim
- 7.4. Energy UK would welcome a discussion with Ofgem on its Supply Market Indicators (SMI) and reporting protocol.
- 7.5. Ofgem's involvement in the Regulation on Energy Market Integrity and Transparency (REMIT) implementation is welcomed by Energy UK. It is particularly important that Ofgem continues to monitor and investigate the use of financial instruments in the market and maintains a dialogue with the Financial Conduct Authority.
- 7.6. It is important that Ofgem monitors the wholesale electricity market and its ability to deliver effective outcomes for consumers. In order to do this the impact of Secure and Promote in improving access to the market must be analysed as well as market liquidity. In addition to the existing metrics, Ofgem should undertake analysis of what types of parties are taking up opportunities to trade, both via Supplier Market Access Rules and the trading windows arising from the Market Making obligations.

8. Efficiency and Effectiveness

- 8.1. Ofgem's Forward Programme is a useful tool in understanding Ofgem's broad approach and key areas of interest, however it would be beneficial to better understand the discrete projects and pieces of work that sit under each of these themes, and how these will be scheduled throughout the year on a monthly basis.

9. Annex 2 – Key Performance Indicators

- 9.1. Energy UK believes that Ofgem should include a KPI on responding in a timely manner to supplier queries in order to assist suppliers in meeting obligated objectives.