

## **Welsh Government response to Ofgem consultation.**

Welsh Government welcomes the opportunity to respond to Ofgem's consultation on the future of retail market regulation. We have been engaging with Ofgem since late last year, and provided some initial thoughts on the consultation in December prior to its release.

The future direction of energy in Wales will be founded upon a flexible and diverse energy mix at all scales. We believe that there is an important and increasing role for local generation and supply, based on renewable sources, smart storage and local grid management, in addition to large renewable energy developments, nuclear and modernised gas.

Welsh Government therefore welcomes the move by Ofgem to a more principles based approach to market regulation. This will be key to encouraging innovation and decarbonisation in the market.

However, whilst the principles based approach is important, it should also involve simplification of existing regulation, reduction of burdens on suppliers, enabling new entrants and reducing costs to the system. This change will need ongoing support from Ofgem at all levels to encourage the required level of innovation.

It is important that the principles on which regulation is based are clear and transparent, and are also supported by the customer. Price is just one of the range of issues that customers value, and the full range of issues should be taken into account in developing the new regulatory principles.

We believe that a principles based approach will need a much greater focus on outcomes. These outcomes should be based on a thorough understanding of the full range of customers' needs, and of the protections that they require. We consider that a clear understanding of outcomes for customers and suppliers should form an important part of the next steps in the transition to principles based regulation.

The principles based approach should be designed to be flexible enough to adapt to the increased deployment of some existing technologies (such as storage) and the emergence of new technologies. We also welcome the commitment of Ofgem to considering what support new and prospective entrants might need in order to comply with regulation.

New business models are a challenge to the existing regulatory framework: however a new framework needs to be broad enough to allow new models to flourish. As we set out previously to Ofgem, we see a benefit in widening the scope of the process to include the consideration of a localised approach to licencing, to support our policy stance of increasing deployment of local energy. In conjunction with this, whilst vulnerable customers will need a high level of protection, the system must be able to support informed customers'

ability to choose a higher level of risk and security, if that enables them to fulfil other demands, such as for locally sourced and renewable energy.

We agree that monitoring and engagement will be key to understanding what is happening in the retail market, and identifying support current and future suppliers might need to ensure that suppliers conform with the rulebook. The new regulatory framework needs to create incentives for suppliers to get things right first time, but also to engage with Ofgem when things do go wrong. The approach known as Results Based Accountability has been very helpful within Welsh Government in managing monitoring of both levels of delivery and impact on high level country-wide outcomes, and we are able to provide more information on this approach should this be helpful.

We would encourage Ofgem to continue to engage with other regulators that have moved towards principles based regulation. We understand that Ofgem has already had discussions with Natural Resources Wales (NRW), the environmental regulator for Wales, regarding their approach to regulation to support natural resource management. We anticipate that NRW will be providing an updated version of their regulatory principles shortly. Information is available on their website at: <http://naturalresources.wales/how-we-regulate-you/regulatory-principles/?lang=en>

You may also find that the Wales Audit Office has considered how they regulate for a way of thinking, in connection with the implementation of the Wellbeing of Future Generations (Wales) Act 2015, and we would be happy to provide a contact to explore this work if it would be helpful.

Welsh Government is committed to engaging through the Ofgem Wales office and with the relevant policy team to support Ofgem in the transformation to principles based regulation. We believe that this will help secure the transformation in the market which we need for Wales, to ensure the fitness of the power networks to meet the challenges we expect to occur over the coming decades.