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## Ofgem draft Forward Work Programme 2020-22

Thank you for the opportunity to comment on Ofgem's Forward Work Programme (FWP) 2020-2022. The view of Ofgem's planned areas of focus over the next two as set out in the FWP is helpful in that it enables industry participants to prepare for upcoming proposals of regulatory change.

Our comments on the FWP centre around the themes of identifying linkages between projects and the importance of the way in which Ofgem approaches regulatory change (i.e. the critical importance of following good regulatory process):

- Within the FWP we see networks as a key area for reform, which will be critical to meeting decarbonisation ambitions. We therefore strongly support the recently published Decarbonisation Action Plan and expect it to be closely aligned to the deliverables in the FWP.
- There are still some areas of inconsistency, most notably around retail regulation. The FWP commits to reviewing smart cost allowances within the default tariff cap but neglects to mention urgent reviews of wholesale allowance and PPM. We therefore welcome Ofgem's [subsequent clarification](#) to remedy these omissions. On the smart allowance, Ofgem needs to be joined up with BEIS to ensure Ofgem's process for setting the price cap smart metering allowance aligns with BEIS determining the nature of the post 2020 smart mandate.
- Ofgem's customer vulnerability strategy also takes insufficient account of price cap financing constraints, as we have [previously noted](#).

With the level of upcoming change, the importance of a predictable regulatory framework and a clear and transparent process for regulatory change (with appropriate checks and balances) has never been greater. The certainty of such framework creates conditions under which market participants will be prepared to invest and to innovate – with subsequent benefits to consumers in terms of enhanced competition. As Ofgem looks at using all regulatory tools available to achieve its goals toward decarbonisation, we consider it imperative that Ofgem maintains its commitment to put in place “analytical frameworks to ensure that decisions made by our Authority are supported by robust evidence”.

We believe the principles of better regulation are important to achieving transparent, proportionate and evidence-based decision making. We expect Ofgem to take on board the views included in the price cap [Judicial Review judgment](#) on what constitutes good regulatory practice, and specifically that the assumptions made by Ofgem in the context of proposing regulatory policy changes are realistic, properly communicated and that consultations must be transparent if they are to be fair.

We set out our more specific comments on the FWP in terms of Ofgem's plans relating to:

- networks;
- wholesale markets;
- retail markets; and
- market wide considerations.

### Networks

Flexibility will be key in enabling net zero at the lowest cost, and networks are at the heart of this change. Ofgem's work on the Smart System Flexibility Plan (SSFP) produced a good set of actions to reduce barriers to flexibility that will help meet net zero. In 2020, we believe it is important that Ofgem and BEIS continue this work, ensuring that the SSFP actions are fully implemented and that there is a coherent strategy across all workstreams that ensures that flexible resources can be deployed at the levels needed to facilitate low-carbon power, transport and heat. Ofgem and BEIS must ensure that flexibility providers can access all revenues and assess whether these revenue streams are sufficient to allow flexibility to be deployed as needed. This should be a deliverable for H1 2020 with resulting actions being delivered in H2 2020; we would like to see an overarching strategy from BEIS/Ofgem as well as tangible actions that can be taken by Ofgem to enable flexible resources

We support Ofgem in its review of the network price controls and the aim to expand the scope for competition across the sectors where competition delivers value for consumers and encourage penetration of flexible and non-traditional alternatives to network reinforcement. The network charge review should provide clear investment signals, while allocating legacy costs fairly.

While we support the RIIO-ED2 deliverables, there should be an acknowledgement by Ofgem that there are other workstreams in advance of ED2 including the ENA Open Networks Project and reform of the Long Term Development Statement (LTDS). The 2020-2022 period is crucial to ensure that there are competitive markets for flexibility from distributed energy. The RIIO framework and associated work by Ofgem in advance of RIIO-2 must ensure that local flexibility can be procured on platforms that are operated independently from the DNO, are competitive and technology-neutral. Market frameworks will need to be in place within the 2020-2022 period, which allow flexibility providers to be able to easily access and switch between multiple markets. This will need to be supported by modernised data provision and a regulatory framework to ensure transparency around network procurement decisions. All these areas need to be under way by the end of 2022.

While the network reforms are welcome, Ofgem needs to do more to "join the dots" and explain the interactions between some of its objectives to ensure consistency. For example, we find it difficult to see how Ofgem's recent decision on [CLASS](#) is consistent with Ofgem's goal to open up the flexibility market to innovators and expand the scope for competition. We

strongly believe that DNOs should not be permitted to participate in contestable markets given the considerable distortions to competition and long term detriment to consumers such participation creates. Instead, DNOs should primarily focus on their explicit regulatory duties, in line with the intent of the Clean Energy Package and CEER conclusions on DSO involvement in new services. Specifically, we are concerned that allowing DNOs to undertake additional activity, such as CLASS, creates a barrier for growth of low carbon flexible technologies, and deters other innovators from entering the market.

We welcome the RIIO-2 framework that begins in 2021 for National Grid ESO. There has been good collaboration from Ofgem, the ESO and industry to ensure that these plans allow the ESO to best manage the changing energy systems, whilst allowing the market to competitively provide the services it requires. We support the ESO Forward Work Plan process and engage fully with this; all the ESO's balancing services being procured competitively and transparently should resulting in lowest overall cost to domestic and commercial customers.

On gas transmission, we support Ofgem's consultation on 'major changes to the gas transmission charging arrangements, which will remove significant distortions and implement new legislation on gas tariffs'. However, the target date of July-September 2020 for the decision is very late, if the changes are to be applied from 1 October 2020. Any further delay would create undue risk resulting in the commodity being priced at a higher level leading to a detriment for consumers.

### Wholesale markets

We welcome that Ofgem is looking at how to maintain the current wholesale and capacity market structures and ensure that these can facilitate the net-zero objectives. Flexible resources provide a number of benefits to the electricity system beyond generating power to meet demand; they can enable other generation to connect to the system, such as variable renewables, as well as reducing overall network costs and ensuring the electricity system remains stable.

Ofgem should consider whether wholesale markets will continue to provide the signals required for merchant assets, with increasing amounts of must-run low-carbon generation supported by support schemes (CfD, RO and potentially the new RAB scheme). A holistic approach to any changes in market instruments is required, and the timing of the reforms will be critical. We hope that this will be in scope for Ofgem's 'barriers to growth of low carbon flexible technologies' Call for Evidence.

Brexit continues to be a looming issue of concern, specifically for wholesale energy markets. With just 11 months until the transition is complete, it is worrying that Ofgem has not included in its FWP any concrete milestones to prepare for Brexit or set out the regulatory implications of the UK's likely future energy relationship with the EU. There remains a considerable risk that Brexit could impact GB power prices, and subsequently impact end consumers. Trading industry participants have consistently argued for BEIS and Ofgem to consider the implications of decoupling of GB power exchanges, and Ofgem should set out its role in mitigating the impact on GB markets and consumers. We suggest Ofgem should consider committing to deliver 'alternative arrangements' by Q3 2020 at the latest to ensure that UK consumers will not be worse off.

## Retail markets

We are concerned that Ofgem has failed to acknowledge the link between some of its objectives as set out in the Customer Vulnerability Strategy and the Default Tariff Cap. Where new regulations aimed at delivering better quality of service and better social outcomes (as outlined in the vulnerability strategy) increase supplier costs, these increases need to be reflected in the default tariff cap.

In addition, when considering the implementation of the vulnerability strategy, it is important that Ofgem recognises customers' changing demands. For example, it is no longer the case that measures, such as 'telephony', should be considered the standard channel of consumer contact, given the increasing desire of customers to interact with their suppliers through digital channels.

While we do not believe the Default Tariff Cap is in the long-term interest of consumers, Ofgem's work in ensuring the price cap properly reflects the costs of serving domestic customers is essential, if resulting distortions to competition are to be mitigated. We welcome Ofgem's consultation on an appropriate adjustment to the price cap to address the shortcomings in the cap that was set for Q1 2019. Given the materiality of the issue, it is important Ofgem's proposed timetable does not slip. Similarly, we support a review of the Pre-Payment Meter price cap, given the importance of consistency between the Default Tariff Cap and the PPM price cap.

We welcome that further review of SMNCC is included in the FWP and look forward to engaging further on the detail. Centrica remains an advocate for the smart programme, which enables many benefits for our customers, as well as being a critical part of Government's net zero carbon strategy. However, our ability to continue to deliver on the programme's ambitions depends critically on provision of sufficient, reliable and sustainable funding. We note that Ofgem's proposed timetable of smart allowance review relies on BEIS having concluded its post-2020 policy ahead of Ofgem's consultation in May. As [previously argued](#), Ofgem must join up with BEIS to ensure Ofgem's process for setting the price cap smart metering allowance aligns with BEIS determining the nature of the post 2020 smart mandate.

We strongly support Ofgem's proposals in the supplier licencing review on provisioning for credit balances and government policy costs, but Ofgem needs to go further and protect 100%. We are concerned that Ofgem has already diluted protection of credit balances from 100% to 50%, and only a "proportion" of Government policy costs. We consider that credit balance and policy cost protection is essential to prevent suppliers using an uninformed line of credit to pay for unsustainably low acquisition prices.

In the FWP, Ofgem states that it will publish Authority decision on microbusiness action plan in April-June 2020 and the Microbusiness action plan implementation will follow. We trust that Ofgem will ensure that the remedies to address any potential issues in the market will be appropriately consulted on before a decision is made. Overall, we encourage Ofgem to share its thinking at an early stage and consult with an open mind.

### Market wide considerations

We strongly support Ofgem's review of the Consolidated Segmental Statements (CSS). Current rules only require some businesses to produce CSS, leaving those that are excluded from the obligation at a competitive advantage, as the cost of producing CSS can be substantial. We believe that Ofgem should conduct the review as if the CSS did not exist today, allowing for a genuinely open-minded consultation for the ultimate benefit of consumers.

The CSS review is long overdue as the structure of the energy market is now very different from 2009 when the obligation was introduced. The delay in the review resulted in unnecessary costs to consumers and extended damage to competition. We encourage Ofgem to ensure that such a delay to reform does not happen again and strongly recommend that Ofgem introduces an automatic review for all its existing policies, in the event that there is a material change in circumstances. Ofgem can refer to the CMA as an example of such obligation.

We hope our comments will be taken into consideration and look forward to engaging with Ofgem over the next two years on the key regulatory areas in the evolving energy market. Please do not hesitate to contact me if you would like to discuss our response in more detail.

Yours sincerely,

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