

# Citizens Advice response to Ofgem's consultation on the draft Forward Work Programme 2020-22



**citizens  
advice**

# Introduction

Citizens Advice welcomes the opportunity to comment on Ofgem's draft Forward Work Programme 2020-22.

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, the Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 270 independent advice centres that provide free, impartial advice from more than 2,550 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates' courts, and mobile services both in rural areas and to serve particularly dispersed groups.

We give advice to people through our network of local Citizens Advice and through our national consumer service helpline. Between these 2 services, last year we advised over 130,000 people, solving 100,000 problems. Over 25,000 people saved money because of our advice. We also offer specialist support to the people who need our help most through the Extra Help Unit, where last year we helped over 9,000 people.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

## Preface

Citizens Advice welcomes the opportunity to comment on the areas of focus for Ofgem in its work plan for the period 2020-2022.

In particular we are pleased to see the commitment Ofgem has made to driving decarbonisation forward, made evident through its recently published decarbonisation action plan.

There are however, some areas in which we believe Ofgem could go further:

- The price cap has an uncertain future and we think Ofgem could do more to consider what the options are in a post price cap world and how to protect those who will be left vulnerable after the cap ends.
- There is also the question of resource allocation, so that in the move towards rapid decarbonisation and a changing energy market, the regulator is equipped to deal with the challenges that will arise.
- A crucial part of the transition to smarter, cleaner energy, is for data to be made available and more effectively used in a manner that safeguards privacy. We still believe this area needs more attention from Ofgem and a way to ensure clear benefit to consumers of sharing their data.

We also want to take this opportunity to highlight the issue of newer technologies and services being introduced which could lead to consumer detriment. The lack of acknowledgement of this issue is a gap within the work plan.

The rapid move towards a decarbonised and smart energy system will mean that some groups of consumers may experience vulnerability in different ways. Decarbonisation will also raise questions of fairness regarding who pays for the transition. Some people are at risk of being left behind, with few choices in the market and high costs.

We have raised these issues through research<sup>1</sup> and we continue to work on highlighting these issues through our advocacy work, for example through our attendance at the Smart Systems Forum.

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<sup>1</sup> Citizens Advice, [Future for All: making a future retail market work for everyone](#), 2019. [Zero Sum](#) 2020.

We welcome Ofgem's recognition of the need to understand the aggregate effect of its policies on groups of consumers. We encourage Ofgem to work with government and other stakeholders to anticipate these issues and develop solutions that reduce barriers to participation, protect consumers are protected, and distribute costs fairly.

## Response

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### **Enabling competition and innovation which drive down prices and result in new products and services**

#### **A: Retail Markets**

##### **Retail Market Change**

Citizens Advice agrees with Ofgem's assessment that a well functioning retail market will be essential to delivering a net zero carbon economy. Citizens Advice has explored in recent research how innovation in energy supply, such as time of use tariffs, peer to peer trading and 'energy as a service' models can deliver real benefits for consumers such as lower costs and greater personalisation, as well as wider system benefits such as reduced consumption and greater flexibility.

Citizens Advice also welcomes the role of Innovation Link as a supportive space for innovators. We have through our own sandbox piloted how fintech providers - in some cases companies, also supported by Ofgem's own Innovation Link - can provide services to our clients through local Citizens Advice offices<sup>2</sup>. We look forward to seeing the detail of the next phase of Ofgem's Innovation Link, and would welcome a focus on how access to innovative services can be broadened.

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<sup>2</sup> [Citizens Advice Medium blog](#), 2019.

However, as the Retail Markets section of Ofgem's Strategic Narrative 2019-23 recognises, in the future retail market, businesses and consumers will face more complex choices. There is a need for a regulatory framework that supports intermediaries and other firms offering new services to reduce complexity, while at the same time "ensuring consumers are protected if they choose these companies to help them meet their energy needs."<sup>3</sup>

In a forthcoming report, we will set out our view of the appropriate balance of enabling innovation and ensuring adequate consumer protection in the third-party intermediary sector. We believe there is a role for expanded sectoral regulation in driving good outcomes in this market and making sure today's consumers are protected, and tomorrow's consumers have the confidence and trust to engage in the market. We keenly support the development of a legislative programme for changes to the future retail market design to help achieve this balance.

Citizens Advice supports Ofgem's commitment in principle to help consumers to access and share energy data in a way that will enable new products and services. This will be fundamental to allow consumer trust and engagement with the future energy market <sup>4</sup>. Consumer data sharing is a key enabler in future energy market initiatives that will support vulnerable customers, reduce bills and carbon emissions.

However, in practice we are concerned by the lack of progress with the delivery of Midata to date. We hope that the new approach of drawing funding from the Retail Energy Code for Midata development will lead to a clearer route forward, and anticipate engaging with Ofgem on this work over the coming year. This needs to be achieved in a way that doesn't create prohibitive barriers to consent or lead to consumer mistrust.

## **Faster more reliable switching**

Citizens Advice remains strongly supportive of the objectives of the Switching Programme, and of achieving a better customer journey through the switching process. As evidenced by cases seen by our Consumer Service, a poor experience of switching can give rise to distrust in the wider market and lead consumers to be unwilling to re-engage. As reflected in the most recent Ofgem Impact Assessment, it is more important to have a reliable switch rather than a fast one. Local Citizens

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<sup>3</sup> Ofgem, [Our strategic narrative for 2019-23](#), 2019

<sup>4</sup> Citizens Advice, [Clear and in Control](#), 2019

Advice and the Consumer Service dealt with over 15,000 switching issues in the last year. It continues to be one of the main energy concerns for consumers.

As the switching programme continues in the design build and test phase, Citizens Advice engagement will be more limited, with our focus on getting the right framework for the Retail Energy Code. However, we welcome opportunities for input as appropriate to ensure that implications for consumers are considered, including how the end-to-end switching process can be improved. As the programme moves towards implementation next year, we will be keen to help communicate these changes to consumers and understand how the advice we provide to clients will need to adapt.

## **B: The Energy System**

### **Network Price Control Design, Development and Implementation**

Citizens Advice supports Ofgem's ongoing price control process for the gas distribution, electricity and gas transmission network companies, and the Energy System Operator (ESO). It is vital that the RIIO-2 price control provides fairer financial outcomes for consumers than previous price controls while also ensuring that the services that are needed for a robust future energy system are delivered. We are supportive of Ofgem's intention to improve reporting requirements and increase transparency, as well as encouraging more competition. We have been engaged with the scrutiny of Gas Distribution and Electricity and Gas Transmission plans which has been a formidable task. We think that business planning requirements could be enhanced for electricity distribution (RIIO-ED2) to make this process simpler for consumer groups (including Citizens Advice) to engage with.

Citizens Advice looks forward to continuing to work with Ofgem during the electricity distribution RIIO-ED2 price control development process, so that the RIIO-ED2 price control meets the needs of consumers, particularly those in vulnerable circumstances, and provides good value for money.

We also encourage Ofgem to proactively implement learnings from the Gas Distribution Network (GDN) business plan and scrutiny process, and apply them to the process being run for the DNOs. As part of this, Ofgem should consider working with the Gas Distribution Network companies' Customer Engagement Group chairs to highlight areas for improvement or change in the enhanced engagement process.

## Energy System Operations

Given the relatively short period that the ESO has been operating as a legally separate entity from the National Grid group, it's inevitable that there are improvements to make to the design, incentives and reward structure. Citizens Advice supports Ofgem in its ongoing development of the ESO's design and incentives regime, with particular support for the regular review of the ESO's roles and responsibilities.

We also support Ofgem's role of setting a high quality framework that incentivises the Gas System Operator (GSO) to significantly reduce its environmental impact and provide leadership to others in the energy system.

The transition to develop a more efficient and responsive electricity distribution system will require the network companies to undertake different roles and work in new ways as the network companies take on Distribution System Operation (DSO) functions. The RIIO-ED2 price control will need to facilitate these evolving DSO functions while ensuring that the companies act fairly and transparently with respect to potential competitors and other third parties. Citizens Advice will continue to work with Ofgem as it seeks to develop fair and efficient practices in electricity distribution system operations. We support the updating of the distribution companies' data sharing licence requirements as one of the key enablers for DSO functions.

Citizens Advice supports Ofgem's goal to further develop DSO functions to bring about a net zero carbon economy through actions such as fostering innovation and by enabling a deep and efficient flexibility market. We will continue to contribute to Ofgem consultations regarding DSO functions including the current consultation regarding the 'Regulatory treatment of CLASS (Customer Load Active System Services) as a balancing service in RIIO-ED2 network price control'<sup>5</sup>. This consultation discusses the proposed wider use of voltage control mechanisms alongside active network management and is of particular interest as it considers a DNO activity which has implications for third parties and the role of competition. It is our view that such activity is part of a wider debate surrounding the role of DNOs in DSO functions. A further example of this type of issue includes the proposed DNO solution to use emergency charge limitation of electric vehicles. We welcome

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<sup>5</sup> Ofgem consultation: 'Regulatory treatment of CLASS as a balancing service in RIIO-ED2 network price control', February 2020, [https://www.ofgem.gov.uk/system/files/docs/2020/02/regulatory\\_treatment\\_of\\_class\\_as\\_a\\_balancing\\_service\\_in\\_riio-ed2\\_network\\_price\\_control\\_1.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/02/regulatory_treatment_of_class_as_a_balancing_service_in_riio-ed2_network_price_control_1.pdf)

further Ofgem scrutiny in assessing the implications of such proposed DNO activities and we will be contributing our views to the debate on the topic.

## **Value for Money for Network Projects**

Citizens Advice is encouraged by Ofgem's plans to develop the tendering regime for Offshore Transmission Owner (OFTO) assets, which should seek to protect consumers from undue risks whilst ensuring that our networks are fit for the challenges the future energy system presents. In line with that, we look forward to Ofgem's work around developing coordinated solutions for transmission networks. We will be producing some research (detailed in our 2020/21 work plan) regarding storage on the energy networks. We look forward to sharing our research with Ofgem, aimed at informing how storage on the networks is managed and regulated to deliver the right balance of consumer benefits. As with Ofgem's plans for transmission infrastructure, these changes are to become increasingly important in a net zero future.

## **Protecting consumers, especially the vulnerable, stamping out sharp practice and ensuring fair treatment**

### **A: Retail Markets**

#### **Protecting Domestic and Microbusiness Consumers**

The energy price cap is time limited by legislation and could end as soon as December 2020, or as late as December 2023. Because there is uncertainty about the exact end date, it would be prudent for Ofgem to prepare for the possibility that it is removed this year. Citizens Advice expects to see the regulator developing options for successor arrangements, including the form of any protection consumers in vulnerable circumstances during this work plan period. We are developing our own thinking in this space, and look forward to working with Ofgem closely to progress them in the year ahead<sup>6</sup>.

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<sup>6</sup> Citizens Advice, [When the cap no longer fits](#), 2020.



## **Consumer Vulnerability Strategy 2025**

Citizens Advice has engaged closely with Ofgem on the update to its Consumer Vulnerability Strategy this year. We support the action plan for the first year of the strategy and are pleased that the actions align with the content in the Forward Work Plan. In particular we look forward to seeing the analytical framework to assess the effects of policies, and working closely with Ofgem on updating the “ability to pay” principles.

Last year we called on Ofgem to introduce a target to work towards ending self-disconnection as part of the Strategy. We welcome Ofgem’s commitment to strengthening rules that aim to protect consumers from self-disconnection as a step towards this aim, although we expect that more work may be needed in future to eliminate self-disconnection entirely.

In the Gas Distribution Customer and Social working group last year we made a recommendation to introduce a vulnerability principle for network companies. We are pleased that Ofgem has chosen to pursue this for the gas networks. We agree that a principles-based licence obligation will make network companies more accountable for the minimum service they provide for consumers in vulnerable situations.

## **Authority decision on microbusiness action plan**

Citizens Advice supported the breadth of the microbusiness call for evidence in 2019, as the first stage of Ofgem’s review of the microbusiness retail energy market. We understand that price comparability and transparency, and broker malpractice will play a key part in the action plan for the Forward Work Programme period. Alongside these important issues, we also think it is important for Ofgem to consider supplier practices on debt and disconnection - a key area of detriment that microbusiness consumers contact our service about. We would welcome more information about how the responses to the call for evidence will feed into this action plan, and look forward to working closely with Ofgem as it is taken forward.

## **B: The Energy System**

### **Ensuring System Stability and Security**

Citizens Advice supports the regulator’s continuing focus on Black Start, noting that the cost of this service has fallen since 2017. However, due to the falling number of

Black Start capable market participants, Ofgem needs to urgently review market arrangements and barriers to entry to allow more parties to provide this service. This will create a more liquid market. We note that there is an ongoing innovation project on this topic, however, in our view there is scope for Ofgem to do more with the current market arrangements ahead of the completion of this project. We support Ofgem's continued work on Cybersecurity.

Citizens Advice also supports Ofgem in the RIIO-ED2 price control process for the electricity distribution sector as these companies are also investing in Black Start protections. We recommend that the review of ESO's plans for Black Start incorporates the Black Start protection activities being undertaken by the Distribution Network Operators.

## **C: Core and Support**

### **Monitoring, Compliance and Enforcement and Retail Policy and Compliance**

Citizens Advice supports Ofgem's plans to reform the supply licence.<sup>7</sup> Given the extent of supplier exits in recent years, we believe that the retail market urgently requires increased ongoing monitoring and improved management of market exits. The changes proposed by Ofgem will require ongoing additional resource for its compliance and enforcement functions, in order for the reforms to be successful. It is important that this is factored into this year's budget planning, and into the government's spending review (due this year) which will affect 2021/22 onwards.

We support Ofgem's plans to undertake work with BEIS to potentially change legislation and improve the current arrangements. We recommend Ofgem and BEIS focus on making market exits smoother and with fewer costs falling on consumers. We strongly believe that legislative changes should be made to enable the Renewables Obligation to be paid more frequently by suppliers, as this is the largest cost when a supplier does fail.<sup>8</sup> We also remain concerned that proposed changes to help protect customers in debt to a failed supplier, while helpful, will be difficult to enforce as there will be no access to alternative dispute resolution. Ofgem should be clear that it is acting to the extent of its powers, and that further improvements require government action.

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<sup>7</sup> Citizens Advice [Response to Supply Licence review - ongoing and exit arrangements](#), 2019

<sup>8</sup> Citizens Advice, [Picking up the Pieces - updated analysis](#), 2019

We continue to work closely with Ofgem in our market monitoring, both bilaterally and through the tripartite arrangements. Current areas of concern that we would like to see Ofgem consider in their compliance priorities include remote switching of smart meters from credit to prepay mode without appropriate vulnerability checks, maintaining accessible customer service options, actions of 'bill-splitting' companies, and repayment options offered to consumers in debt.

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Since its inception, we have supported the development of the new Retail Energy Code. In our view it offers a significant opportunity to rationalise codes and institute more dynamic and responsive governance that should enable innovation while protecting consumers. We will continue to represent consumers on several codes, including the Balancing and Settlement Code (BSC), Uniform Network Code (UNC) and Smart Energy Code (SEC), and to engage with government proposals for wider codes reform. We see an enduring important role for consumer representation on the codes, given the impact of decisions they make on consumers.

## **Wholesale and System Policy and Compliance – Ensuring Continuing Value for Consumers**

We support Ofgem's plans to close out these price controls and ensure these are of value to consumers.

# Decarbonising to deliver a net zero economy at the lowest cost to consumers

## A: Retail Markets

### Smart Metering

Citizens Advice wants consumers to receive the benefits promised by smart meters and the data that they make available. Through its work on settlement reform; the Data Communications Company (DCC) Operational Performance Review<sup>9</sup>; engagement with the Smart Energy Code; and Smart Energy Code of Practise (SMICoP), it is vital that Ofgem pursue a positive consumer installation and service experience and that the costs passed onto consumers are minimised.

Clear direction, guidance and enforcement by Ofgem, will be crucial to ensure that consumers are not exposed to service providers and suppliers that do not perform as obligated. We welcome the plans to publish SMICoP supplier performance to promote and encourage suppliers to improve their compliance.

In a complex, smart connected network with a mix of competitive providers and monopolies the range of obligations on the array of service providers will vary. However, in all cases it should remain Ofgem's objective to require appropriate consumer protections against service failures that will impact energy consumers. We welcome Ofgem's action against suppliers that are failing to become DCC Users.

There are a number of challenges for the smart meter programme this year. This includes the enrolment and adoption of SMETS1 devices; delays and poor availability of some meter types; poor network coverage; modification and development of DCC services; and planning for the rollout post-2020. Ofgem must take the necessary steps to ensure that consumers are not exposed to undue risk in network development and settlement planning.

Citizens Advice continues to support Ofgem's half-hourly settlement reform through sitting on the Design Advisory Board and bilaterals. As the reform enters its final stages this year, it is important that the regulator considers the distributional impacts of the new settlement system, including the new load shaping service, we are happy to feed into this thinking.

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<sup>9</sup> Citizens Advice, [DCC Price Control Consultation Response](#), 2019

## **B: The Energy System**

### **Energy Network Reforms**

Citizens Advice will continue to actively support and engage with Ofgem's Network Access & Forward-Looking Charges Significant Code Review, and we look forward to the next stage. We are pleased that these reforms are being aligned with the Targeted Charging Review. We have discussed our concerns with Ofgem around the accelerated delivery of the reforms through the various code processes, where we are concerned that this has resulted in poorer quality code modifications.

We look forward to the next stage of Ofgem's/BEIS' consultation on the ongoing code review. This should aim to improve participation from otherwise locked-out parts of the energy sector and ensure that future arrangements do not unduly favour established players at the expense of newer market entrants.

### **Decarbonising Heat and Transport**

In its work plan and its Decarbonisation Action Plan, Ofgem rightly points out the enabling role that electricity networks play in the electrification of transport and the importance of smart charging in integrating EVs into the existing network. Citizens Advice agrees that smart chargers and smart charging, including Vehicle to Grid, will be crucial. Our research last year with drivers about how to make smart charging acceptable found that most of them would be very happy to use any form of smart charging as long as they were easy to use, tailored to their energy needs, and came with some basic consumer protections. We urge Ofgem to consider these issues as it plans for the future energy market and point Ofgem towards the full research report for more details<sup>10</sup>.

Even if smart charging is used to its fullest extent, it is likely that some network reinforcement will need to take place, the costs of which could be socialised across all electricity consumers. Many of the lowest earners in this country do not own a vehicle, let alone an electric one. Citizens Advice urges Ofgem to consider this question of distributional impacts when deciding how network costs can be fairly recovered. We are carrying out our own work looking at the fairness issues raised by anticipatory investment which we look forward to discussing with Ofgem. It is

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<sup>10</sup> Citizens Advice, [Smart EV charging - What do drivers and businesses find acceptable?](#), 2019

important that networks should set a high bar for justifying reinforcement as a result of projected EV uptake and explain why alternative solutions will not suffice.

Citizens Advice welcomes the Government's plans to regulate Heat Networks with Ofgem acting as regulator in this sector. As we see greater numbers of homes connected to heat networks it will become increasingly critical to provide those consumers with the same protections that they could expect if they were to heat their homes using electricity or gas.

One of the biggest challenges will be to monitor the prices heat customers are paying for their heat and to intervene when necessary. We acknowledge there are currently no plans to implement a price control for heat networks, however, consumers do need to have confidence that unfair and excessive pricing by suppliers will be combated. Heat customers also need to be protected from large back-bills which can be common in the heat sector. Citizens Advice hopes that Ofgem is able to bring its considerable experience in this area to deliver fairer outcomes for heat customers who are unable to switch.

## **Achieving Net Zero Through Wholesale Markets**

We welcome Ofgem's intention to issue a call for evidence on barriers to growth of low carbon flexible technologies.

Citizens Advice recognises that Ofgem is a prime candidate to take a new regulatory role if the government chooses to adopt a Regulated Asset Base (RAB) based model for new nuclear power generation. We have significant concerns about that funding model, given the material risks of cost or time overruns during construction. We would welcome the opportunity to work closely with you to consider how those risks can best be mitigated.

## **C: Core and Support**

### **Approach to Supporting Decarbonisation**

Consumer engagement plans in this area need to take into account the complex ways consumers really think and behave. Consumer confidence is going to be critical to the effective delivery of net zero and transparency with homeowners about the challenges ahead can only help. This will be especially important with the installation of new low carbon heating systems that are still relatively unfamiliar.

Citizens Advice is currently undertaking research into the support homeowners need when installing low carbon technologies in their homes and early insights show consumers will need ongoing support and guidance before, during and after installations.

## **Consumer Insights**

Citizens Advice strongly supports Ofgem's ongoing use of consumer research and the Consumer Panel. As an organisation that conducts research with consumers, we see time and again that people can be engaged on complex topics and have views and ideas for possible solutions. Political decisions need to be grounded in consumer views, especially as the energy transition demands consumers to change their behaviour and homes.

# **Data, Digital And Technology And Cyber Security Strategy Development**

## **Enabling competition and innovation**

Innovation will be essential if we are to reach the UK's 2050 net zero targets<sup>11</sup> and enable new opportunities to serve consumers better. It is therefore right that Ofgem considers how rules need to be changed to enable this innovation, making sure it is offered in a safe and controlled manner to protect consumers as Ofgem develops its thinking.

As Ofgem develops its view in this area it should consider:

- the consumer implications of regulatory changes;
- the holistic impacts of products and services on energy outcomes;
- how well protected consumers may be from both sectoral and general consumer protection, including their ability to navigate and enforce this protection;
- how Ofgem's remit and scope should be redefined; and
- how identified gaps in consumer protection may be resolved.

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<sup>11</sup> ['UK becomes first major economy to pass net zero emissions law'](#), 2019

## **Decarbonising to deliver a net zero economy**

Decarbonising our economy to deliver net zero emissions is one of the biggest challenges facing our society. We are pleased to see Ofgem's approach to decarbonisation and welcomed Ofgem's recent Decarbonisation Action Plan. It is vital that policymakers and regulators engage with and understand the needs of consumers, and we are pleased to see Ofgem recognise this in the forward work plan. A key part of making this a success for consumers will be to ensure that differential impacts of groups of consumers are understood. This needs to be a key part of Ofgem's intention to develop tools and analysis to help inform decision making.



## Ofgem finances

Ofgem has published a challenging and ambitious Forward Work Programme. In some areas, like licensing reform, it is proposing changes which will require ongoing additional resource for its compliance and enforcement function in order to be successful.

The challenges of delivering these highly interdependent changes in a short time frame cannot be underestimated, particularly given the poor track record of the energy industry in delivering large scale change. They will have significant impacts on consumers, carrying both opportunities for better services and lower costs, as well as some new risks, which will need to be mitigated in order to manage these changes successfully.

Ofgem must be adequately resourced and work in an agile way with close engagement from stakeholders. The government's spending review (due this year) for the 2021/22 period onwards must take proper account of the vital additional work that Ofgem needs to do to help get us on track for a net zero economy.

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