

Forward Work Programme Team  
Ofgem  
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Canary Wharf  
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E14 4PU

22 February 2021

Dear Team,

**Forward Work Programme (FWP) 2021/22 Consultation**

Thank you for the opportunity to comment on Ofgem's new strategic framework and the key activities that Ofgem intends to undertake in 2021/22 under each of the five strategic change programmes in the framework.

This response is submitted on behalf of ScottishPower. Our networks business, SP Energy Networks is responding separately from its perspective as a transmission and distribution network licensee.

On the whole, we believe the new framework reflects appropriate areas of focus for Ofgem in the near term. We also broadly agree with the areas of work proposed for 2021/22 but would offer the comments below on specific items.

Point 2: Core regulatory functions

We note that ongoing regulation of system operations is not explicitly mentioned as one of the ways Ofgem will deliver against its principal objective. Ofgem's recent review of GB system operations has raised the possibility of significant change to the SO. We believe that oversight of system operators should be listed as a way for Ofgem to meet its principal objective.

Point 4: Low carbon infrastructure

In Point 11 (Estimated expenditure), Ofgem states that it submitted a Comprehensive Spending Review (CSR) bid to HM Treasury in September 2020, setting out how it proposed to support the net-zero ambitions of the UK and devolved administration governments.

We believe the activities Ofgem has proposed under the low carbon infrastructure should, in line with its CSR bid, be clear about how regional variations in relation to the

delivery of Net Zero and other decarbonisation ambitions (such as EV targets) will be recognised and supported.

More generally, it is important that the activities proposed under this strategic change programme do not in any way hinder the progress of the pipeline of renewable energy projects in the near term. Deployment rates of up to 4GW/year of offshore and 1GW/year of onshore wind could be needed to meet Net Zero targets and therefore it is imperative that the net zero ambition underpins this programme. It would be helpful for Ofgem to clarify how in carrying out its proposed activities it will ensure that it does not in any way compromise the progress of renewable projects that are currently underway and those planned for future deployment.

#### Point 5: Full chain flexibility

It is crucial that Ofgem provides stability and predictability in its policy development under this change programme by ensuring its approach creates awareness and transparency of the business case for flexibility solutions in the short, medium and long term. Failure to do so would distort incentives on flexibility providers to innovate and invest in a timely manner.

Ofgem's proposed activities, including its review of Access Charging Reforms, should avoid unanticipated increases to charges or the introduction of changes at short notice. We encourage Ofgem to elaborate on how it proposes to engage with industry and mitigate risks of sudden and material changes under this change programme.

As Ofgem explores potential sources of flexibility throughout the electricity value chain we believe it should clarify that it is 'low carbon generation' instead of 'generation' in general that will be considered. It would be counterproductive to the ambition to decarbonise the system if, for instance, Ofgem includes the provision of flexibility services from diesel generators.

On a further point of presentation, it would help to create a more balanced narrative if Ofgem recognises that intermittent renewable generation is not just a contributor to the intermittency of supply but also a source of flexible solutions. For example, ScottishPower's windfarms have proven capability to deliver the full suite of balancing services including reserve services, frequency response, reactive power, inertia and black start<sup>1</sup>.

#### Point 6: Future of retail

We welcome Ofgem's plans to conduct an internal review of the current retail market and the key drivers of change. This is an opportunity for Ofgem (working with BEIS) to create a more level playing field between suppliers, reducing and then removing exemptions for small suppliers and recognising the additional costs incurred by larger suppliers. Ofgem's internal review should also aim to minimise as far as possible any additional regulatory burdens placed on suppliers (unless the associated costs are recoverable through the price cap and market).

Ofgem's proposed activities under this strategic change programme neglect to mention its plans to address 'greenwashing', ie where suppliers are offering '100% renewables' green tariffs which are backed merely by traded certificates (Renewable Energy

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<sup>1</sup> Dersaloch's Trial

[https://www.scottishpowerrenewables.com/news/pages/global\\_first\\_for\\_scottishpower\\_as\\_cop\\_countdown\\_starts.aspx](https://www.scottishpowerrenewables.com/news/pages/global_first_for_scottishpower_as_cop_countdown_starts.aspx)

Guarantee of Origin or European Guarantee of Origin certificates) rather than by Power Purchase Agreements with renewable generators. This practice is potentially misleading to consumers. Ofgem acknowledged 'growing concerns' over greenwashing and stated its intention in the Decarbonisation Action Plan<sup>2</sup> to 'undertake work to ensure that consumers are not misled'. Therefore, we encourage Ofgem to include details of plans to address greenwashing in the final FWP.

The FWP's overarching focus on consumers is understandable but Ofgem is also involved in a range of policy work specific to suppliers. Therefore, for completeness, Ofgem's list of ongoing activity in retail should include the work it is doing to ensure suppliers are able to recover efficiently incurred costs due to COVID-19 as well as its efforts to monitor and improve the financial resilience of suppliers.

#### Point 8: Energy system governance

Ofgem proposes to review Distribution Network Operator arrangements to ensure an effective future DSO capability under this change programme. We believe it is still too early to consider DNO/DSO institutional reform and that RIIO-ED2 should be used to generate the evidence base to consider institutional changes in future price control periods. We would welcome clarity in the final FWP on Ofgem's roadmap for this proposed activity.

#### Point 10: Reducing burdens

We fully support Ofgem's continued focus on reducing regulatory burdens in recent FWPs but believe more can be done to help stakeholders to respond and engage effectively.

Ofgem is driving a programme of reforms to network charging (transmission, distribution and BSUoS) with the intention of removing distortions, making them more cost-reflective and supporting more granular spatial and temporal price signals. The nature of these changes could have significant commercial implications for renewable projects and suppliers. For instance, the latest changes to TNUoS will result in costs that account for up to 20% of the total Levelized Cost of Electricity<sup>3</sup>; and suppliers when exposed to new charges at short notice are not be able recover them promptly in tariff prices.

We would welcome assurances in the final FWP that Ofgem's approach will aim to ensure the transition to new charging arrangements does not lead to unpredictable costs and volatility in charges to suppliers and generators.

In our response to last year's FWP consultation we welcomed the greater level of granularity on milestones for the work streams captured in the 2020-22 FWP compared to the 2019-21 FWP. Information on timescales helps us to plan and manage resources more effectively. In some cases, particularly where new markets are being developed, a transparent and predictable roadmap is necessary to achieve optimal engagement from potential market participants. The current draft FWP has limited information on timescales and we encourage Ofgem to revert to its previous approach of attaching timescales to its list of new and planned activities.

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<sup>2</sup> Ofgem's Decarbonisation Action Plan 3 February 2020

<https://www.ofgem.gov.uk/publications-and-updates/ofgem-s-decarbonisation-action-plan>

<sup>3</sup> The average total cost of building and operating the asset, per unit of total electricity generated over an assumed lifetime.

We also urge Ofgem to make more allowances for constraints on the ability of stakeholders to respond to consultations over the year-end festive period. A number of key consultations in 2020 had deadlines just before Christmas and some had deadlines immediately after the start of the new year (with one falling on a Bank Holiday in Scotland). We appreciate that compressed timescales in December limit Ofgem's window to publish consultations, but we believe that with additional forward planning and longer consultation periods the sort of year-end bottlenecks above can be eased or avoided.

Please do not hesitate to contact me or my colleague James Soundraraju ([jsoundraraju@scottishpower.com](mailto:jsoundraraju@scottishpower.com)), if you have any questions arising from this response.

Yours sincerely,



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Head of Regulatory Policy

