

Citizens Advice response to Ofgem forward work programme 2021/22 consultation



Introduction

Citizens Advice welcomes Ofgem's draft forward work programme, which clearly sets out its ambitions for the transformation of the energy sector. As the statutory energy consumer body, we're keen to work closely with the regulator to ensure that its new strategic framework and change programmes help to deliver the net zero transition in the best interests of consumers.

We agree with the enduring priorities that are set out in the consultation. The five areas identified as 'strategic change' programmes are indeed areas where transformative change is required, and Citizens Advice supports this approach as it will be essential for Ofgem to adapt and focus its efforts, alongside its core regulatory responsibilities.

Some key considerations for Ofgem that cut across many of these programmes will be:

- Coupling innovation with updated consumer protection, to ensure consumers feel confident to participate in the low carbon transition.
- Ensuring customers in vulnerable circumstances are appropriately supported, with better data and processes to help share information about vulnerability.
- Understanding cross-sector implications of new products and services, and working with the Government and other regulators to address these.
- Updating regulatory frameworks and governance arrangements to achieve its desired outcomes and achieve our net zero targets.

We also note that many of the strategic change programmes rely, at least in part, on Ofgem working closely with the Government to make changes. It would be useful for the work programme to set out how Ofgem will approach this challenge. For example, it could identify: current government policy development processes underway that align with Ofgem's aims, through what mechanism they are being taken forwards, and how the timelines interact with Ofgem's work for the year.

We set out more detail on individual sections of the programme below.

Core regulatory functions

Ensuring compliance with rules and taking enforcement action where necessary are vital Ofgem functions. The supplier licensing review should provide more tools to scrutinise and intervene where companies are engaged in risky behaviours. Such interventions are particularly vital as the economic climate is expected to impact supplier resilience, and in order to prevent poor service outcomes.

In using its compliance and enforcement powers, and in managing processes like the supplier of last resort, Ofgem should aim to be as transparent as possible and to take action in a timely manner. We welcome the recent use of open letters as a targeted way to guide industry in its compliance as new risks emerge and as poor behaviour comes to light. This should continue in future where Ofgem identifies issues of concern.

Low carbon infrastructure

In regulating the energy networks, there needs to be a continued focus upon ensuring value for money through appropriately incentivising innovation, sweating assets, competition, and the use of flexibility resources and energy efficiency.

The future energy demand profile is uncertain, as the uptake of low carbon technology will proceed at different rates across the country. It is important to ensure that the forecasting and scenarios that are built into the investment plans of the networks are as robust and assured as possible to avoid the risk of 'stranded assets'.

The re-opener process to facilitate net zero developments in the energy system will need to be responsive and agile to ensure that investment is targeted when and where it is needed. Ofgem needs to consider the risk that with a demanding workload they may be stretched to ensure that decisions are made in a timely manner and with full scrutiny given the potential volume of re-opener applications.

We welcome Ofgem's role in applying its expertise as the Government develops options for financing and regulating new low carbon infrastructure like nuclear, CCS and future heat/hydrogen policies.

Full chain flexibility

We strongly welcome Ofgem taking a comprehensive approach to flexibility. Total system costs should be minimised through clear price signals that reflect the risk and opportunity costs of energy flexibility, although this may not be felt equally by all consumers. This work - and the retail market strategic programme - must ensure that consumers can engage as much as possible and Ofgem will need to set out how the distributional impact of these changes can be fair. One important aspect will be

understanding how consumers engage and respond to price signals. In particular, Ofgem should focus on segments where there has been limited research, like the behaviour of microbusinesses.

This may require Ofgem recognising, quantifying and monitoring consumer risks of these offers, alongside consumer advocates and industry¹. Ofgem should consider their role in solving problems faced by consumers as offers merge with other sectors (i.e. car, appliance and public charging markets) and driving the regulatory change required to enable the flexibility market, whilst protecting consumers.

The development of the Distribution System Operation (DSO) roles and principles has provided a clear steer for companies to look to flexibility and active network management to aid in providing a responsive, value for money energy system. In the drive to enable flexibility we would also recommend a focus on energy efficiency as a way to deliver consumer savings and help to meet net zero.

It will be important for the industry to develop appropriate Cost and Benefit Analysis mechanisms to be able to value the different options available to ensure the most cost efficient system while helping to deliver net zero. The RIIO-ED2 DSO incentive for companies will need to be designed to ensure that all options are considered by networks and that the best solution is adopted.

Future of retail

In the short term, it's important that Ofgem take account of - and mitigate where possible - the impacts of COVID-19. The pandemic is likely to mean more consumers are in debt in coming years - we estimate over 2 million households now owe money to their supplier.² This will profoundly impact their experience of the energy market; preventing them from switching, and making them more vulnerable to fuel poverty and self-rationing/self-disconnection.

The economic impacts of coronavirus are also likely to reduce supplier resilience, which may make failures more likely. Ofgem and BEIS should work together at pace to develop policies that reduce the cost of supplier failures.

We agree that the retail market is likely to change rapidly in the coming years, and that policy changes will be needed to both enable - and react - to these developments. We've

¹ [Demanding attention](#), 2021, Citizens Advice, Energy UK, ADE

² [Recovery, or Ruin?](#), 2020, Citizens Advice

previously said that a future retail market should be inclusive by design, recognising the essential nature of supply. It should be accessible by all and treat everyone fairly.³

To achieve this goal Ofgem's work needs to focus on:

- Improving market accessibility for customers who face barriers to engagement like digital exclusion, living in the private rented sector as well as attitudes like trust, as well as ensuring fair outcomes for those who don't engage.
- Ensuring customers are protected as energy products emerge in response to new price signals and by utilising smart home technologies. These are likely to have new features and terms and conditions (eg longer bundled contracts, embedded energy, automation), and cross sectoral boundaries.⁴
- Enabling innovation to allow new products and services to be developed into attractive consumer propositions that work well and meet a range of needs.

We recognise there is significant overlap with the energy white paper in these areas, and will require close working between government and Ofgem. We think progress in these areas is necessary, both through the current framework and in the longer term through legislative changes, in order to protect consumers in a market that could rapidly change.

We welcome Ofgem's commitment to consider how to protect customers in future in the context of the current default tariff price cap's expiry. As we have set out in response to previous Ofgem work programmes, the annual reviews of the price cap set out in legislation mean it could be ended by the Secretary of State with very limited notice. This allows very little time for Ofgem to put successor arrangements in place, and we think it would be prudent for Ofgem to have appropriate plans in case this arises, in order to ensure there is not a gap in protection.

The needs of consumers in vulnerable circumstances should be at the heart of Ofgem's work as it addresses both the short and long term challenges in the retail market, and we recognise this in many of the projects and work areas described. However, delivering protections for these consumers in future will rely on better quality and more timely data about them and their needs (see below).

³ [Future for All](#) 2019, Citizens Advice

⁴ [Powering up or facing resistance?](#) 2020, Citizens Advice

We also look forward to continuing to work closely with Ofgem on the development of a regulatory framework for heat networks.

Data and digitalisation

We welcome Ofgem's focus in this area that is vital to deliver improved consumer experience in energy and facilitate the transition to net zero.

We broadly support the four outcomes described by Ofgem, but suggest changes in two areas. First, in addition to data monopolies, Ofgem should also consider emerging intermediary services, like auto-switchers, bill splitters and aggregators, that also make use of energy system data. These companies use energy data to provide consumer benefits but can also introduce new risks, and are currently unregulated. We welcome BEIS's commitment to regulate these services in its recent white paper.

Second, we think all consumers should be able to directly benefit from digitalisation, not just through back end system changes that may or may not result in changes in the products their suppliers provide. To this end, Ofgem should consider the data that consumers generate through their energy use and provide to companies about their personal circumstances. In particular, we've previously called for:

- easy access for consumers, to information about - and control of - how their smart meter data is used⁵
- a cross-sector, digital approach to enable consumers to share information with providers about vulnerability in order to more easily access support.⁶

Energy system governance

The changes needed in order to get to net zero require reform of governance, some of which has not been significantly updated since market liberalisation. We welcome Ofgem's role in working with the Government to develop policy in this area. In relation to the key areas mentioned:

- We welcome the recent recommendation by Ofgem for an Independent System Operator. We believe that the benefits of an independent body, without any perceptions of conflict of interest, will be valuable in driving a more efficient and flexible energy system, and ensuring full consideration of whole system aspects.
- We support the move to review DNO arrangements. Clear boundaries between DNO and DSO functions would aid in understanding their respective costs and

⁵ [The Smart Meter Data Dashboard](#) 2018, Citizens Advice

⁶ [Getting support to those who need it: How to improve consumer support in essential services](#) 2020, Citizens Advice

benefits as well as to help design appropriate incentive mechanisms. Assessment of independent network forecasting and planning and whether further competition could be facilitated through separate DSO bodies should be undertaken. Ofgem should also consider whether there could be efficiencies in amalgamating the DSO functions into fewer bodies or one body.

- We have engaged closely with the development of the Retail Energy Code (REC) and we support further code governance reform to rationalise the codes, provide clear objectives, improve accessibility to a range of stakeholders, have more accountability for code parties, and enable more timely change.
- The Engineering Standards Review provides vital guidance for Ofgem on the shaping of transparent and accountable engineering standards. The approach to a nuanced view of lost load in relation to the value it represents to the consumer is an important incentive approach to encourage network behaviours that reflect whole system costs.

Transforming Ofgem

We welcome Ofgem's commitment and ongoing initiatives to promote Equality, Diversity and Inclusion (ED&I) and we fully support Ofgem taking an active role in coordinating initiatives to deliver sectoral progress in this area.

We would welcome the opportunity to work with Ofgem to see how Citizens Advice can ensure a full diversity of consumer voices are considered when the regulator is developing new policies and considering consumer impacts.

Estimated expenditure

There is a huge challenge for Ofgem in enabling Great Britain to meet its net zero objective. It is vital that it is properly resourced to do so.

In numerous areas Ofgem's objectives are likely to become more labour intensive with high stakes decisions to be made in addressing climate change and managing costs to consumers.

Network price controls, reopeners, the potential for appeals and numerous governance, code and market reforms will also need to be progressed. Ofgem is also likely to take on new responsibilities as new areas are regulated.

It is important that Ofgem is equipped with the internal resources it needs, but is also able to provide ample opportunity for challenge to its assumptions and decisions.

Research commissioned by Ofgem⁷ encourages more work in modelling what the future energy system will look like to inform decision making. It is important that Ofgem is alive to areas in which scrutiny might be lacking in its planning and take active steps to validate its decisions.

We provide free, confidential and independent advice to help people overcome their problems. We are a voice for our clients and consumers on the issues that matter to them.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.

⁷ [Decision making for future energy systems: Incorporating rapid change and future uncertainties](#) 2020, Dent et al

