



Forward work programme 2021/22 consultation – E.ON response

E.ON welcomes the opportunity to comment on the activities that should be prioritised, as set out by Ofgem in its consultation published on 15 December 2020.

Executive summary:

We are living in times of unprecedented and extremely rapid change in our society, our industry and technology. The energy sector needs to continue to transform itself to meet the goals of decarbonization, decentralization and digitization. Ofgem's role is critical as it faces the important challenge of protecting the interests of consumers during this time. In the midst of the innovation required to meet these goals, E.ON is embracing change and, through our size, experience and diverse customer mix, is in an ideal position to work with Ofgem and Government to help drive the transformation of the energy system.

Future Markets and innovation:

We agree with Ofgem's vision that the next decade is critical for a successful transition to a low carbon, digitally enabled energy system. The role of Ofgem in designing the future markets and influencing decision makers in Government is of critical importance. Embracing innovation in the retail market by moving away from a conventional assumption of customer needs, the need to work closely with government, industry, and wider stakeholders to help the UK make the transition to net-zero at the lowest cost to consumers will be essential. The vision of an energy system to deliver net-zero, and in the interests of consumers aligns with E.ON's vision for the future of the industry. We take comfort in seeing these reflected in the principals of Ofgem's proposed forward work program for 2021/22.

We appreciate that the economic impact of Covid-19 continues to be felt by households and businesses across all parts of the economy and Ofgem continues to support the industry during these difficult times.

The existing Default Tariff Cap is due to come to an end in 2023 (assuming it continues to be extended at each annual review). It is important for E.ON that we work closely with Ofgem, and Government, on the smooth transition from the existing price cap regime when it comes to an end, especially if alternative arrangements are required that may look to solidify protections for consumers in vulnerable circumstances. Sharing our experience of the cap, and those of our customers will, we believe, help Ofgem, Government and industry to deliver a fair solution for all stakeholders post 2023.

At the same time, Ofgem still needs to consider the significant demands being placed upon the industry by the implementation of several large scale, complex, and interdependent activities (for example Faster Switching, Retail Energy Code, Market-wide half hourly settlement and the Microbusiness Strategic Review) in ambitious, overlapping timescales. Careful planning is required,

and risk assessment and efficient programme management are equally essential in order to realise the benefits of these programmes for consumers, industry and competition. The successful implementation of these programmes will create incentives for suppliers to drive flexible tariffs and new services to customers and support the strategic change program Ofgem has proposed.

Many of the challenges over the coming years derive from the short-term actions (e.g. Faster Switching) being consistent with a long-term clear and detailed framework for the energy industry. The post Default Tariff Cap environment needs to be consistent with market requirements to support the necessary flexibility and vision, particularly for vulnerable customers, Time of Use tariffs and electric vehicles solutions. Working with the industry to ensure these challenges are identified and addressed is of paramount importance; E.ON is keen to exploring these topics with Ofgem and how future markets can work for all stakeholders.

At E.ON we believe that innovation in the energy market will not only enable new opportunities to provide consumers with better service but also play a critical role in achieving the 2050 Net Zero targets. Upcoming consultations such as the framework creation for opt-in switching and the review of auto-renewal tariffs, expected around March 2021, is an important step on this journey.

As Ofgem is aware, E.ON Next is our vision for the future, taking advantage of a tried and tested technology platform for our Residential and SME Energy business. The mixture of state-of-the-art technology and new ways of working alongside our scale, brand reputation and experience, means that we are building a new business focussed on delivering the very best for our customers. E.ON intends to lead the energy transition and support Ofgem's strategic vision that Energy consumers should receive good value energy services and fair treatment from innovative companies whilst also retaining protection for vulnerable customers. We have a large and varied customer base with a genuine mix of customer types, and we believe that moving onto a proven, market leading and flexible platform sets us up to meet the future challenges and opportunities Ofgem's Forward Work Programme will bring. E.ON already offers many innovative solutions to our customers, for instance solar and battery storage as well smart home solutions, and have been leading on delivering significant reductions in the UK power sector's carbon emissions which includes significant investments in renewable energy projects. This has been driven by a long-term stable policy framework, initially supported through subsidies and complemented by long term regulations which has driven innovation, cost reduction and a decreasing dependency on subsidy.

Regulatory regime:

E.ON welcomes Ofgem's plan to continue monitoring and enforcing compliance with the recent requirements introduced to drive up supplier financial and customer service standards, we also support consideration for further measures to mitigate the risk of costs being mutualised across the wider industry when suppliers exit the market. Strengthening the regulatory regime, not only drives up standards among poor performing suppliers but also minimises harm to the market and ultimately consumers. This is extremely important as the energy industry and its customers continue to navigate the impacts of Covid-19.

Full chain flexibility:

At E.ON, we support Ofgem's view of establishing a full chain flexibility programme. The UK is switching from a demand-led electricity system (customers using what they want, when they want)

to a generation-led electricity system (generators generating whenever they can). Consumers, now become the key driver and enabler of net zero and the retail market needs to adapt to enable that to happen. With increasing levels of intermittent generation on the system, a greater variation in energy costs based on the time a household or business uses their energy, and growing opportunities to sell in order to help balance the overall system would support the Government's vision of the future. The need for the system to be far more flexible, and with much greater engagement by consumers is unquestionable, and it is therefore equally important to consider how the system will need to operate in the future. There needs to be flexibility in the utilisation of the existing systems in order to maximise the use of assets (such as peaking generation and networks), without it, customers will end up paying significantly more to reach net zero targets set by Government. We have a duty to ensure that all customers can access the services they need at the lowest cost to them as possible, at the same time ensuring that the energy system continues to allow all customers' needs to be met in a fair and sustainable way.

We are pleased to note that Ofgem's Forward work programme aligns with the recent publication of the Energy White Paper that sets out the strategic vision for the UK energy system to help reach net-zero emissions by 2050. Both the Energy White Paper and the Forward Work Programme have the potential to map out the biggest change to the energy markets since the Electricity Act of 1989; E.ON looks forward to playing a key role in helping to deliver these programmes alongside Ofgem and Government.