

By email: FWP@Ofgem.gov.uk

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OFFICE	St James Court St James Parade Bristol BS1 3LH
PHONE	0117 934 1400
EMAIL	info@cse.org.uk
WEB	cse.org.uk
TWITTER	cse_bristol
CHARITY	298740
COMPANY	2219673
FOUNDED	1979

Dear Ofgem Forward Work Programme Team

Ofgem Forward Work Programme 2021-22 consultation

The Centre for Sustainable Energy welcomes the opportunity to comment on Ofgem's Forward Work Programme 2021-22. There is much to welcome in the work programme.

However, in the limited time we have been able to make available to respond to the consultation, we have addressed our comments to issues where we have expertise and which we feel are under-represented or missing from the work programme as presented. We would welcome the opportunity to discuss these further with relevant Ofgem staff.

Point 4: Low carbon infrastructure

We welcome the emphasis on Ofgem's important role in facilitating timely and efficient investment in the infrastructure required for the transition to net zero. However, we are concerned that Ofgem has a rather mechanistic and technocratic perspective of how that transition and the associated technological and societal changes will take place.

As a result, we believe Ofgem will find itself 'behind the curve' in the transition to net zero, missing important social developments and drivers which are contributing strongly to the nature and pace of change towards net zero. You thus risk becoming a brake on, rather than a facilitator of change.

We see a tendency by Ofgem to overemphasise the importance of national policies and regulatory frameworks in driving change, conceiving of the energy system as a complicated machine needing some new parts and better tuning, something that is done principally by nationally determined and issued instructions.

Instead, we see the energy system as being much more complex than this. And we see change being driven as much by wide reaching social factors and by new practices emerging in different localities around the UK as by national policy-making and regulatory practices.

These factors create and express public expectations and demands of policy-makers and regulators – the very influences which resulted in the net zero target being adopted (and the Climate Change Act before that). And it is the greater local ambitions and emerging new practices from communities, local leaders and businesses getting on with what needs to be done rather than waiting for the

‘national go-ahead’ that we see often providing national policy-makers with the confidence to make changes at national level.

Understanding these factors and the drivers of change towards net zero will help Ofgem to achieve the position it needs to be in to play the role it has set for itself: ahead of the curve in the net zero transition and able to anticipate the need for change, the emergence of new practices (both good and bad) and the potential implications for the interests of existing and future consumers.

We would therefore like to see in your work programme for 2021-22 a structured process across Ofgem of exploration and discussion of how the transition to net zero will be achieved across society and the wider range of drivers and factors which will influence the need for, nature of, and ultimately the success of regulatory action.

Point 5: Full chain flexibility

This is a very important area of work for Ofgem; you rightly identify it as key to enabling the necessary high penetration of variable renewable energy generation on the electricity system to achieve net zero. We welcome the steps you propose to take as part of the 2021-22 work programme. However, and recognising that these points are also relevant to the future of the retail market (Point 6, see below), we are concerned that you do not mention in this context:

- a. the importance of understanding how the potential benefits and costs of realising full chain flexibility may be distributed, which types of consumer are able and willing to participate (and which are not), and what factors influence each of these;
- b. how Ofgem expects to monitor the development of flexibility markets to enable these distributional impacts to be better understood, covering the nature of offers emerging, the benefits which accrue to participants, and how any costs are recovered;
- c. the potential requirements for new approaches to system cost recovery and consumer protection, particularly for more vulnerable consumers.

We would therefore like to see a specific commitment in the Forward Work Programme to develop this understanding and approach during 2021-22 so that you are well-prepared to monitor the market, understand its impacts on different types of consumers, and able to design and implement appropriate consumer protections.

Point 6: Future of Retail

The points made above under Point 5 also apply to the Forward Work Programme outlined under Future of Retail. Additionally we would encourage you to establish in 2021-22, at this relatively early stage in the development of the domestic smart energy market, a comprehensive market monitoring programme associated with ‘smart energy offers’ (from simple time of use tariffs to more complex flexibility offerings with digital control and smart equipment rolled in). This should cover both the nature of the offer, the requirements it places on participants (what they need to be like and have in their homes to ‘keep up’), and predictions (and then monitored results) about the types of consumer who will participate.

Setting up such a programme in 2021-22 will enable you to get early sight of offers which risk treating customers unfairly and to develop a better picture of how the distribution of participation in the smarter energy market is changing over time. Without such a market monitoring programme, we do not believe Ofgem will be able to assess whether customers are experiencing fair treatment, how the costs and benefits of participation are being distributed, or which customers (and particularly vulnerable customers) are actually being left behind in the smarter market.

We would recommend that, in these proposed market monitoring activities, Ofgem applies the [Guidelines for Smart Energy Practitioners](#) we drafted and published in September 2020 as an output of Phase One of our [Smart and Fair? research programme](#). We believe that applying these Guidelines across the domestic retail market would result in Ofgem having access to the information it will need to monitor and regulate effectively the future retail market and thus sustain market confidence.

Point 11: An unachievable and highly damaging in-year efficiency target

While we welcome the increase in Ofgem's funding for the year, we are deeply troubled by HM Treasury's expectations of in-year efficiencies of 10%. We believe that no organisation – private or public sector - has ever achieved such a level of in-year efficiency gains (i.e. has managed within a year to produce the same quality and level of output for 10% less input).

Doing so at a time when Ofgem's task was in steady state would be unprecedented. Instead you are in a time when you need to build your capabilities and capacity to address the significant technological and market changes underway in the transition to net zero. Achieving any efficiency gains in such a situation would be an impressive result: the target you have been set is impossible to meet and should be rejected.

Attempting to meet this target will inevitably result in an overworked staff team and serious under-resourcing in areas which matter to the achievement of your workplan. Both of these will undermine your ability to meet your longer term responsibilities and objectives.

We believe you should instead either identify now which aspects of the work programme will not be achieved and cut them out, or, as we would recommend, return to HM Treasury (hopefully with BEIS support) to seek a more appropriate level of funding which reflects what you need to deliver this workplan in full and what is realistically achievable in terms of efficiency gains.

As mentioned above, we would welcome the opportunity to discuss with Ofgem the contents of this response to your consultation. My contact details are below.

Yours sincerely



Simon Roberts OBE

Chief Executive

simon.roberts@cse.org.uk M: 07736 808796