



3rd Floor North  
200 Aldersgate Street  
London  
EC1A 4HD  
[citizensadvice.org.uk](http://citizensadvice.org.uk)

Mark Wagstaff  
Ofgem  
9 Millbank  
London  
SW1P 3GE

By email: [mark.wagstaff@ofgem.gov.uk](mailto:mark.wagstaff@ofgem.gov.uk)

15 February 2016

Dear Mark

### **Ofgem draft forward work plan 2016/17**

This response was prepared by Citizens Advice. We welcome the opportunity to comment on Ofgem's draft forward work plan 2016/17. The response is entirely non-confidential and can be published by Ofgem.

We have reviewed the draft plan and are supportive of the activities set out. In our response we have commented on areas of relevance, particularly reflecting on overlap with our remit for energy. Areas that we think may be strengthened are identified and reasoning is given.

We recognise that the context in which this year's plan has been drafted and will be delivered is one of significant change, and therefore advise that there is sufficient flexibility to adapt the plan following the output of key dependencies, and primarily the Competition and Market Authority (CMA) energy market investigation.

We also recognise that over the next few years Ofgem will deliver a hugely ambitious reform plan, and for a sector that is not known for handling significant process change too well. We're aware of the individual complexity of programmes underway, such as half-hourly settlement, smart rollout, faster switching and project nexus, but also note the added level of complexity of delivering these programmes quickly and concurrently.

Please see below our comments in response to each of the sections in the draft work plan.



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## **1. Regulation of network companies and other monopolies**

We welcome Ofgem's intentions to develop a strategy for future price controls, RIIO-GD2 and RIIO-T2, and have shown support for this within our recent response to the Ofgem T1 and GD1 mid-period review consultation. We believe this area of work may be strengthened by undertaking a thorough analysis (as part of the mid-point review process) of how T1 and GD1 have functioned so far.

We welcome the work that has been undertaken in 2015 to improve reporting requirements over RIIO, and particularly so in relation to the requirement for networks to publish summary data in ED1. In the coming year we would ideally like to see these reporting requirements extended to T1 and GD1, and suggest that they include a summary of key reporting indicators to carry forward and build on the good work to improve transparency in the previous year.

## **2. Setting the rules for the market - half-hourly settlement**

As part of Ofgem's activities in this area, we recognise the potential benefits of half-hourly settlement, and particularly for smaller sites, where it may improve the efficiency of the energy system and lead to lower costs for consumers.

We encourage Ofgem's investigation of the distribution of costs and benefits as part of the two-stage (elective then mandatory) switch to half-hourly settlement. But we advise that Ofgem should closely review the timeline and process for moving to mandatory half-hourly settlement, and alongside related initiatives that coincide with this timeline.

In our recent response to Ofgem's open letter on half-hourly settlements, we raised some concerns about the proposal, regarding the possible impact the proposals may have on consumers. To mitigate negative impact we advised that adequate consideration is given to the accessibility of the market for consumers, the clarity of the information provided to consumers, and that a robust approach to consumer protection be adopted. We've also raised particular concern about the impact on vulnerable consumers and would like to be confident that these consumers will not be left facing unexpectedly high charges or bearing a disproportionate share of the cost of the transition.

We would also like to highlight the current movement in Europe, pushing for a switch to a 15-minute settlement. While at the present time we are unconvinced of the merits of such a



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switch, we expect Ofgem's approach would reflect the risk of changes in this area resulting from European rulemaking. We would like to continue to work closely with Ofgem as the settlement reforms progress.

### **Licence and code changes**

In relation to activities proposed by Ofgem to change licences and code, we recognise that one of the major barriers to effective consumer scrutiny of the system, is the complexity of the codes system. We expect this to be a major focus of ours over the next year and we would welcome Ofgem's continued efforts to reform the regulatory system in this area.

### **Innovation space**

We note that activities over the coming year will include an increased focus on innovation programmes and building on existing work to develop new approaches to support innovation and the safe testing of new products and services in the energy market. Citizens Advice has begun two related research projects to investigate, in part, the roles Ofgem can play in facilitating innovation. The topics are: regulatory and consumer implications of disruptive technologies and new methods for distribution tariff charging. Both research reports are likely to be published in the spring. We are happy to discuss the projects with Ofgem and hope that our findings will be able to inform the forthcoming Innovation Plan.

## **3. Effective competition**

Ofgem's continued commitment to support the growth of competition within the energy market is an essential activity and of high priority. We expect that impending CMA remedies in this area likely to inform and support the work undertaken by Ofgem over the coming year. We also expect our own work over the coming year to adapt in response to the CMA's findings, and we will be happy to engage further with Ofgem about this.

Although the energy market has and is continuing to diversify, we recognise it remains significantly dominated by the big 6 energy suppliers. For us this creates an ongoing concern regarding the impact it has on consumers and the costs that they bear as a result. We support of the key activities set out by Ofgem to address this issue.

### **Future retail regulation**

We're aware of Ofgem's intention to move towards a regulatory environment underpinned by principles and less prescription, to reduce burdens on industry and increase scope for innovation and competition. We note that it is crucial that the new regime delivers better consumer outcomes and more effective consumer protections. We additionally suggest that



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changes appropriately consider the position of new entrants to the market and ensure that with the removal of prescription an appropriate amount of guidance is provided.

Striking the correct balance between flexibility, to support the aims of principle-based regulation, whilst providing sufficient structure to ensure the protection of consumers may be difficult. We are therefore cautious about the role that principles-based regulation has to play in the burdens reduction agenda. In our response to the Ofgem Simplification Plan we've set out our initial concerns and suggestions regarding future retail regulation. This included placing increasing emphasis on compliance monitoring to ensure any changes are in the interests of consumers, and where not, appropriate enforcement action is taken. We also reiterate the importance of maintaining and publishing a risk register.

Citizens Advice will support the future retail regulation work by engaging fully in its delivery, and will advocate consumer protection, as an essential consideration that should remain at the forefront of the agenda.

### **Switching**

As noted in our previous consultation responses on switching, in principle we support Ofgem's intention to provide consumers with a reliable next day switching service and recognise it's a lever by which to increase competition in the market. However, we're aware that the success of the switching programme is dependent on the implementation approach, and that it is delivered in a way that engages and protects consumers.

### **Customer involvement**

To support Ofgem's activity in this space we will continue to maintain a close working relationship, providing essential insight into the experience of energy consumers. We similarly recognise that behavioural insights are increasingly being used as a tool to help improve the effectiveness of regulation, by ensuring regulation accurately responds to how consumers genuinely behave, which becomes increasingly important in light of the scale of change the regulatory environment is to undergo. Citizens Advice are undertaking research to explore how behavioural insights may be used to encourage the involvement of consumers in the energy market. The approach to switching by consumers has encouraged us to undertake this research to understand how consumer messaging impacts the way in which people engage with the market. We would welcome Ofgem's input into this work, in order to establish what implications our findings could have for the market.



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### **Consumer vulnerability strategy**

Given our remit to reduce detriment to vulnerable energy consumers we maintain a significant interest in Ofgem's work around its consumer vulnerability strategy. We agree that clarifying the obligations of the industry to consumers in vulnerable situations and addressing the fundamental market disadvantage faced by prepayment customers will be two key challenges for Ofgem in the coming year.

We also welcome Ofgem's intention to continue to support Citizen's Advice for the delivery of the Energy Best Deal programme. Citizens Advice current Energy Best Deal programme runs until March 2016, and a related priority under the Energy Best Deal extra programme we be the creation of 40 energy champions to support the delivery of the programmes and wider energy advocacy across the service.

### **Company performance information**

Publishing company performance information is essential for equipping consumers with the information they need to make informed decisions about their energy supply. We welcome Ofgem's intention to take an increasingly coordinated and joined up approach to publishing company performance information, alongside Citizens Advice. The benefit of this would be felt not only by consumers in receipt of consistent and accessible information, but also by key stakeholders taking a more streamlined approach.

Citizens Advice are currently underway with a project to bring together existing [and new] company performance information, in a format that allows consumers to easily use the information to inform their decision making about their energy supply. This project intends also to publish the data in a way that permits stakeholders to use and publish it independently. As a key stakeholder of the information we publish, we're keen to work closely with Ofgem on this piece of work.

### **4. High standards of outputs and protection**

We support Ofgem's decision to have aligned the consumer empowerment and protection work with the CMA investigation and remedies. We're happy to engage with Ofgem in the planning of of this work.



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### **Smart meter rollout plan**

To safeguard consumers and maximise the benefit of the smart meter rollout we will continue to both support and scrutinise the rollout process. Alongside Ofgem, we have an ongoing participation in the SMICoP governance board and related working groups. Through this forum we will continue to advocate the protection of consumers for the smart meter rollout to help enable consumer behaviour change, and proceed in a way that secures benefits for consumers and particularly those in vulnerable situations.

### **Third Party Intermediary regulation**

We support Ofgem's intention for work on Third Party Intermediaries (TPIs) to reflect the increasing reality of pan-market TPIs. As we have said in previous years, we believe that this work stream would benefit significantly if Ofgem discussed key issues with other regulators and tried to see if, together, they could develop solutions across different markets. This could be a principles-based approach in line with Ofgem's new approach to regulation more generally. We are pleased that Ofgem is working with other regulators, through UKRN, to ensure there is a joined approach to the regulation and accreditation of TPIs operating in multiple sectors. The UKRN could be a useful starting platform to explore ways of increasing consumer awareness and understanding of the benefits of using an accredited TPI. As part of this, we would advocate the development of a more recognisable 'kitemark' to be used across different sectors.

We additionally suggest a possible simplification in energy market TPI policy would be to have one master TPI Code of Practice (administered by Ofgem) for both domestic and non-domestic markets, with some elements removed for the latter. This would be more efficient than having two separate Codes with their associated processes and monitoring work.

### **Environmental schemes**

We would strongly suggest that reference (section 4.19) is made to the Bonfield Review on quality and advice in energy efficiency (ie. Every Home Matters), to ensure this is factored into work regarding Energy Company Obligation.

## **5. Partnership with government and stakeholders**

We support Ofgem's ongoing commitment to work in partnership with government and stakeholders, and the programmes and events underway and planned. Ofgem's presence amongst European stakeholders, for the activities set out indicate an appropriate level of engagement and proposed response.



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We would like to note that within this section of the work plan, there is limited mention of partnership working with consumers representations such as Citizens Advice. Although we are aware this relationship is implicit within Ofgem's responsibilities over energy consumers, we suggest the relationship with Citizens Advice (and any other relevant consumer bodies) is included in this part of the plan. We will of course continue to contribute to programmes of work, governance boards, working groups and other forums where relevant, and work closely with Ofgem on an ongoing and informal basis across a broad range of issues.

### **Environmental schemes**

We would advise that Ofgem work with DECC and the supply chain, to prepare for the transition to a future supplier obligation post March 2017.

### **6. Trust and confidence**

We welcome Ofgem's proposed focus on increasing trust and confidence in the energy market.

In regards to improving consumers' trust and confidence in networks (paragraph 6.3), we believe that ensuring the regulatory framework is well understood by investors — while necessary and welcome — is not sufficient. As we suggest in section 1, simple, comprehensible summaries of key performance data need to be provided by the networks, to ensure that consumers and stakeholders can trust that their money is being spent effectively.

We welcome your plan to monitor the effectiveness of the new 'cash-out' rules. One risk that we believe that Ofgem should monitor more closely is whether the more extreme cash-out payments under the new system could lead to liquidity issues for (particularly) smaller suppliers, with a consequent impact on those suppliers' customers.

### **Environmental schemes**

We would like to see the inclusion of a commitment to open and regular reporting on quality. For example monthly reporting of technical monitoring results, and sharing technical monitoring results with other quality assurance bodies as required to improve standards and especially where this relates to the work of the Bonfield Review. We additionally suggest the same apply to any complaints which Ofgem receive from consumers and industry (despite not having an official complaint handling role).



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## 7. Efficiency and reduced regulatory burdens

### **Burdens reductions**

In our response to the Ofgem Simplification Plan we posed the question about how the principles-based regulatory regime would reduce regulatory burdens on the industry without being 'light touch'. We also warned that when stripping out prescriptive rules from the supply license reduces time spent box-ticking, it should also introduce an onus on suppliers to think more carefully about and demonstrate due regard to consumer outcomes.

### **Environmental schemes**

We would advise that Ofgem work with the Bonfield Review to ensure any synergies with other quality assurance process are developed so that any monitoring and enforcement maximises impact and minimises duplication and bureaucracy for firms in the supply chain.

We look forward to working closely with Ofgem in the delivery of the 2016/17 work plan.

Yours sincerely

Isobel Croot  
Citizens Advice, Retail Energy Team