

Forward Work Programme Team
Ofgem
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Dear Team,

FORWARD WORK PROGRAMME 2018-19

Thank you for the opportunity to comment on Ofgem's work and priorities as set out in this Consultation.

The programme appears to reflect the key duties and responsibilities for Ofgem over the coming year and we think Ofgem have identified the most effective areas of focus given the challenges of the changing nature of the energy industry and potential government interventions in the retail market. We would highlight the following points of particular note in respect of this year's work programme.

RIIO-2 review and impact on RIIO-T2

We welcome the priority given to developing the general and sector specific frameworks for the next round of price control reviews (RIIO-2).

Recent RIIO-2 timetable publications indicate that the RIIO-2 sector specific strategies will be published around May 2019 and RIIO-T2 business plan submissions are due in around August 2019. We believe this 2-3 month window presents a challenge to companies in ensuring the business plans will have been subject to effective governance and controls including Ofgem's Data Assurance requirements. In the context of the 2018/19 programme it will be important that Ofgem considers whether more time should be made available to companies; moreover, it is essential that the RIIO-2 milestones are not delayed thereby further compressing RIIO-T2 timescales.

Review of the Interconnector Cap & Floor regime

We welcome the inclusion of the review in this year's programme which we consider is timely. Given the continued lack of a level playing field between interconnected and UK generation, we think the case for further Cap and Floor Windows should be carefully considered. We agree that the review should be focussed on the justification for supporting further interconnector projects.

Targeted charging review (TCR)

As well as revealing how interconnectors (supported by an unlevel playing field) have been eroding the prospects for UK generation, the recent Capacity Market auction indicated that some generators have continued to access "behind-the-meter" Triad

benefits. This is both bad news for customers and a distortion of competition in generation. We therefore strongly support further action on this in the TCR.

Reforms to Electricity System Operator Procurement Arrangements

We consider this is an important element of facilitating greater competition in the electricity wholesale market and supporting the transition to a more flexible energy system. We believe reforms are required in order to better facilitate open and fair competition for ancillary service provision. We were encouraged by the potential reforms outlined by National Grid in its 2017 System Needs and Products (SNAPs) consultation¹ and we think one of Ofgem's priorities in the coming year should be to ensure that the electricity system operator progresses timely delivery of these reforms.

Enabling a Better Functioning Retail Market

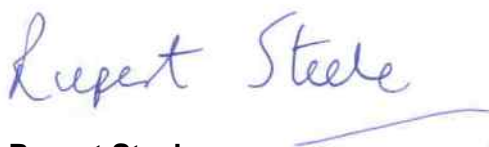
We are supportive of Ofgem's workstreams which are aimed at strengthening competition and customer engagement in the energy retail market in this context we believe Ofgem's proposed reforms to deliver faster switching and half-hourly settlement have the potential to deliver material consumer benefits.

As Ofgem note, a challenge in the coming year will be implementing the wider price cap on standard variable and default tariffs that is the subject of the Government's proposed legislation. An important aspect of the introduction and operation of price caps is to ensure it is done in a way that maintains a level playing field across all suppliers and allows for vigorous competition. Any caps should also be set at a level that enables suppliers to recover the reasonable costs of supplying their customers and discharging their statutory obligations. Furthermore, action should be taken to eliminate the distortion inherent in the exemption regime for the Energy Company Obligation and Warm Home discount schemes, and account taken of the much higher incidence of expensive to serve customers in the larger established suppliers.

Ultimately all stakeholders should have a shared concern to ensure the imposition of price caps does not distort competition nor reduce the impacts of other initiatives aimed at strengthening competition.

If you have any questions arising from our response, then please do not hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation

¹ <https://www.nationalgrid.com/uk/documents/84261-system-needs-and-product-strategy-final>