

# Citizens Advice response to Ofgem's consultation on the draft Forward Work Programme 2019-21



**citizens  
advice**

# Introduction

We welcome the opportunity to comment on Ofgem's draft Forward Work Programme 2019-21. This response was prepared by Citizens Advice, is entirely non-confidential, and can be published by Ofgem.

Citizens Advice supports the areas of focus in Ofgem's Forward Work Programme. We welcome the extension of the period of the Work Programme to cover a two year span which better reflects the broad scope of Ofgem's activity, particularly relating to RIIO-2.

In the coming two years, the RIIO-2 transmission and networks price control process will be one of the dominating features of the work of the energy companies, Ofgem, and consumer bodies including Citizens Advice. It is vital that the RIIO-2 process delivers an effective mechanism for delivering innovation, inclusivity, and fair pricing, especially in light of the changing technological environment, decarbonisation, and the decentralisation of energy generation. Citizens Advice will continue to work collaboratively with Ofgem to protect consumers' interests and we look forward to working together during the ongoing RIIO-2 development. We will also be working to highlight any continuing issues relating to energy companies' performance under the existing RIIO-1 price control methodology and will publish research and exchange information to inform any shortcomings or unfairness identified.

In relation to the retail market, we will work closely with the joint BEIS/Ofgem review of future retail market design. We agree with Ofgem that fundamental changes may be required to unlock consumer benefits and deliver the full potential of other industry reforms, including settlement, switching and network charging. Alongside this work, we support Ofgem's review of its vulnerability strategy, which will set the direction of travel for the sector until 2025. This will need to set ambitious targets that ensure there are significant improvements to the experience of consumers in vulnerable circumstances, during a period of major change for the industry.

We have also long been concerned that micro business customers are getting a

bad deal from the energy market, and support the joint BEIS and Ofgem review to better understand these challenges and develop solutions to tackle these problems.

In the near term, Ofgem's licensing review should prevent unprepared suppliers from entering the market. Given the recent spate of supplier failures, proposed changes to better monitor those already in the market and limit the socialised costs which are levied on other energy companies should be taken forward more urgently.

In 2019-20 Citizens Advice will continue our programme of work to ensure that the needs and interests of all energy consumers are central to the plans for the future energy market. We are pleased to note that Ofgem's Forward Work Programme for 2019-21 has a keen focus on future energy consumers, with a recognition that new ways of generating, distributing and using energy should bring significant benefits for consumers, energy systems and the environment. It is essential that consumer protections are built in from the start and we look forward to working collaboratively with Ofgem.

In the coming year the number of SMETS2 smart meter installations will increase significantly - these meters are key to enabling the transition to the energy system of the future, and the installation process is a unique opportunity for energy companies to engage with each and every customer. Ofgem must scrutinise and hold companies to account during this period. Suppliers are working to meet a tight deadline with the smart meter rollout, and it's vital that this does not result in a decrease in quality of customer experience or an unreasonable increase in costs.

# 1. Making retail markets work for all

## A: Improving current licensing arrangements to protect consumers and ensure that regulatory burdens are proportionate

### Supplier licensing review

We support Ofgem's licensing review. This is an area we have been calling on Ofgem to consider since 2013 - and has become more pressing in recent years. We have recently seen a number of poorly prepared suppliers experience acute customer service problems and bankruptcy. In our recent response to Ofgem's initial licensing review consultation,<sup>1</sup> we were supportive of the proposals on tightening up the entry criteria for new suppliers and strengthening the ongoing monitoring. We would like to see Ofgem take further steps to back this up with smarter compliance and enforcement activity. We also think that, given the recent spate of supplier failures, Ofgem should introduce new measures to reduce the costs of supplier exits from the market. It should also consider the consumer protection gaps that exist in the current Supplier of Last Resort process. These particularly affect consumers who are paying off a debt, consumers using smart prepayment and micro business consumers.

### Strategic review of the micro business retail market

We are strongly supportive of Ofgem's strategic review of the micro business retail market. We believe it is urgent that further attention is focused on this area of the market following Ofgem's State of the Market report 2018 which shows that the smallest businesses are paying higher prices for electricity than their larger peers. We are concerned that the existing arrangements for micro business engagements are also negatively impacted by the behaviour of some energy brokers. We would like to see urgent reform to support micro business engagement in the energy market.

This review will also be a good opportunity to revisit a long standing protection gap

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<sup>1</sup>[Citizens Advice Response to Ofgem's Supplier Licensing Review](#), 2019

between domestic and micro business consumers. The Citizens Advice consumer service and Extra Help Unit provide advice and support to the smallest of micro businesses. From our interactions we know that these individuals often carry the challenges from their personal lives into their businesses and many are unaware that there are far fewer protections in place for businesses, particularly for those in debt to their supplier.

We look forward to working closely with Ofgem on the issues outlined above as they investigate outcomes in the energy market for micro business consumers.

## **B: Understanding where consumers' needs are not being met and developing effective policy solutions to address them**

### **Development of vulnerability and consumer policy**

We support Ofgem's work to update its consumer vulnerability strategy in 2019. While the industry has made significant progress since the last strategy was published in 2013, the new strategy will need to address the complex challenges that face consumers in vulnerable circumstances. The strategy will also need to be fit for the future, to ensure that consumers in vulnerable circumstances benefit from reforms such as the smart meter roll-out, half hourly settlement and faster, more reliable switching. We look forward to working with and supporting Ofgem as it delivers the strategy.

### **Midata in the energy sector**

The principles underpinning Midata are robust and we are supportive of its intentions to help consumers have better access to and make more use of their data both through existing and emerging service providers. However, the implementation of Midata must properly consider the implications of the smart meter roll-out and its own data infrastructure. It must not lead to the creation of another Data Communication Company (DCC) or an alternate means to access consumer data beyond the DCC and CADs in consumer homes. The risk is that it results in loopholes emerging for data access as well as confusion for consumers.

Lessons must also be learned from other related areas for Midata to add value, for example, addressing the limitations of current switching site data fields or the lack of a consumer consent-check mechanism in the DCC. Citizens Advice is currently active on several of the Midata working groups and will continue to advocate for consumer needs and value for money from the project.

## **2. Enabling future markets and system arrangements**

### **A: Implementing new systems and rules for a smarter, more flexible energy system**

We welcome Ofgem's oversight of the new systems and rules for a more flexible energy system. We have the following concerns surrounding the impacts on consumers of these changes and would welcome Ofgem's assurance that these aspects are incorporated within the Work Programme:

- That adequate protections are built into the new energy system for consumers that may be in vulnerable circumstances, who cannot have a smart meter, cannot afford smart appliances, or cannot operate flexibly for other reasons.
- That there is fair pricing across the network including considering distributional impacts of time of use tariffs, and how different users may be using the network.

### **Supplier oversight and policy: smart meter compliance and DCC oversight/price control**

Citizens Advice looks forward to continuing to work alongside Ofgem to support the roll out of smart meters to all domestic and smaller non-domestic premises. The recent NAO review highlighted a number of concerns with the way that the programme has been delivered to date: as more SMETS2 meters are installed it will be even more important that the regulator maintains and increases its monitoring of the way that suppliers are installing meters.

The National Audit Office (NAO) report found that the costs of the roll-out have increased by £0.5bn (£17 per household) - in addition suppliers will also inevitably incur other costs (for example communications and advertising costs which will also be passed to consumers. Citizens Advice is concerned that even if the initially predicted costs savings do materialise, it is not clear if BEIS or Ofgem are monitoring whether these savings will be passed on to consumers and we urge the regulator to consider how it might do this in a robust and clear manner.

In 2019-20 Citizens Advice will continue to monitor consumer experiences of the smart meter roll-out, and we look forward to working with Ofgem on effective supplier monitoring, as well as ensuring that any systemic issues across industry are identified and improved.

It will also be essential that Ofgem continues to regulate and monitor the activity of the DCC, to ensure that it is providing effective support to the roll-out and value for money. Citizens Advice has made clear in response to Ofgem consultations in both 2017 and 2018 that the underlying framework of this price control potentially risks significant cost downsides to consumers and the DCC has strong incentives to push for higher allowances. Our recent consultation response highlighted the various areas where the transparency of some of DCC's costs is lacking as well as its minimal stakeholder engagement. Ofgem should ensure that consumers both have a voice in and benefit from this price control.

## **Electricity settlement reform**

We regard this as a key reform in the move to a smart and flexible energy system. We will continue to support Ofgem's policy development through responding to consultations, attending events, sitting on the Design Advisory Board, and being available for bilaterals. We appreciate the close engagement so far because of the potential consumer impacts in this area.

## **B: Working with innovators and stakeholders to develop sustainable energy solutions and systems for future consumers**

### **Joint review of codes and code governance**

We welcome and look forward to working with Ofgem on this review. We believe that current code governance still favours incumbents and is slow or at times obstructive in pushing through strategic changes that benefit consumers. Our position on a number of code panels gives us a unique strategic perspective of the challenges and need for reform.

### **Review of future retail market design**

We welcome this review and the early engagement we have had with the team already. We encourage the scope to be broad and think beyond suppliers and reforming the supplier hub. In the future, consumers may not just interact with one or multiple suppliers, but also with their DNO, their Electric Vehicle (EV) chargepoint operator, demand aggregators, and other energy management providers. By thinking from the perspective of consumers and how they interact with the energy market, the review should be more holistic.

### **Supporting innovators**

We support Ofgem's Innovation Link to support new business models and services in the energy market. It's important that basic consumer protections and customer service standards are maintained by new services that enter the market.

### **Decarbonising energy**

Networks and suppliers have important roles to play in enabling greater uptake of EVs, managing the impact on peak demand, and helping EV drivers who charge at home manage the impact on their bills. Ofgem's regulatory regime must keep pace with the changes need to decarbonise the transport sector. The RIIO-1 framework

as well as supplier guidance will likely need to be updated in the face of those challenges.

To help shape Ofgem's regulatory response to challenges arising from an increased uptake of EVs, we would appreciate a continuation of bilateral meetings to allow us to share our consumer research as well as the insight from our clients.

Citizens Advice is leading one workstream of the EV Energy Taskforce, which assesses what kind of consumer protections are needed as EV uptake increases. We appreciate Ofgem's attendance at our workshops so far and will seek to keep Ofgem staff up to date with our progress on this workstream.

If Ofgem takes on a new role regulating Heat Networks, it is important that a consumer protection regime is established as soon as possible. We would hope to expand our work with Ofgem's retail market team to Heat Networks, to share our insights of consumer experiences using the networks.

## **Energy data**

Citizens Advice is supportive of Ofgem's focus on energy data; this is a policy area which will continue to grow in significance for energy and many other sectors. We are looking forward to taking up our role on the Energy Data Taskforce, working with the regulator, government and industry to ensure that the plans for data flows to optimise the operation of the energy system are developed with consumer needs at their heart. A key priority for Citizens Advice will be that consumers retain appropriate levels of transparency and control over their data, i.e. the ability to see who is accessing their data and for what purposes, and the ability to make choices about this and correct it when necessary. Work will also be needed to ensure that established parties aren't able to monopolise or become gatekeepers to access consumer data - the allowance of new entrants to the data services market is likely to be key to the development of new services that will be of benefit to consumers.

## **C: Developing improved network access, charging, system operation and wholesale market arrangements to enable efficient future energy markets**

## **Electricity network access reform**

We welcome the establishment of a Significant Code Review (SCR) for Access and Forward-Looking Charges. Our research into 'Core Network Capacity' will feed in to the Small User workstream. Consumers in vulnerable circumstances, those who cannot have a smart meter, cannot afford smart appliances, and those who cannot be flexible must be protected from being 'left behind' in a world which offers cheaper tariffs and savings to those who can be smart and flexible.

We look forward to playing an active role in the charging Challenge Group.

## **Targeted charging review**

We welcome the TCR and the work Ofgem has been carrying out on this topic. Alongside the TCR, the Access and Forward-Looking Charges SCR might also be making changes to consumer network charges and therefore it's crucial that before any final decisions are taken, the impact to consumers as a 'whole package' including RII0-2 reforms, need to be visible.

We are looking forward to taking our role on the Balancing Services Charges Taskforce, working with the industry to ensure that proposals to changes to Balancing Services charges are developed with consumers at their centre.

## **System operation reforms**

We welcome the principles-based incentives regime for the ESO, which has provided clarity to a wider audience on the roles and expectations of the ESO. Given the fact that the new incentive regime has been in place for less than 12 months it is difficult to understand if it has been effective yet and if the levels of reward are set at an appropriate level. It is encouraging to see that changes to the incentive regime have been made based on stakeholder feedback and the recommendations of the independent panel, and we encourage continual challenge from Ofgem and the Independent Panel. We encourage Ofgem to appoint an independent Chair as soon as possible.

## **D: System stability and security**

### **EU exit implementation**

We welcome the preparations to ensure that the regulatory framework continues to function after the UK's withdrawal from the EU. In parallel to precautions for a possible sudden and disorderly exit, several workstreams within Ofgem, continue to address GB's existing legal commitments to the EU.

Issues of concern to consumers include, for example: the application of EU network codes; the response to the European Court of Justice ruling on the validity of GB's Capacity Mechanism; the development of the framework for access to consumer data and the monitoring of security of the network. Additionally, the EU has just completed the renegotiation of its legislative framework to ensure a more flexible, clean and secure energy supply.

Citizens Advice is responding to the consultation on the modification of licence conditions if there is a no deal and we look forward to continuing to work with Ofgem to ensure that the consumer impact of these changes are identified and mitigated.

### **Gas Flexibility/Security of Supply**

We are supportive of Ofgem's intentions to work with government to better understand risks to the security of gas supply. Given the closure of the Rough gas storage facility, it has become even more important to consider the role played by gas flexibility and market interactions in ensuring security of supply.

### **NIS Regulation**

We are supportive of Ofgem's ongoing intention to monitor, evaluate and report on energy companies' efforts to keep consumer data safe and networks secure.

## **3. Network preparedness and performance**

### **A: Using competition to deliver value for money**

We would welcome further consideration by Ofgem on measures to assess direct consumer benefits of using competition as there does not appear to be substantive evidence in all cases.

We would also welcome Ofgem's review of whether current obligations for DNOs and GDNs and independent networks are still adequate given the development of some of the networks.

### **Development of competition models for construction, financing and operation of onshore electricity networks & Competition for the RIIO-2 market**

We are looking forward to seeing Ofgem's finalised competition proxy model and how this will function with future Strategic Wider Works projects under RIIO. We expect competition in this area to lower costs for consumers. We are keen to see further details from Ofgem regarding its proposals to extend its model development work to explore uses within RIIO-2 ET.

### **B: Preparing networks for the future**

## **Development of RIIO-2**

We look forward to continuing to work with Ofgem to develop its proposals for RIIO-2, so that they meet the needs of all consumers without leaving anyone behind, particularly those in vulnerable situations.

## **Develop a fully operational data service infrastructure**

We support the focus on a data service infrastructure and look forward to working with Ofgem on developing this.

# **4. Excellence in statutory and core functions**

## **A: Ensuring effective licensing and market arrangements**

### **Core licensing / code rule**

We will continue to support the industry code panels and we approve of Ofgem's intention to deliver excellence in their core role of overseeing code modification policy. We do encourage Ofgem to review the effectiveness of these codes in delivering critical changes, such as those relating to UNC Mod 0621 and its alternatives, where the typical codes process may not always be the most efficient and sensible approach to delivery.

## **Core electricity and gas connection and network charging**

We are supportive of Ofgem's oversight of code modifications and network charging amendments. We will work with Ofgem to ensure that these reforms work effectively and fairly for consumers.

## **B: Proactive market monitoring and consumer protection**

### **Wholesale and retail market monitoring**

We will maintain our commitment to transparent regular retail market monitoring based on our extensive data on consumer experiences; this will contribute to the ongoing work of the Tripartite process with Ofgem and the Ombudsman.

### **RIIO-1**

We will continue to work with Ofgem as it monitors the four existing price controls under RIIO-1 and the System Operator, ensuring that it delivers value for consumers.

### **Price cap policy**

The default tariffs price cap has a flexible end date, which could fall as early as December 2020 or as late as December 2023, depending on how the Secretary of State chooses to use the discretionary right to extend given in legislation. In past comments to the BEIS Select Committee, Ofgem's CEO, Dermot Nolan, has suggested that some form of enduring price protection may be needed for consumers in vulnerable circumstances after the legislative cap has ended - and we agree that some form of enduring protection will be needed. Given its likely materiality and consequences, we would expect that the development of such a scheme may take a significant period of time. Because of this, and given that it may be needed to be in place as early as January 2021, we would expect to see Ofgem

initiating the process of developing and consulting on this replacement scheme during the 2019-20 work year.

The CMA is currently considering whether to review the separate prepayment meter ('PPM') price cap in spring 2019. In implementing that cap, it set a sunset date, December 2020, that was tied to its expectations (in 2016) of when smart meter roll-out would be concluded. It is becoming increasingly evident that mass roll-out of smart metering will not have concluded by the end of next year, and that there may be some need for an extension to the PPM cap. The CMA has signalled that it would not have the power to implement such an extension itself and would need to make a recommendation to Ofgem were proposals in this area to be taken forward. We therefore think it would be prudent for Ofgem to plan for the possibility of needing to take forward work to extend the PPM cap in the forthcoming year.

## **Regulatory finance advice**

We strongly support Ofgem's intentions to enhance their industry-specialist skills and capabilities relating to regulatory finance on RIIO. We encourage Ofgem to review whether this team currently has the resource necessary to deal with the challenges in the critical years ahead.

## **Reducing burdens**

### **Improve the quality and openness of infrastructure data**

We recommend that the data should be available and manipulable on Ofgem's website as well as downloadable in consistent machine readable format for use by stakeholders and academics.

## Our finances

Ofgem has published a challenging and ambitious Forward Work Programme. Ofgem's proposed Forward Work Programme is ambitious and demanding. We have noted the reduction in Ofgem's annual funding to £82m in both 2019-20 and 2020-21. The challenges of delivering these highly interdependent changes in a short time frame cannot be underestimated, particularly given the poor track record of the energy industry in delivering large scale change. They will have significant impacts on consumers, carrying both opportunities for better services and lower costs, and some new risks, which will need to be mitigated. In order to manage these changes successfully Ofgem needs to be adequately resourced and work in an agile way with close engagement from stakeholders.

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