

Forward Work Programme 2020-22 Consultation
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Forward Work Programme 2020-22

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 20 million UK homes as well as businesses. The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

This is an industry response to Ofgem's consultation on its Forward Work Programme (FWP) 2020-22, which has been organised thematically to mirror the FWP's proposals where relevant. Individual members may hold different views.

Overview

Energy UK welcomes the consultation and many of the outputs it aims to achieve throughout 2020-2022. General feedback does note, however, that the overall document lacks significant material detail, which would otherwise be useful in a number of key areas, which will be outlined below.

Retail Markets

Ofgem should consider the significant demands being placed upon the industry by the implementation of several large scale, complex, and interdependent activities (i.e. smart rollout, switching programme, market-wide half hourly settlement) in ambitious, overlapping timescales. Careful planning, risk assessment and efficient programme management is essential in order to best realise the benefits of these programmes for consumers, industry and competition.

Faster more reliable switching

The FWP outlines that the Switching Programme will enter its testing phase in April 2020, with "go-live" expected between July and September 2021. The current activity being undertaken by Ofgem to ensure provision of a robust, stable design underpinned by detailed lower-level information is critical to achieving this milestone. Suppliers will need to have confidence that they have all the information required on the new arrangements, including the role of CSS Adaptor Services, in order to commence their own design and build activity for implementing the new arrangements.

Robust testing of the new arrangements will be pivotal to the success of the programme, particularly in the context of a "big bang" implementation approach. The current timeframe for testing is tight. It is

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important that the time allocated for testing is regularly reviewed in order to ensure that it is sufficient to respond to any identified issues and to cover all key areas.

Ensuring System Stability and Security

Energy UK welcomes the fact that Ofgem intends to review the value, if any, of further interconnection for Great Britain. This will be timely given the event of Brexit. Further details would be useful on the means by which Ofgem proposes to incentivise new interconnectors.

Whilst Ofgem has highlighted it will continue its work on Capacity Market Rule Change amendments which is desired by Energy UK members, it appears that Ofgem has omitted to include its commitment to undertake a review of secondary trading and the prequalification process which is not captured in this same space. Given the increased participation in the Capacity Market (CM) and increased number of disputes raised over the years, Energy UK believes a review of the prequalification rules is of the essence.

Ofgem notes it will be working with BEIS to assess a framework that would allow for new nuclear power to be delivered under a Regulated Asset Base (RAB) financial model, which could also apply to all low carbon technologies. Energy UK would likewise encourage Ofgem to work alongside BEIS in the development of CCUS business models to assist with forming regulation of a new sector, and on its potential involvement in a RAB model for a CCUS Transport and Storage (T&S) network.

Codes Review

Whilst Ofgem is clear on its goals for the Retail Energy Code and rationalising related codes, the overarching Codes Review, which was consulted on in 2019, is unexpectedly absent from the work plan. It may be inferred, therefore, that some of Ofgem's statements on goals and intentions for methods of working pre-empt the outcome of the Codes Review consultation and further work on governance. Energy UK looks forward to further information and engagement on the Codes Review in 2020-21.

Supply License Review

Energy UK supports Ofgem's efforts to address failures of suppliers in the retail energy market. Following the recent implementation of stricter market entry requirements, we continue to support Ofgem in its focus on preventing unsustainable or irresponsible business practices causing detriment to consumers across the market. However, we believe that in the immediate-term Ofgem should be making greater use of its powers to ensure compliance with existing obligations is effectively monitored and enforced. While we recognise that mutualisation has its place, and that supplier failures are inevitable in a competitive market, the lack of consequences for non-paying suppliers above and beyond the interest on the amounts owed risks continuing to increase the overall cost of mutualisation for all consumers.

Energy Network Reforms

Energy UK supports the inclusion of the Transmission Charging Review in the plan. However, the timeline for implementation is challenging. There is no guarantee that some elements of the outcome of the Access SCR that are also critical to TCR implementation will be known until Jan/June 2021, which means that there is a risk of solutions being developed under TCR direction that may not be optimal or sustainable and may need to be changed once Access SCR reforms are in place. We note that Ofgem states it will continue to take an "oversight role" while industry develops detailed code changes required for TCR implementation; timely and pragmatic input, views and guidance from Ofgem will be required to support industry progress.

With the TCR progressing faster than the Access SCR, Ofgem should be aware that the rate of progression through the next stage (code modification process) is a considerable challenge. With this in mind, industry would appreciate more time when the Access SCR gets to this stage.

Separately with regards to the upcoming Energy Systems Review that is due to launch, Energy UK would recommend Ofgem to collaborate with and utilise us as a platform for discussion as to where industry may be of use.

Energy UK is concerned that the timescale for a final Authority decision on the gas transmission charging regime (UNC 0678) is indicated to be Jul-Sep this year. It is our understanding, from working level meetings, that the decision will be taken no later than July. We would like to seek clarification on this point and encourage Ofgem to make a decision as soon as possible following the receipt of ACER recommendations, if the charging arrangements are to be implemented from October 2020.

We would, however, note that National Grid has specified that it will commence final calculations for forecasting contracted capacity and tariffs once the final decision is made; thus, September doesn't seem to leave sufficient time for notice of final charges to be made.

Additional items to consider

- The FWP omits an indication regarding "what happens next" and what timelines industry can expect post the second BSUoS task force conclusion (expected May/June). Ofgem must remain cognisant of the fact that BSUoS is a significant unknown cost for market participants and understanding the direction of travel, alongside timelines, will be incredibly valuable.
- There are concerns within some Energy UK members with regards to the continued push towards 'Principles Based Regulation' within the codes. These apprehensions are based on the notion that principles-based code modifications may not be sufficiently clear, giving rise to disputes that would otherwise be avoided. This issue should be fully understood and mitigated before principled based modifications are pursued further.
- Given Ofgem's final decision on self-disconnection and self-rationing will potentially require significant process changes by suppliers, as much notice as possible would be appreciated.

I trust you find our comments useful. We would welcome the opportunity to discuss further with Ofgem or any other interested stakeholders. If this is of interest, please feel free to contact me on melody.carraro@energy-uk.org.uk.

Kind regards

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