

# Energy UK Response

## Ofgem Forward Work Programme 2021/22

19<sup>th</sup> February 2021

### Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 680,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests over £12.5bn annually, delivers around £84bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the consultation. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

### Executive Summary

Energy UK welcomes the opportunity to respond to Ofgem's Forward Work Programme (FWP). To keep our response as concise and as useful as possible Energy UK's comments are made by exception.

We ask Ofgem to be explicit about how it has taken stakeholder responses into account when it publishes its final FWP. Periodic updates on Ofgem's progress against the actions set out in the FWP would be useful to stakeholders.

We urge Ofgem to continue to ensure it takes an open and collaborative approach to regulation as possible. It is vitally important Ofgem, industry and stakeholders work closely together when developing policy to protect consumers, promote a competitive market and facilitate a successful transition to net zero. Energy UK also urges Ofgem to proactively co-ordinate with BEIS, especially in light of the volume of activity announced in the Energy White Paper and the number of recently published and forthcoming Government strategies.

Our overarching concern regarding the 2021/22 FWP is that Ofgem's information on its activity commitments lacks clarity on the detail and timescales, particularly, when compared to past FWPs. Ofgem should set out its intended activities, with clear timelines, to allow stakeholders to best plan the use of their resources, particularly as resources remain stretched with the ongoing pandemic, restrictions and remote working.

## Low Carbon Infrastructure

Energy UK welcomes Ofgem's commitment to support the development of hydrogen in the UK, however, we believe this activity should not be limited to only examining the use of hydrogen in heat and transport. There is significant opportunity for green hydrogen to offer long-term balancing aid to a grid-system dominated by renewables. We, therefore, encourage Ofgem to begin to consider what action it can take to support this activity.

Alongside developing a regulatory framework for hydrogen, we would also encourage consideration of how Ofgem can best facilitate the deployment of large-scale, low-carbon, long-duration storage which will be essential in delivering decarbonisation at the least cost. Any measures must take into account the different development stages of the various technologies; from the more established, like pumped hydro, to newer forms of energy storage, such as compressed air and liquid air. Energy UK would encourage Ofgem to consider an appropriate market framework for long-duration storage technologies, that takes into account the capital-intensive nature of large infrastructure projects and the long construction times they involve (e.g. 5-8 years for pumped hydro).

Energy UK also greatly welcomes the creation of a framework to support a strategic and coordinated expansion of the offshore networks, to enable increased generation and transmission required to meet the net zero targets.

With regards to network price controls, we support Ofgem's work to support growing electricity demand, from technologies such as electric vehicles (EVs) and heat pumps. However, we add that Ofgem's work must ensure that networks are supported to deliver connections to new low-carbon generation sites and projects. This is a particular issue in Wales, which requires addressing. Strategic anticipatory investment is essential, and we encourage Ofgem to work with the ESO to ensure this.

Within Point 4: Low Carbon Infrastructure, the FWP mentions collaborative work with the Government to set frameworks to enable and encourage the industry to prepare for the future, and to help manage uncertainties. Energy UK recommends that any such frameworks must overlap with Ofgem's consideration for how it should best regulate to deliver net zero. In an industry such as ours, investors are likely to go elsewhere if regulatory risk is deemed to be too high. It is important that Ofgem put in place the right structures to help participants manage uncertainty and to ensure that, through its own activities, Ofgem does not create additional uncertainty that could undermine progress in the transition to a net zero economy.

## Full Chain Flexibility

Energy UK strongly supports Ofgem's plans to establish a full chain flexibility programme and welcome the proposed focus areas. As set out in our ['Delivering on the Potential of Flexibility Report'](#) – produced in conjunction with BEAMA and the ADE – flexibility is vital for system decarbonisation and a customer-led decarbonisation. We look forward to reviewing the findings from the full chain flexibility work in March and would like to offer our support in developing this work, as well as the other aspects of Ofgem's work on flexibility.

We welcome the proposed new activities under the full chain flexibility work. The proposal to review the regulatory barriers for domestic flexibility to help unlock demand-side flexibility sources, for instance, is very welcome. Unlocking domestic flexibility will be key to supporting the uptake of low carbon technologies, deliver the best customer experience and deliver value to all energy consumers. It must be prioritised. Energy UK members are devoting significant resources to domestic flexibility and welcome the opportunity to work with Ofgem to ensure progress can be made in this area.

The commitment to produce a Smart Systems and Flexibility Plan (SSFP) 2.0 is encouraging, and is something that Energy UK has consistently called for. As set out in the report referenced above, the SSFP 2.0 should include:

- Existing actions, as well as any necessary additions given changes in the years since the original plan. Clear indication of the steps required to achieve each action, intended

prioritisation, the desired timeframes intended for full implementation, and the metrics for measuring success.

- Replaced terminology of ‘implemented’ actions, to present a more reflective assessment of progress made across the actions.
- Increased collaboration with industry, including formation of an industry-led advisory group to contribute towards delivery of the actions of the SSFP.

Of the ongoing work priorities, electricity network charge reforms, half-hourly settlement and requiring network operators to use flexibility are particularly important, although, all are welcome. Flexibility relies on dynamic price signals and open, accessible and competitive markets. While progress is being made, there is still significant work to be done to embed flexibility in our energy system. To date, incentives have been relied upon to get network operators to use flexibility, with mixed results. A more rapid pace of change is needed to get the energy system ready for the mass uptake of low carbon technologies and stronger action, potentially in the form of requirements, is therefore, likely to be required from Ofgem.

We strongly support Ofgem’s consideration of the interaction between network charging and flexibility into the network access and forward-looking charges workstream. In addition, we propose that interaction with other policy areas must also be considered. For example, where costs are increased for renewable generators, this could lead to increased CfD auction bids – having a negative impact on consumer bills, and, therefore, potentially undermining the delivery of net zero at least cost to the consumer.

### **Smart Metering**

Energy UK welcomes Ofgem’s commitment to monitor the effectiveness of the smart meter rollout to ensure consumers are offered a quality installation experience and to enable more consumers to take advantage of smart meter benefits. We also support a realistic framework to ensure the rollout is completed, and encourage Ofgem to ensure the Smart Data Communications Company (Smart DCC) provides value via its price control mechanism.

### **Future of Retail**

We are concerned that the FWP lacks clarity and detail, particularly in relation to Ofgem’s activity commitments. An example of this is where Ofgem have noted that a key focus area for the strategic change programme will be “*examining market dynamics in the light of Covid-19, seeking to identify and address any new and enduring sources of consumer harm and detriment.*” Ofgem have, however, not provided information, or indeed any clarity, on what these sources of consumer harm are. This need for clarity extends to a lack of information around which activities are being prioritised and the timescales related to them. Previous FWP consultations have clearly set out timescales for key activities. It is unclear to Energy UK why a similar approach has not been taken for the 2021/22 FWP.

Whilst we seek clarity and detail, Energy UK welcomes Ofgem’s commitment to “*enforce compliance with new requirements to drive up supplier financial and customer service standards*” and to “*consider further measures to mitigate the risk of costs being mutualised across the wider industry when suppliers exit the market*”. Mutualisation of the Renewables Obligation, for example, has occurred for the last three consecutive years at significant cost to consumers and the wider industry. We, therefore, encourage Ofgem to work on bringing forward proportionate proposals to address the underlying causes of mutualisation, such as the non-payment of obligations. As part of this work, Ofgem should also conduct a full cost analysis of the impact and drivers of supplier failure over the past five years. Given the volume of supplier failures and the detrimental impact these have had on customers, Ofgem should provide clear evidence to support future policies that seek to reduce instances of failure and associated costs.

Regarding Ofgem’s point around “improving outcomes for microbusinesses”, the Energy White Paper indicates that the Government is intending to consult on regulating third parties, such as energy brokers. Energy UK and its members welcome this assurance and urge Ofgem to work with BEIS on an enduring solution for direct regulation of TPIs, rather than expending valuable resources on short-term quasi-regulation by suppliers – as this presents neither a credible nor an enduring solution.

## **Data and Digitalisation**

Data and digitalisation will be key to decarbonising the energy system in the most efficient way. We welcome the fact that this is recognised in Ofgem's draft FWP and we support the four outcomes outlined. The proposed Digitalisation Strategy and Action Plan is a welcome piece of work which Energy UK looks forward to working with Ofgem on.

The proposed activities for 2021/22 seem broadly appropriate, in particular, the work to ratify and embed modern data and digitalisation standards into licences. Energy system data, particularly at a distribution level is patchy at best, meaning that there is often a poor understanding of the state of the energy system. The availability of granular data on the state of the network remains a barrier to progressing whole system solutions and developing flexibility markets. The lack of clarity over the future levels of locational granularity of charging regimes is problematic, as these regimes will be critical to rewarding connected parties for their flexibility. This is particularly of importance when looking to Low Carbon Technologies, as heat and transport assets, notably, will hold inherent flexibility that could otherwise fail to be utilised. Without far greater access to granular information about the state of the network, flexibility markets will not develop fully. We also believe it is important to highlight that in the longer term, the collection of and access to data should fall within the regulatory domain. This could be administered on a national level by the TSO/ESO, or developed locally by the DSO/DNOs. It might be beneficial to gather the data on DSO/DNO level first as they receive much of this data directly.

Transparency and access control of data are also crucial areas, and we believe it is important to define and reflect around:

- Data ownership.
- Whether the end customer owns the data for production use from its own resources.
- Whether aggregators should have access to control and read data from resources.
- Whether aggregators should own the baselines they develop themselves to enhance competition.
- The length of time DSO/TSOs have access to the data of the customers who operate in their grid.

Energy UK supports the recommendations of the Energy Data Taskforce, which have broad support across industry. As such, we believe they should be reflected more explicitly in Ofgem's FWP. Ofgem can play an important role to ensuring that the recommendations are implemented as intended.

## **Energy System Governance**

Energy UK welcomes Ofgem's consideration of industry governance, as well as the consideration of its own role and responsibilities within the industry. It is important that any direction given to Ofgem through the forthcoming Strategy and Policy Statement (SPS) - as set out in the Energy White Paper - is capable of being accommodated by industry governance and the objectives of industry codes are able to support this. Otherwise, Ofgem may reject or send back code modifications that could have been developed in a way more consistent with the direction of the SPS.

## **Regulatory Burdens**

Energy UK also welcomes the review of activities to further reduce regulatory burdens, and suggests to Ofgem that regulatory reporting could be simplified. For example, there are multiple different templates that need to be submitted monthly, quarterly, and annually. A review of these templates to identify which ones Ofgem continues to use against those which are not needed would be useful. Additionally, we would recommend streamlining the templates so that they are of identical format and follow the same process.

Going forward, Ofgem should also look more closely at smarter approaches to regulatory reporting. This should include the rollout of the Data Exchange Portal at pace, and the consideration of the use of APIs to provide a less burdensome, streamlined approach to supporting Ofgem's monitoring efforts.

Furthermore, the Covid RFI remains onerous. Whilst Energy UK supports the rationale, we believe it is an increased burden on top of everything else, and one which has been extended on multiple occasions. At the same time, Ofgem is proposing further onerous and granular regulatory reporting through the Consolidated Segmental Statements consultation. Ofgem should ensure that the Covid RFI only remains in place as long as is necessary, and it should transparently set out the use it is making of the data collected. More generally, Energy UK has continued concerns regarding the administrative burdens placed on licenced parties by the complexities of licences, which Ofgem should work to simplify. For example, there are continued delays to uploading consolidated licences to Ofgem's website – prior to its publication on the 2<sup>nd</sup> February 2021, there had not been an updated consolidated version of the supply licences since the 30<sup>th</sup> September 2020, despite there having been a number of major SLC changes during that period. In addition, Ofgem could kickstart work to simplify the conditions within licences, cleaning up outdated requirements and references to ensure that it remains up to date and entirely relevant. Ofgem could also look to modernise the licence, developing a digital, searchable version to make it less cumbersome, particularly, as Ofgem and BEIS seek to modernise the energy market as a whole.

## **Additional Comments**

### Complaints Handling Standards

Following work with industry, Energy UK produced a paper on the case for revising the 2008 Complaints Handling Standards regulations, and Ofgem had committed to take up this work. Whilst we recognise and understand the impact that Covid-19 has had on priorities, Energy UK do, however, urge Ofgem to ensure that revisiting the Complaints Handling Standards and reviewing the overall customer complaints journey remains on its agenda. We recommend that this workstream is reopened at the earliest opportunity, and we are keen to work with Ofgem and BEIS to achieve progress.

Finally, Energy UK acknowledges that Ofgem has previously shown interest in public KPIs for the OS:E. We suggest the OS:E should be working to specific KPIs and we would, therefore, welcome the opportunity to work with Ofgem, industry and the OS:E to develop a set of public KPIs relating to the OS:E's performance, which will lead to greater transparency for customers and suppliers, and build trust in the complaints and resolution processes.

**We trust Ofgem will find these comments of use. However, for further information or to discuss our response in more detail please contact Paige Truelove at [paige.truelove@energy-uk.org.uk](mailto:paige.truelove@energy-uk.org.uk).**