

Energy UK response to Ofgem's draft Forward Work Programme for 2023/24

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About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Summary

Energy UK is grateful for the opportunity to provide feedback on Ofgem's draft Forward Work Programme for 2023/24. We have a number of high-level views, as well as specific comments on certain aspects of the Programme.

At present, Ofgem's work programme does not fully articulate how it will facilitate the transition to a net zero energy system. We look forward to contributing to the development of Ofgem's Strategy and Policy Statement (SPS) in due course, as well the review of economic regulation. We would welcome clarity on the interaction between the Consumer Interest Framework and the SPS, as it is unclear which will have primacy.

Ofgem's Prioritisation

Energy UK members have expressed serious concerns around the gradual expansion of Ofgem's scope and their capacity to manage the workload in this Forward Work Programme. This includes whether Ofgem is sufficiently resourced to deliver the range of priority projects it has identified alongside successfully managing its 'normal' workload, which has already expanded over the last year, through greater monitoring and reporting, for example.

Energy UK would welcome clarity in the final Forward Work Programme on how Ofgem intends to resource their increased workload for the coming year. In addition, the plan would benefit from some further granularity in terms of when initiatives are expected to be delivered, which will help industry stakeholders more effectively plan their own resource.

Energy UK believes that Ofgem are stretching their remit with their involvement in the Review of Electricity Market Arrangements. It is our members' view that Ofgem should not be involved with thought leadership or setting policy, such as through their work on locational marginal pricing, which is an unnecessary duplication of BEIS activity. Ofgem could add value in this area by looking at the consumer and distributional impacts of the options under consideration. This more focused approach would be welcomed, particularly while they are de-prioritising areas that they should be responsible for, such as supporting the TNUoS Taskforce and the DUoS Significant Code Review.

Further areas that we believe should not sit with Ofgem include a review of the legislative framework for security of supply, which should be carried out by BEIS, and ensuring cyber resilience, which could fit with another body such as the Office of the Information Commissioner. A lack of clarity on ownership for these areas could lead to inefficient development.

Resilient Retail Sector

We welcome Ofgem prioritising a resilient, reformed retail market that can better withstand market shocks. However, it is critical that this work addresses the need to better support the investability of retail as a short-term priority and recognises that a competitive retail sector is crucial for the transition to net zero. The current retail returns, administration burden of compliance reports and the risk exposure to market volatility needs explicit action from Ofgem. Minimising the risk of future supplier failures, alongside attracting investment in consumer service and the development of innovative, smart and low carbon consumer offers, are essential for the effective delivery of Ofgem's objectives for the development of the energy system and its principle, statutory duty to protect consumers' interests.

Energy UK notes that Ofgem intends to explore wholesale power market liquidity issues. Market participants already recognise these issues, and would like Ofgem to commit to solutions to improve liquidity as a matter of urgency. Low levels of liquidity are increasing costs for consumers and Ofgem must address this in both the short and long term.

Consumer Interest Framework

Energy UK largely agrees with the four pillars identified under the Consumer Interest Framework. Whilst we recognise the immediate need to minimise costs, in some cases, allowing up-front investment can bring forward benefits that save costs in the long run. We understand the need to avoid overpaying for infrastructure now, but that shouldn't come at the risk of overpaying in 2030, or 2050 for example. We suggest that the Consumer Interest Framework focuses on 'fair', rather than 'least' cost. In addition, Ofgem's role in facilitating the UK reaching the legal target of net zero should be explicitly drawn out.

Energy UK also believes that the Framework should include a whole-system element. This will ensure that broader impacts are taken into account when decisions are made which result in trade-offs between interests.

Strategic Priorities

In general, the objectives in the Programme are high-level and lack a measure of success. Energy UK would benefit from greater clarity between Ofgem's short- and long-term priorities, and what should be covered under their Core Regulatory Activities. For example, 'ensuring prices are fair' should be an enduring priority, rather than a short-term one. Similarly, we welcome Ofgem's focus on setting, monitoring and enforcing quality standards, however, this should form part of Ofgem's business-as-usual regulatory activities.

On the other hand, there are elements under 'facilitating infrastructure investment' that must be an immediate focus for Ofgem. For example, developing and confirming the future of network price control frameworks must be carried out as soon as possible, along with greater detail on the Future System Operator, which will have a key role in infrastructure delivery through its central planning function.

Infrastructure Investment

All of Ofgem's work in facilitating infrastructure investment should be explicitly linked to the targets of a 2035 net zero electricity system and system-wide net zero by 2050.

Energy UK welcomes the focus placed on facilitating infrastructure investment in the draft Forward Work Programme, however, we are concerned that the proposals are too high-level for the necessary step change in delivery. Actions must be clearly defined for improving connection times on both the transmission and distribution networks for assets of all sizes, with Ofgem pushing the networks and the ESO towards actual targets for reduced timescales, thereby ensuring that reforms are delivered as quickly as possible for the benefits of investors, consumers and net zero.

Generating the investment required for a net zero electricity system requires Ofgem to fundamentally change their behaviour, rather than simply flexing within existing parameters. Since privatisation, Ofgem's focus has been on a passive grid that adapts to the needs of generation and demand customers once they are prepared to financially commit to a connection. This approach must change to encourage low-regrets anticipatory investment.

Ofgem could start by removing some of the bureaucracy that delays network investment decisions, in turn increasing risks and costs for developers. This includes Ofgem's micromanagement of the network price controls, re-openers and uncertainty mechanisms.

Energy UK is supportive of introducing competition in onshore and offshore network development. However, it is critical that the appointment process doesn't delay delivery. In addition, competitive procurement must not hamper collaboration or limit opportunities for whole-system optimisation. For example, the OFTO process limits the ability of offshore wind assets to provide grid services.

Energy UK would welcome work to establish the efficacy of the current grid development process, particularly whether recommendations in the Network Options Assessment have accurately established the cost of reinforcement compared to the cost of constraints. Improving this process would lead to more economically efficient grid development.

Hydrogen

Energy UK is concerned that the Forward Work Programme omits any work on the development of business models for hydrogen storage. Delivering these business models is key for stimulating investment in this area, as well as unlocking markets for hydrogen production and consumption. Government has committed to 10GW of low-carbon hydrogen production by 2030, and this will not be possible without appropriate storage infrastructure.

The document also doesn't reference hydrogen blending, which is likely to play a key role in the development of the hydrogen economy. It is likely that Government will make a decision on blending in 2023, and smooth implementation would require regulatory change driven by Ofgem.

Core Regulatory Activities

Energy UK would like to highlight concerns about Ofgem's role in maintaining industry codes. There has been a recent trend in Ofgem leaving the development of changes up to industry parties, before they're submitted to Ofgem to 'rubber stamp'. This is particularly pressing in the Codes, where Working Groups often don't see Ofgem representation until the end of the process, which delays decisions and risks groups reaching solutions that Ofgem aren't willing to implement. We welcome Ofgem acting as the Strategic Body to coordinate code change, and believe that the transition to this role could be facilitated by Ofgem taking greater leadership in code change in the immediate term.

Some recent examples of urgent Modifications such as BSC Modification P448 prove that with sufficient early buy-in from Ofgem, changes can be delivered quickly. This is a major efficiency improvement that can be delivered in the absence of code reform and consolidation, which is likely to be time and resource-consuming.