

Citizens Advice response to Ofgem draft Forward Work Programme 2022/23



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Citizens Advice welcomes the opportunity to comment on Ofgem's work plan for the period 2022-2023. Overall, we are pleased to see the continuation of Ofgem's key strategic change programmes, as well as an overarching commitment to help deliver the UK and devolved governments' net zero targets.

The year ahead follows one of significant turmoil experienced in the energy sector, with millions of customers affected by supplier failures and all of us facing a generational high in energy prices, driven by high wholesale gas prices. This coincides with rising prices across the economy, falling incomes for many people who rely on benefits and a background of intense geopolitical uncertainty. Sadly, regulatory decisions made over many years allowed significant risks to develop, which left the retail market in a much weaker position than it should have been when prices began to rise.

More positively, we are seeing accelerating take up of low carbon technologies - particularly electric vehicles and smart devices - that will help to deliver on our net zero goals and to reshape the market over the next decade.

Given this context, it is hard to overstate the challenges facing Ofgem. In the year ahead we think the regulator should focus on three key aims:

- Ensuring people are supported through a period of increased financial vulnerability
- Rebuilding consumer trust by improving resilience and stability in the market
- Continuing a fair transition to a net zero energy market at lowest cost

We welcome Ofgem's recognition that, due to the lasting effects of the covid pandemic and energy market turmoil, this work plan will need to remain flexible and responsive. We encourage Ofgem to work closely with government and other stakeholders - including Citizens Advice - to ensure that consumers are protected against unfair outcomes. As we deliver our own consumer work plan for 2022/23 we will seek to work together wherever possible and avoid duplication of effort.¹

¹ [Consultation: The Citizens Advice Draft Consumer Work Plan 2022/23](#), January 2022, Citizens Advice

We also recognise the significant pressure that recent events have placed on Ofgem staff and resources. To meet this challenge, Ofgem must manage its work in an agile manner in order to ensure each strategic area can progress over the coming year.

Enduring Priorities

We are pleased to see the inclusion of newer functions such as developing heat network regulation, and in the year ahead we will continue to prepare to take on the role of statutory advocate for heat network customers.

We also welcome the continued focus on the development of the electricity distribution system for net zero. We encourage Ofgem to work with BEIS to further develop a national framework to enable network companies to deliver support to local and regional area planning in the most consistent and effective way possible.

In Ofgem's previous work plan, one of the core regulatory activities was to improve outcomes for consumers in vulnerable circumstances,² and was accompanied by a series of actions. We are disappointed this is not carried forward to the current plan, and think it should be reinstated in the final version. We would particularly welcome more detail on the progress of the Consumer Vulnerability Strategy 2025 and plans for activity in the coming year, as well as an update on the status of the report on the Priority Services Register proposed in the Forward Work Programme 2021-2022.³

Finally, we believe that insufficient enforcement and compliance activities contributed to the recent retail market turmoil, and that much more work is needed to demonstrate how these functions will be better resourced and more impactful in future. Ofgem has said that it is conducting a 'lessons learned' review to understand how it could have acted differently to reduce the risks in the market. It should include careful consideration of the role of enforcement and compliance as part of this work, and publish its findings to the greatest extent possible, and these should feed into the current review of Ofgem's enforcement guidelines.

² [Citizens Advice response to Ofgem's consultation on the draft Forward Work Programme 2020-22](#), February 2020, Citizens Advice

³ [Forward Work Programme 2021/22](#), March 2021, Ofgem

Strategic Priority One - Future of Retail

Financial Resilience and Controls

We have recently put forward a response to Ofgem's action plan on retail financial resilience.⁴ We broadly support the plan to strengthen the financial regulatory regime, and agree that further reforms to improve supplier risk management and to protect customers are vital and urgent. We are particularly concerned that steps to limit the mutualisation of the Renewables Obligation and credit balances, which have now been considered by Ofgem since 2018, have not yet been enacted. Reforms in this area should be taken forward at the earliest opportunity.

Price Cap Policy and Level Setting

We have responded to Ofgem's recent proposals to amend the price cap in response to volatile wholesale markets, and recognise that Ofgem will be seeking to reform the price cap in response to current events with both short and long term interventions. As in previous years, we would also highlight that the price cap legislation means that if the Secretary of State decides not to extend the cap then it will be removed within a matter of months. This means that any successor protections for consumers in vulnerable circumstances would need to be introduced at very short notice. It is therefore important that Ofgem makes some considerations about how such protections could operate ahead of time.

Future Retail Market

Citizens Advice are strongly supportive of Ofgem's intention to implement a strategy that delivers a retail market that works for all consumers. This must be developed to be complementary to the Government's own retail energy strategy which is currently being reviewed, and focus on the areas that are most relevant to Ofgem's powers. Together the Ofgem and Government strategies should set out a joint plan for how engagement, switching and the price cap work together to help all consumers achieve lower costs and make lower carbon choices. An essential element of this work must be to recognise the barriers for consumers engaging with innovative products and services to enable wide participation.⁵

In order to deliver innovation, energy companies need confidence to invest, and insight into the future course of the regulatory and policy framework. In a more consolidated retail market Ofgem should also consider how it can go further to support innovative

⁴ [Response to Ofgem's action plan on retail financial resilience](#), January 2022, Citizens Advice

⁵ [Future for All](#) (2019) Citizens Advice

and smaller scale projects, and the role that larger suppliers should play in supporting such activities. It should also be clearer on the extent to which suppliers can specialise in the market and in which areas of their service, while also delivering the universal service obligation and key rules on service that protect consumers and ensure a level playing field. We're concerned that in the past Ofgem has not enforced some rules in order to enable specialisation. If Ofgem identifies barriers to specialisation that it considers could benefit consumers, it should consult on changes upfront.

The strategy should also consider how it can improve service standards and rebuild trust. We've called for Ofgem to consider introducing a new Consumer Duty and associated changes to upgrade standards, similar to those being introduced by the FCA for the financial retail market. This would put the onus on companies to ensure good consumer outcomes in the future and tackle risks that may emerge with more complex energy products and services. Compliance should continue to be an active priority for Ofgem that goes further than re-emphasising expectations.

Current Retail Market Policy

Steeply rising prices mean that households are facing significant additional costs. We welcome the government support that has been announced, but this does not go far enough for families on the lowest incomes, who are already struggling to pay their energy bills and whose finances will be pushed further under water from April. In all circumstances, levels of debt and self-disconnection seem likely to rise in the coming year, but this is likely to be particularly acute if further support is not forthcoming.

In these circumstances Ofgem must ensure that its rules on supporting customers at financial risk are followed, and consider what additional guidance it may need to provide in order to help energy suppliers, advice services and charities set customer expectations amid significant additional demand, and ensure that people are being directed towards the most appropriate support at the right time.

Many non-domestic consumers face significant risks in the current market as prices rise and financial conditions worsen, but have far fewer protections than domestic customers. In its final work programme Ofgem should clarify the status of the Microbusiness Strategic Review, and how and when the final proposals from this work will be taken forward. It should also revisit decisions made earlier in the review to not consider new protections around debt, disconnection and supplier failure for these customers.

Switching Programme

Citizens Advice welcomes the continued commitment to the Faster and More Reliable Switching Programme and supports the completion of the project in line with current go-live plans. We are keen to work with Ofgem and the wider industry to flag emerging issues from our advice data following the implementation of Faster Switching.

Strategic Priority 2 - Low Carbon Infrastructure

Electricity Transmission Network Planning Review (ETNPR)

The ETNPR can support the efficient utilisation of offshore wind in the energy system to support net zero through strategic investment. In the short term transitional arrangements and early stages of the enduring model, the ETNPR should ensure that coordinated network design facilitates time-sensitive, low-risk strategic investment in transmission.

In the longer-term, we have concerns that the ETNPR will struggle to harness the potential of collaboration between different energy networks with network and non-network assets. Before taking a final decision on key aspects of the Review and agreeing a transitional centralised strategic network plan, Ofgem should consider whether any decisions fully and effectively incentivise innovation in network design.

Future Gas Policy

Citizens Advice agrees that, as well as supporting industry to develop an evidence base for the future energy mix, Ofgem must develop policy for the current gas infrastructure to enable the most economically efficient energy system transition. This involves balancing policy signals to ensure investment takes place where it is most needed, whilst avoiding the risk of stranded assets.

Hydrogen

We welcome Ofgem's commitment to support the UK Government to develop an evidence base for decisions on the future of gas and the potential of hydrogen. This is an important part of testing all viable options in order to identify the most economic system solutions for particular uses and geographies. Ofgem should ensure that, in developing this evidence base, customers are protected and safety remains paramount.

RIIO-3 Development

It will be necessary for Ofgem to develop a more agile price control process to enable the network companies and stakeholders to engage in a more efficient and effective manner than we have witnessed in the RIIO-2 and RIIO-ED2 price controls. A leaner and more consistent process would benefit consumers by encouraging cost-efficiency and speed from companies. A more effective RIIO-3 price control will also enable Ofgem to work with greater agility and responsiveness, as is required in a rapidly changing energy environment. We also believe that RIIO-3 is an opportunity to reflect on the recent CMA determination regarding RIIO-2, and to evolve the approach to setting the cost of capital.

Climate Resilience

We welcome Ofgem's intention to review the events around Storm Arwen and the potential impact of future long power interruptions on networks. Ofgem should ensure that existing resilience commitments are met and consider improvements if necessary. For example, Ofgem should work with other regulators to develop coordinated data sharing to support consumers in vulnerable circumstances. This will improve the ability to identify and support people most in need during an interruption. Ofgem should also work with Ofcom to understand and address the implications of the Public Switched Telephone Network (PSTN) being switched off in 2025.

RIIO-2 Electricity Distribution Price Control Development

The ED2 price control is the most crucial price control to date, given the need to ensure that the electricity distribution system is appropriately designed and ready to meet net zero requirements for the 2023-28 price control period and beyond. Ofgem will need to allocate adequate resources to the continuing design of the incentive framework. Resources will also be needed to manage the various rapid response uncertainty mechanisms which are to be used throughout the ED2 period and are needed to flex upward electricity demand.

RIIO-2 Needs cases

Ofgem needs to ensure that there are also appropriate levels of resource to assess new large investment projects. We believe the level of scrutiny required should be equivalent to investment brought forward within a price control review process.

Strategic Priority 3 - Full Chain Flexibility

Electric Vehicles

We welcome the plan to publish a joint policy statement with BEIS setting out a vision for EV smart charging and required actions. The statement should acknowledge that different people are likely to need different incentives, and that different people will respond to incentives at different stages of the transition. It should also consider the tension between financially incentivising households to smart charge and achieving lower energy bills for all. Ensuring that consumers who face barriers to smart charging will not miss out or pay over the odds is likely to be a key challenge going forward.

Market-wide half-hourly settlement

We are supportive of Ofgem ensuring that this progresses in a timely fashion. Ofgem should set out plans for developing new consumer and data privacy protections alongside technical development. These will need to encourage behavioural change and take up of new smart tariffs, while protecting consumers from detriment.

Distribution Charging Reform

We welcome the recently proposed mitigations to the changes to connection charging boundaries for demand and generation connections. This will provide important protections to consumers from paying for excessive connections and provide useful incentives to connectees. In making its final decision, Ofgem should ensure that the additional network costs estimated at £1.2bn by the Challenge Group report are considered in the cost-benefit analysis.

Local Flexibility Markets

The development of Local Flexibility Markets will be necessary to meet net zero at the lowest cost to consumers. We welcome this continued programme of work, and note the key role that the Electricity Networks Association (ENA) Open Networks project has in coordinating development in this area across network companies and stakeholders. Ofgem will need to ensure that markets develop rapidly and enable wide participation.

Strategic Priority 4 - Data and Digitalisation

Data Sharing and Ensuring Secure Sharing

Effective data sharing will form the backbone of a smart and flexible future energy system; but high levels of trust and engagement from consumers will be integral to success. Overall, we support the Data and Digitalisation goals set out in Ofgem's strategic change programme, but we would like to see firmer commitments to taking forward the recommendations of the recent Energy Digitalisation Taskforce report.

Research by Citizens Advice shows that there is variation in perceptions among consumers on how data is used and shared by energy companies. It also demonstrates that increasing consumer protections and providing clear information about data choices gives consumers more confidence in smart technology.⁶ To ensure buy-in to their Data and Digitalisation strategy Ofgem should focus on developing relationships with customers, including those who have previously been disengaged.

Strategic Priority 5 - Energy Systems Governance

Code Governance Reform

Citizens Advice supports code simplification and consolidation where possible ahead of the proposed Energy Code Reforms, given the early benefits this could bring.⁷ Longer term, we think Ofgem is well placed to act as the strategic body in the design and delivery of reform, building on its current role.

Transforming Ofgem

While there have been some improvements for consumers in recent years, Ofgem has not been as effective as it should have been in regulating the retail market, allowing unfit and unsustainable energy companies to trade with little penalty. Its response to clear market problems over the past 10 years was too slow, and reforms when they came did not go far enough, leaving the regulator now playing catch up. We support the aims of transforming Ofgem's operations, and are supportive of the plan's commitments to greater clarity, improving on structure and governance and ensuring that activities contribute to strategic goals. Ofgem should also be mindful of the impacts

⁶ [Smartening up: How to improve people's confidence in smart home technology](#), November 2021, Citizens Advice

⁷ [Citizens Advice response to the BEIS and Ofgem joint consultation on the Design and Delivery of the Energy Code Reform](#), September 2019, Citizens Advice

these changes can have in terms of staff retention and institutional memory, and take steps to ensure these don't risk the delivery of its vital work programme commitments.

Ofgem expenditure

We are pleased that Ofgem's three-year budget submission was approved as part of the Comprehensive Spending Review in 2021, and increases across the period. However, Ofgem's work programme is ambitious, reflecting the current energy sector challenges, and Ofgem is also being given significant new responsibilities, while rising prices across the economy are likely to create further financial pressure.

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