

Ofgem  
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By email only: FWP@ofgem.gov.uk

28 February 2022

Dear Sir/Madam,

## **RE: RECCo response to Ofgem's draft Forward Work Plan**

Thank you for the opportunity to respond to the draft Forward Work Plan. We have no objection to this response being published by Ofgem in full.

### **About RECCo**

RECCo was formed as the corporate vehicle for ensuring the proper, effective, and efficient implementation and ongoing management of Retail Energy Code (REC) and to promote innovation, competition, and positive customer outcomes. Part of RECCo's remit includes providing knowledge and expert opinion on retail energy issues to support the efficient and effective running of the retail energy market. RECCo is therefore providing this response in line with its mission statement and strategic aims.

### **RECCo response**

To help advance the energy market transition to a low-carbon market, the regulatory landscape must not only be conducive to its development, but provide the environment for innovation to flourish, providing solutions to the challenges. As such, RECCo believe it is important that Ofgem's work:

- Prioritises and focuses in the right areas: the Forward Work Plan is extensive, and while we agree these activities are very much needed, it is unclear how Ofgem plan to prioritise, and ensure a joined-up approach across all the activities.
- Encourages the market of the future to develop: existing structures are still utilised and relied upon today, even though we are already on the transitional journey to the 'new world' of agility, flexibility, and a smart low-carbon market.
- Sets the right balance at the right times between providing regulatory boundaries versus allowing innovation to evolve: the right regulatory framework can help guide innovation and commercial development into the right areas. Encouraging investment into some of the most challenging areas could help address some of the challenges in transitioning to a low-carbon market. This could be done using a flexible approach, with non-mass-market, de-centralised solutions tailored to resolve holistic challenges. Fundamentally, this requires acknowledgement that a future retail market participant may not behave like a current licensed energy Supplier.

Firstly, as the plan is forward looking, and therefore uncertain, the scope of the 'Points' and 'activities' are not clearly set, which allows for agility. However, as the plan covers all the key activities Ofgem plan to do, we would expect a significant amount of cross over between activities. For example, regulating heat networks was only mentioned in the Forward Work Plan Point 10: Estimated Expenditure. There are likely links with the Future of Retail, especially where any similar retail energy market regulation will be introduced for heat networks. This could introduce new retail requirements for heat network consumers. In turn, this additional regulation is likely to impact the aims of Point 9: Reducing Burdens. Transparently describing the potential interlinking activities could provide

confidence that a joined-up approach is being undertaken, helping to mitigate against unintended consequences, and could help identify areas for prioritisation.

Prioritisation is an important facet of any plan, especially where the plan is extensive. It is unclear how Ofgem will prioritise the Points and activities within the Forward Work Plan, and how these will meet a longer-term vision. Without this, the Forward Work Plan is unlikely to deliver the investor confidence needed to help deliver the transition to a low-carbon market.

Secondly, given this Forward Work Plan applies to a market transition, the activities should be designed to help create the market of the future. While there are many headline activities, which could be implemented so as to encourage requirements of a future market, there is an absence of an overall vision. It would be useful to understand how Ofgem plan to deliver the Forward Work Plan in context of their vision. For example, how do Ofgem envisage the retail energy market participants to evolve from the existing Supply Licence activities, into something else; and therefore, how does Ofgem plan to approach the regulatory changes needed to support this outcome?

By way of example, concepts like Time of Use tariffs require the right framework to provide maximum benefit, including in consumer protection. The current framework is based on relatively static pricing with a core or base charge, usually embedded in a standing charge, to recoup core costs like network charges. However, moving to a more flexible market could challenge this assumed method/framework. Instead, there may be benefits in revisiting the structure of costs and amending – or allowing for the amendment of - the regulatory framework to make it possible for innovators to enter this space without being constricted to the ‘traditional’ ways of working, while also protecting consumers who may not be able to respond to shift load and avoid cost.

This is closely linked to our third key point regarding setting the right balance at the right times, between providing regulatory boundaries versus allowing innovation to evolve. Fundamentally, the solutions to tomorrow’s challenges must be encouraged, as the best solution may not yet be developed. While regulatory sandboxes are very important and useful mechanisms, and therefore must be retained, sandboxes satisfy the need only when it arises. There may be an opportunity for Ofgem to proactively create the regulatory space for innovators to enter. Monitoring the market closely and using a ‘just in time’ approach to introduce proportionate regulation as it is needed, could support achieving this delicate and complex balance.

We are happy to support Ofgem in its further thinking as it develops its Forward Work Plan, and expand on the observations within this response. If you have any queries, please contact me ([info@retailenergycode.co.uk](mailto:info@retailenergycode.co.uk)) in the first instance.

Yours faithfully,

Jenny Smith