

Centrica plc

Millstream
Maidenhead Road
Windsor
SL4 5GD
www.centrica.com

Forward Work Programme Team
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

14th February 2025

Sent by email to: Forward.WorkProgramme@ofgem.gov.uk

Consultation – Ofgem Forward Workplan 2025-26

Please find attached Centrica's comments on Ofgem's draft work programme for 2025-26. These have been compiled in the context of the government's Clean Power Action Plan for 2030 and the Chancellor's recent letter to regulators in pursuit of promoting economic growth.

Ofgem has an important and evolving role on both these topics and the 2025-26 workplan should particularly focus on these.

Yours sincerely,

Will Webster
Head of Regulatory Economics

COMMENTS ON OFGEM FORWARD WORK PROGRAMME 2025-26

- Reflecting Ofgem's increasingly critical role in the delivery of new energy infrastructure – we believe Ofgem should consider publishing a set of **strategic statements on the regulation of investment**, particularly covering the new net-zero related segments where it has recently been given new responsibilities for economic regulation. If investors are to be attracted to GB, they need to have confidence that the regulatory environment is stable, and conducive to the delivery of predictable returns. As such, Ofgem should articulate at a strategic level how it will carry out its new responsibilities (e.g. for nuclear and carbon transport and storage infrastructure that have resulted from recent legislation). This would be a significant improvement on Ofgem's approach to date, which has been relatively piecemeal, lacking the strategic context or the clarity that investors need. It would also better demonstrate engagement by Ofgem's senior leaders and the GEMA Board in communicating its role to potential investors and wider stakeholders.
- There is also a pressing need for Ofgem to formulate its own expectations and a clear **long-term strategy for the future of gas networks**. Based on current technologies, relying solely on renewables and electricity-based storage will not deliver a reliable and secure whole-energy system. Instead, gas-related infrastructure will be required in the future, most likely in the longer term being repurposed to transport and store hydrogen and biogases, rather than natural gas. The upcoming RIIO3 final determinations for gas networks would be a good opportunity for Ofgem to provide this strategic direction – which will be a pre-requisite for potential future investors in networks and other assets.
- As part of this, Ofgem should work towards developing a **regime to support gas storage**. The arguments supporting the introduction of a cap-and-floor regime for Long Duration Electricity Storage are equally applicable to gas. Our evidence, which we can share with Ofgem, shows that the benefit to consumers and economic growth from such an insurance policy against global energy market disruption are substantial.
- RIIO3 is clearly an important deliverable for the coming year. As part of this Ofgem should ensure that there are **new strong incentives on transmission and distribution companies** to deliver capacity upgrades on time, and within agreed budgets. Ofgem has a critical role to play in delivering the expansion of the electricity infrastructure needed if the government's Clean Power objectives are to be achieved. Centrica is supportive of expansion in electricity networks even though there will be an impact on bills. However, at present there is little by way of sanction on the networks, in the event they fail to meet key project milestones. Therefore, to the extent that Ofgem approves tranches of new investment by the network companies, it will be critical that networks are held to account for effective delivery.
- Ofgem must also continue and accelerate **action to address the queue of connections to the electricity networks**. The Government's 2030 Clean Power Action Plan envisages a very significant uplift in generation investment. Under the government's CP2023 plan, generation capacity will need to at least double from the current 60GW to some 140GW. Radical action is required on the connections queue and the current situation has been able to persist for far too long. A key improvement would be the introduction of financial incentives on holders of capacity, and we understand that a code modification on this subject will be put to Ofgem for approval later this year. The proposed increase in the threshold at which Transmission Impact Assessments must be evaluated to 5MW should also be approved by Ofgem without delay.

- A further priority for Ofgem should be **introducing appropriate governance for the National Energy System Operator (NESO)**. The NESO now plays a unique and critical role in the energy regulatory landscape, acting as both the primary adviser to government on the future of the energy system, as well as being licenced and regulated by Ofgem as a not-for-profit entity. Ensuring the NESO performs its functions effectively therefore should be a key priority for 2025-26. Such a regime should introduce strong and targeted performance incentives, as well as an effective appeals mechanism, to ensure the continued quality of NESO decisions.
- Ofgem also has an important role to play in **mitigating unnecessary uncertainty regarding future wholesale market arrangements**. Radical change in market design – such as the introduction of zonal wholesale pricing – will materially increase revenue uncertainty for electricity generators, which in turn will deter investment. Although this is largely a decision for government, Ofgem has an important role, advising on and implementing the delivery of the necessary reforms to the GB-wide market. We consider an enhanced national approach will deliver the purported benefits of a zonal regime, without detrimental impact on investment and growth.
- Finally, Ofgem has a key role to play in delivery of the **reform of the smart metering framework**. The near universal penetration of operational smart meters to households and businesses is necessary if the level of demand side engagement envisaged in CP2030 is to be realised. However, if we are to see real progress on the smart metering programme, we need urgent policy reform to better incentivise customers to take up smart meters. This will only be achieved if the programme is repositioned as a national infrastructure upgrade and be designed to mitigate the impact on consumers of the sunsetting of key technologies such as the move to 4G. While the decision on the future framework ultimately rests with government, Ofgem will play a critical role as the body that oversees the operation and enforcement of the policy.
- With respect to consumer matters, energy affordability and debt are among the defining issues of the retail energy market at present. The cost-of-living crisis is still putting pressure on the finances of our customers, which is why British Gas has consistently made it a priority to go above and beyond our licence obligations in our commitment to help those of our customers in financial difficulty. We have responded separately to the initial consultation on the **debt relief fund**. The debt fund is by its nature a one-off intervention. Whilst we consider the case for change to be credible overall, we do have concerns that the benefits of the fund will not be sufficient or enduring and that the detailed rules could embed existing distortions.
- Although we, overall, support the concept of the fund, we believe the benefits will not be sufficient to address the wider affordability issues in the retail energy sector. To create a long-term solution, with a tangible impact, the fund needs to form part of a **wider set of policy interventions that addresses the issue of energy affordability**. Alongside the completion of the current reviews of opex, debt and the SMNCC we support further work on the structural evolution of the price cap to encourage innovation and to protect vulnerable consumers.
- The **reform of standing charges** is welcome although this needs to ensure ongoing cost recovery by suppliers. It also gives an opportunity to examine a form of **social tariff to particular vulnerable groups**. As part of this discussion Ofgem should, in cooperation with industry, look to develop an **enduring forward-looking vision for the retail market**. This should encompass both the evolution of the main existing elements

of the market discussed above as well as facilitating innovation around time of use structures and encouraging demand response.

- Consumer standards have improved significantly since Ofgem's reviews during 2023-24. We would like to see further **evolution towards a principle led framework and risk-based approach** to compliance and enforcement.
- Finally, we consider that greater coordination and control is needed in terms of the **information that Ofgem requests** from the sector to avoid unnecessary duplication and to automate processes as far as possible.