

The Highland Council

Agenda Item	13
Report No	ECI/09/25

Committee: Economy and Infrastructure

Date: 13 February 2025

Report Title: Council Response to Review of Ofgem - Call for Evidence

Report By: Assistant Chief Executive - Place

1 Purpose/Executive Summary

- 1.1 The purpose of this report is to provide Members with an overview of the Highland Council's response to the Ofgem Call for Evidence on its regulatory remit, enforcement powers, and consumer protections. The Council's response emphasises the unique challenges and opportunities in the Highlands, a region where renewable energy production far exceeds local demand yet experiences the UK's highest energy costs and significant infrastructure constraints.
- 1.2 The report highlights key recommendations submitted by the Council to ensure that Ofgem's regulatory framework aligns with national decarbonisation goals, addresses regional disparities, and fosters investment in renewable energy infrastructure and innovation. Specific areas of focus include improved consumer protections, equitable pricing structures, and enhanced accountability mechanisms for energy suppliers.

2 Recommendations

- 2.1 Members are asked to:-
- i. **Agree** the Highland Council's formal response to the Ofgem review as in Appendix 1;
 - ii. **Endorse** the Council's recommendations for enhanced regional equity, improved consumer protections and streamlined regulatory processes; and
 - iii. **Agree** that continued engagement with Ofgem and other stakeholders is critical to addressing the systemic challenges faced by the Highlands in energy pricing and infrastructure development.

3 Implications

- 3.1 **Resource** - The response highlights the need for increased funding and strategic investment in grid infrastructure and community energy projects within the Highlands. This will require collaboration with Ofgem, NESO, and other stakeholders.

- 3.2 **Legal** - Any changes to Ofgem's remit or regulatory processes may impact local energy initiatives and require alignment with legal frameworks governing renewable energy deployment and grid access.
- 3.3 **Risk** - Failure to address systemic energy inequities and infrastructure bottlenecks in the Highlands poses risks to the region's ability to contribute to national net zero targets and economic growth.
- 3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** – Enhanced protections for vulnerable consumers, including those in fuel poverty, are critical to mitigating health risks associated with energy insecurity.
- 3.5 **Gaelic** - No specific implications identified.

4 Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is a monitoring and/or update report and therefore an impact assessment is not required.

5 Key Areas of Focus in the Council's Response

- 5.1 **Regional Equity in Pricing** - The Council has advocated for reforms to locational pricing mechanisms to reduce the disproportionate standing charges and unit costs faced by Highland consumers, ensuring fair access to affordable energy.
- 5.2 **Infrastructure Investment** - Strategic grid upgrades and streamlined connection processes are essential to unlocking the Highlands' renewable energy potential and addressing current bottlenecks.
- 5.3 **Consumer Protections** - The Council supports stronger enforcement powers for Ofgem to ensure suppliers meet high standards of customer service, particularly in rural areas.
- 5.4 **Support for Innovation** - The Council recommends expanding regulatory sandboxes and targeted funding for community energy projects and emerging technologies such as hydrogen and energy storage.

6 Next Steps

- 6.1 Continue engaging with Ofgem and other stakeholders to ensure the Council's recommendations are incorporated into the regulatory review process.
- 6.2 Monitor developments in Ofgem's regulatory strategy and report back to the Committee on any implications for the Highlands.

Designation: Assistant Chief Executive - Place

Date: 20 January 2025

Author: Neil Osborne, Climate & Energy Manager

Background Papers: None

Appendices: Appendix 1 – Review of Ofgem - Call for evidence proposed response



Department for
Energy Security
& Net Zero

A Review of Ofgem

A Call for Evidence

Closing date: 28 February 2025



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Introduction

Ofgem was established almost a quarter of a century ago as the independent regulator for gas and electricity markets in Great Britain. At the time, a system of independent regulation was established to drive the move towards competition in gas and electricity supply and replicate the benefits of competition in the monopoly gas and electricity networks. Since then, the remit of the regulator has evolved and expanded over time to encompass broader aims, such as supporting government to meet its net zero targets and in delivering social and environmental schemes. Competition has driven changes in the retail sector – two new entrant suppliers are now among the very largest companies in terms of market share, and there are well-established and effective price control regimes for the monopoly networks.

In recent years the energy sector has also faced huge challenges. We have seen record prices and volatility driven by the Russian invasion of Ukraine, energy companies collapsing and mistakes over the forced installation of pre-payment meters, all during a cost-of-living crisis. Polling shows overall satisfaction with energy suppliers fell below the peak recorded before Russia's invasion of Ukraine, although this is starting to recover.

As the Prime Minister set out at the International Investment Summit, the challenge is now for the UK's regulatory regimes to ensure they are fit for the modern age, creating the right conditions for growth, investment, and innovation – all while protecting consumers and, in the case of Ofgem, helping to deliver the Government's mission to make Britain a clean energy superpower. Competition has driven changes in the retail energy sector – two new entrant suppliers are now among the very largest companies in terms of market share – and there are well-established and effective price control regimes for the monopoly networks which are attracting investment this decade and beyond. But it is clear that reforms are needed.¹

Government wants to see an energy market with healthy sustainable competition, where effective regulation supports economic growth and delivers better outcomes for consumers. Restoring the reputation of the energy market is a critical part of this, because without consumer trust companies cannot grow. People rightfully expecting cleaner, cheaper, more secure energy to be delivered by trustworthy and reliable companies.

To address these challenges the government will undertake a review of Ofgem. The Review will ensure that Ofgem is set up to be an effective regulator as the energy market transitions to net zero. It will ensure that Ofgem has the remit and capabilities to help drive the innovation and investment needed for the energy transition, balanced with a consumer protection regime that gives households and businesses the confidence to switch to the technologies and services that are key to delivering net zero.

The review will focus on Ofgem's mandate and duties, its remit and its role in supporting economic growth, the powers it has to protect consumers and drive standards, and how redress is made when standards are not met. This Call for Evidence is a first step of the review.

¹ <https://www.which.co.uk/policy-and-insight/article/energy-where-is-customer-service-going-wrong-aMxrK3x08kJO>

Alongside the review, the Government will continue to work with Ofgem on immediate steps to improve the experience of consumers, such as complaint handling, and on steps to ensure that the costs faced by consumers are fair and equitable, including on standing charges.

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General information

Why we are consulting

Ofgem was established in 2000 when the main goal was to promote competition in the energy supply sector, however, the energy market, and the role that Ofgem plays within the market, has experienced significant change over that time.

The journey to Net Zero has seen the growth of new types of companies and technologies in the market, as well as a growth in the role that the energy sector plays in the average consumers' day-to-day life, and this presents a number of challenges and opportunities. The net zero transition is an opportunity to drive economic growth and energy security.

Consumer trust will be key in delivering this transition, but the recent energy crisis, and other events such as supplier failures, have highlighted that trust needs to be restored.

Learning from these lessons and looking ahead signals that now is the time to look at what kind of regulator Great Britain needs and equip it appropriately to ensure it can meet these challenges on the horizon and fully unlock the benefits of Net Zero in a sustainable way that promotes growth whilst ensuring consumers are protected.

This Call for Evidence is the first step in this and welcomes views on how Government can establish an energy regulator fit for the more dynamic and high performing energy market of the future. Critically, it will consider how to set up Ofgem so that it can regulate a fast-changing market to deliver a fair deal for consumers as we transition to net zero.

Consultation details

Issued: 19 December 2024

Respond by: 28 February 2025

Enquiries to:

Ofgem Review
Energy Affordability and Consumers
Department for Energy Security and Net Zero
5th Floor
3-8 Whitehall Place
London
SW1A 2AW
Tel:
Email: Ofgem_Reform@energysecurity.gov.uk

Consultation reference: A Review of Ofgem

Audiences:

We are keen to hear from all stakeholders, particularly consumer representatives, parties regulated by Ofgem and investors in the energy sector.

Territorial extent:

We welcome views from across the UK. Ofgem is the regulator of energy markets in Great Britain and energy regulation is a reserved matter, but we welcome responses from all interested parties.

How to respond

Respond online at: <https://energygovuk.citizenspace.com/clean-electricity/ofgem-review/>

or

Email to: Ofgem_Reform@energysecurity.gov.uk

Write to:

Ofgem Review
Energy Affordability and Consumers
Department for Energy Security and Net Zero

3-8 Whitehall Place
London
SW1A 2AW

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk.

Mandate

Legal Mandate

Ofgem does not set energy policy—that is the role of the UK Government and Parliament. Ofgem operates within the policy framework designed by Government and determined by Parliament. Its powers are defined in legislative instruments, including the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

Ofgem is required to carry out its functions in the manner best calculated to further its principal objective, which is to protect the interests of existing and future consumers, wherever appropriate by promoting effective competition where that is appropriate. In carrying out this objective Ofgem has specific statutory duties which require that it must also have regard to a number of factors, including security of supply, sustainable economic growth, net zero targets and customer vulnerability (see Ofgem's duties at Annex).

Ofgem was established by the Utilities Act 2000 (that merged Ofgas and Office of Electricity Regulation) at a time when the main goal of energy policy and regulation was to promote competition in the recently privatised sector, and when Britain's decarbonisation journey had barely begun. The energy sector that Ofgem was designed to regulate has changed significantly since it was established and it faces new challenges, brought into sharp focus by the gas crisis of the early 2020s, which revealed the risks of continued dependence on gas markets, and weaknesses in Ofgem's regulatory approach and its ability to protect consumers. The gas crisis led to the failure of several suppliers and necessitated a greater focus on the financial resilience of suppliers. It was followed by some high-profile cases of bad practice by some suppliers over the installation of prepayment meters. This has damaged consumer trust in the market and its regulatory arrangements.

In order to rebuild and restore consumer trust and meet the needs of consumers in a changing energy market, Government is looking at Ofgem's mandate to protect the interests of consumers, wherever appropriate by promoting competition. Other factors such as driving innovation and robust standards may be equally or more valid than competition. Innovation includes creating better opportunities for customers to get the products and services that best suit their needs and reduces their bills.

We are seeking views on what Ofgem's mandate should be.

The Highland region is at the forefront of renewable energy generation in the UK, with a production-to-demand ratio of nearly 10:1. Despite this, the region faces significant energy inequities, including the UK's highest energy costs and standing charges. Ofgem's mandate must reflect the dual priorities of supporting a just transition to net zero while addressing regional disparities in energy pricing and infrastructure investment.

Ofgem's mandate should include:

- 1. Regional Energy Equity: Prioritize addressing regional energy price disparities to ensure communities in energy-rich regions, like the Highlands, benefit directly from local renewable production. This includes reviewing standing charges and transmission costs, which disproportionately impact rural areas.**
- 2. Infrastructure Investment: Facilitate and incentivise grid upgrades and infrastructure**

expansion in areas critical to renewable energy generation. For the Highlands, this means overcoming grid constraints that limit the integration and export of renewable energy.

3. **Consumer Protection and Support:** Strengthen protections for vulnerable consumers in regions like the Highlands, where fuel poverty is significantly higher than the national average. This includes tailored support for rural households reliant on off-grid heating solutions.
4. **Net Zero Leadership:** Embed a focus on achieving net zero through strategic planning that incorporates local energy strengths, such as the Highlands' renewable resources, while mitigating environmental impacts.
5. **Innovation and Decentralisation:** Support community energy projects and localized energy solutions that empower rural communities to generate, store, and use their own energy, reducing reliance on national grids.

By integrating these priorities into its mandate, Ofgem can better address the challenges of the Highlands and ensure that the region's contributions to the UK's energy transition are equitably recognized.

Duties

Duties are key to the everyday functioning of regulators such as Ofgem. Since its establishment, Ofgem has been given many new statutory duties, most recently a net zero duty and a growth duty, that it is required to balance on a case-by-case basis. These increasingly complex set of statutory duties and obligations make it harder for Ofgem to make clear and predictable decisions, adds inherent legal risks if Ofgem fails to have regard to them, and can affect Ofgem's ability to act, and to act swiftly.

For almost every decision Ofgem takes, it must evaluate a range of statutory considerations (taking account of the relevant circumstances) and exercise its functions in the way that best

protects consumers' interests. The government acknowledges that Ofgem's statutory duties have expanded over time and what Ofgem must now consider as part of their decision making is complex. If Ofgem fails to take appropriate account of a statutory duty it creates a legal risk for Ofgem, which can make decisions more complex.

Where there are tensions between statutory duties, how these are balanced in individual circumstances is for Ofgem to decide upon, independent of Government. This is fundamental to independent regulation and protects decisions from political intervention, protecting the markets and helping to ensure stability. This is valued by businesses, consumers, and investors.

Where statutory duties are in tension with one another it is not binary, as Ofgem operates to achieve a balance. However, with more duties and responsibilities placed upon Ofgem, it can be harder for Ofgem to prioritise and make the necessary trade-offs, despite the use of Impact Assessments and the introduction of a Consumer Interest Framework to support decision making. Government will review Ofgem's statutory duties with a view to clarifying and streamlining them.

We are seeking views on whether Ofgem's duties should be streamlined, and if they should, views on which goals might be prioritised.

The Highland region, as a key contributor to renewable energy generation, faces distinct challenges, including grid constraints, high energy costs, and fuel poverty. Ofgem's duties should be streamlined to address these challenges more effectively, enabling a balance between national priorities and regional equity. The following goals should be prioritised:

1. Energy Affordability and Equity:

- **Ensure fair pricing structures across the UK, addressing disparities like those in the Highlands, where standing charges and unit costs are disproportionately high despite the region's energy surplus.**
- **Introduce locational adjustments that provide tangible benefits to energy-producing regions, directly supporting rural and remote communities.**

2. Infrastructure Investment and Grid Resilience:

- **Prioritise investment in grid infrastructure to alleviate constraints that limit the Highlands' ability to export renewable energy and connect new generation projects.**
- **Develop long-term plans for transmission upgrades that align with net zero targets, ensuring that renewable energy can flow freely across the UK.**

3. Net Zero Alignment:

- **Strengthen Ofgem's role in driving decarbonisation, particularly by facilitating the integration of low-carbon technologies like heat pumps, energy storage, and hydrogen in rural areas.**
- **Ensure regulatory decisions support the Highland Council's ambitions for localised energy planning and innovation.**

4. Consumer Protection and Support for Vulnerable Groups:

- **Expand protections for consumers in fuel-poor areas like the Highlands by ensuring robust enforcement of energy supplier obligations and introducing tailored financial support mechanisms.**
- **Simplify access to compensation and redress mechanisms for rural households facing energy service failures.**

5. Fostering Innovation:

- **Support innovation through targeted funding for community energy projects, enabling localised renewable energy solutions in rural areas like the Highlands.**
- **Encourage collaboration with local authorities to pilot innovative technologies that benefit both consumers and the broader energy system.**

Streamlining Ofgem's duties around these key goals would enable the regulator to act decisively in addressing the unique challenges faced by regions like the Highlands while ensuring alignment with national energy and net zero strategies.

Transparency and accountability

The principles of better regulation say that activities should be carried out in a way which is transparent, accountable, proportionate and consistent. Regulators should ensure clear information, guidance and advice is available to help those they regulate meet their responsibilities to comply.

To enable Ofgem to work effectively, but independently of government, government believes it is important to have transparency about the issues the regulator is dealing with, and how they have been tackled.

For example, Ofgem regularly publishes retail market indicators that give a snapshot of the monitoring it undertakes. However, it is not clear what the outcome is and how issues have been addressed. Greater transparency about Ofgem's findings from its investigation and compliance work would enable other companies to learn from the experience of other market participants. Consumers would also learn from the published information through a better understanding of how the market works and how it may affect their own energy circumstances. Similarly, publishing detailed statistical information about suppliers' standards of performance (call waiting times, numbers of complaints, numbers of upheld complaints by the Ombudsman etc) should help drive performance and enable consumers to make more informed choices.

Ofgem is directly accountable to Parliament for the performance of its statutory functions, and is required to lay its annual report and accounts before the UK Parliament, the Scottish Parliament and the Welsh Senedd. The annual report includes a performance report, accountability report, parliamentary accountability and audit report, it is rarely the subject of Parliament scrutiny. The Review will examine the content of the report, including the Key Performance Indicators, to ensure they remain relevant and useful in holding Ofgem to account.

Parliamentary Committees occasionally carry-out inquiries on energy and regulator-related issues and will call Ofgem to give evidence and similarly with the devolved Parliaments. But there does not appear to be any regular scrutiny by Parliament of Ofgem's annual report and accounts and the performance reporting therein.

We are seeking views on Ofgem making more detailed information available about energy company performance and behaviour, and how this might assist other licensees and consumers.

Enhanced transparency in energy company performance and behaviour is critical to building consumer trust and enabling regions like the Highlands to better understand and address energy-related challenges. By providing detailed performance data, Ofgem can foster accountability and drive improvements across the sector, benefiting both consumers and other licensees.

Key Recommendations:

1. Publishing Regional Data:

- Ofgem should ensure that energy performance metrics, such as pricing structures, outage response times, and customer satisfaction scores, are published on a regional basis. This will highlight disparities, such as the disproportionately high costs faced by Highland consumers and encourage targeted action by energy suppliers.

2. Supplier Performance Ratings:

- Require suppliers to publish standardized performance data, including complaint resolution rates, response times, and adherence to Guaranteed Standards of Performance (GSoP). For example, Citizens Advice star ratings provide a strong template for transparency that helps consumers make informed choices.

3. Incentivising Improvements:

- Detailed public reporting of supplier behaviour would encourage better practices by creating reputational incentives for companies to improve customer service and compliance. This could be particularly impactful in addressing fuel poverty and service quality issues in regions like the Highlands.

4. Empowering Consumers:

- Detailed information about energy company performance can help consumers in the Highlands and elsewhere understand their rights and evaluate their options when choosing suppliers. For instance, better information on standing charges and tariff structures could help rural consumers avoid unfavourable contracts.

5. Supporting Local and Community Energy Initiatives:

- Transparent data on grid access, connection delays, and network operator performance can empower local energy projects in the Highlands to navigate challenges and contribute to the region's energy independence.

6. Benchmarking for Licensees:

- **Sharing aggregated performance data across licensees can create a benchmarking tool, enabling companies to identify and adopt best practices while driving up overall standards in the sector.**

A more transparent energy sector, underpinned by detailed, region-specific performance reporting, will empower consumers, drive accountability among suppliers, and enable local authorities, like Highland Council, to advocate effectively for their communities. This approach ensures that rural regions, which often face systemic disadvantages, are better served.

We are inviting views on Ofgem's annual report and the KPIs it reports against, and how to strengthen Parliamentary scrutiny of Ofgem's performance.

Ofgem's annual report and its Key Performance Indicators (KPIs) are critical tools for evaluating the regulator's effectiveness and ensuring it remains accountable to consumers, industry stakeholders, and regions like the Highlands, which face unique energy challenges. Strengthening these processes will improve transparency and help address systemic disparities in energy costs, infrastructure, and service standards.

Recommendations for Annual Reports and KPIs:

1. Inclusion of Regional Metrics:

- **Ofgem's annual report should include region-specific data on energy costs, grid constraints, fuel poverty rates, and renewable energy contributions. For the Highlands, this would highlight the region's disproportionate energy costs despite its significant renewable output and provide a basis for targeted action.**

2. Net Zero Progress Indicators:

- **KPIs should track progress toward national net zero targets, including metrics on grid decarbonisation, integration of low-carbon technologies, and renewable energy capacity. Regional contributions, such as the Highlands' renewable energy projects, should be explicitly reported to reflect their role in national efforts.**

3. Consumer Outcomes:

- **Include KPIs that measure consumer-focused outcomes, such as the speed of compensation payments, customer satisfaction scores, and reductions in standing charges or tariff disparities. For the Highlands, this could include metrics on improvements to rural energy affordability.**

4. Performance of Infrastructure Investments:

- **Introduce KPIs that assess the performance of transmission and distribution networks, particularly in regions like the Highlands where grid constraints limit renewable energy integration and economic growth.**

Strengthening Parliamentary Scrutiny:

1. Regular Parliamentary Reviews:

- **Require structured reviews of Ofgem's annual report by Parliamentary Committees to ensure consistent oversight. These reviews should focus on regional equity, including energy pricing and infrastructure improvements in rural and remote areas.**

2. Public Reporting of Recommendations:

- **Publish the outcomes and recommendations from Parliamentary reviews to ensure transparency and accountability, enabling stakeholders like the Highland Council to advocate effectively for their communities.**

3. Stakeholder Consultation:

- **Incorporate feedback from local authorities, consumer groups, and industry stakeholders into annual reporting processes. For regions like the Highlands, this ensures that local priorities, such as fuel poverty reduction and infrastructure investment, are considered in Ofgem's strategic planning.**

By expanding the scope of its annual report and KPIs to include region-specific data and consumer-focused metrics, Ofgem can demonstrate its commitment to addressing disparities faced by communities like those in the Highlands. Strengthened Parliamentary scrutiny ensures that these priorities remain central to Ofgem's performance evaluation.

Skills and capability

A competent regulator needs to have a skilled workforce that understands the sector. It needs to appreciate the impact the regulatory changes that it makes will have on the sector. It needs to understand what is proportionate and feasible and when businesses are being obstructive for their own purposes. This is particularly an issue in the face of rapid change in the energy sector - due to the growing number of new actors in the sector, the rapid pace of delivery required to achieve net zero, and the likely transformational impact of further digitalization. This poses questions about whether Ofgem has the right skills and capabilities, for example data, digital, and cyber skills.

Ofgem needs to be able to adapt quickly and adopt the best practices used by its domestic and international counterparts. It needs to operate with an appropriate risk appetite and with processes that are responsive and user-friendly.

We are seeking views on the capabilities Ofgem needs to be an effective regulator in a more digital, fast-moving sector.

For Ofgem to remain an effective regulator in a rapidly evolving energy market, it must develop capabilities that align with the sector's increasing digitalization and technological complexity. This is particularly relevant to regions like the Highlands, where unique challenges, such as grid constraints and energy equity, require innovative and region-specific regulatory approaches.

Key Capabilities for Ofgem:

1. Digital and Data Expertise:

- Invest in advanced data analytics to monitor and predict energy market dynamics, such as real-time energy usage and grid performance. This could help identify opportunities to address grid constraints in areas like the Highlands.
 - Strengthen cybersecurity capabilities to safeguard the growing reliance on digital technologies, ensuring the resilience of smart grids and renewable energy systems.
2. **Regional Energy Insight:**
 - Develop a deep understanding of the regional disparities in the energy market, particularly the Highlands, where energy production significantly exceeds demand, yet consumers face the UK's highest costs. This insight will enable tailored regulatory interventions that address specific regional challenges.
 3. **Proactive Regulatory Frameworks:**
 - Establish flexible regulatory frameworks that can quickly adapt to emerging technologies, such as energy storage, hydrogen production, and decentralised energy systems. For the Highlands, this includes accommodating community energy projects and localised solutions.
 4. **Stakeholder Engagement Skills:**
 - Enhance engagement with local authorities, like the Highland Council, to incorporate regional priorities into decision-making. This collaboration will ensure that Ofgem's regulatory strategies align with local energy ambitions and address unique challenges.
 5. **Innovation Leadership:**
 - Foster innovation by creating regulatory sandboxes that allow new technologies and business models to be tested without the immediate burden of full compliance. This approach can benefit rural areas like the Highlands, where novel energy solutions may have significant potential.
 6. **Financial Resilience Oversight:**
 - Build stronger capabilities to monitor the financial health of suppliers and address risks proactively. This is critical to ensuring that supplier failures do not disproportionately impact vulnerable consumers, including those in remote areas like the Highlands.
 7. **Consumer Protection Expertise:**
 - Strengthen capabilities to safeguard consumers from emerging risks associated with new technologies, such as rogue traders in low-carbon technology installations. This includes expanding enforcement powers and improving consumer education.

To support regions like the Highlands and the broader UK energy market, Ofgem must evolve its capabilities to address the complexities of a digitalized, decentralised, and fast-moving sector. By prioritising data expertise, regional insights, and innovation, Ofgem can better regulate the sector while ensuring fair outcomes for all consumers.

Remit

Ofgem's Regulatory Remit

Ofgem's remit has evolved significantly since the regulator was established in 2000. Ofgem was set up principally to regulate network companies' spending and regulate the supply of electricity to consumers. Ofgem continues to perform a critical role in regulating the gas and electricity markets in Great Britain, to keep cost down whilst ensuring security of supply. Over the years, governments have given Ofgem further regulatory roles, including being appointed the regulator for: heat networks, Smart & Secure Energy Systems (SSES), cyber/Network & Information Systems and AI, nuclear regulated asset base licensees, and transportation and storage networks of carbon dioxide in the UK, hydrogen, aggregators and potentially Third Party Intermediaries.

This expansion of regulatory roles reflects how the energy landscape has diversified and become more complex over time.

In addition to the regulation of new energy markets, Ofgem has moved from regulating the Electricity System Operator to become the economic regulator for the new National Energy System Operator (NESO); the independent, public corporation responsible for planning GB's electricity and gas networks and operating the electricity system. Ofgem will be responsible for monitoring and regulating NESO's compliance with its licence obligations, approving business plans, and setting performance incentives. The move to a more strategically planned energy system will result in further evolution of Ofgem's role. Government will continue to keep under review the role of NESO and the relationship between Ofgem and NESO as we move towards our ambition for the UK to be a clean energy superpower. This work is a key component of determining Ofgem's enduring remit and roles.

Alongside Ofgem's regulatory functions it also has a Delivery and Schemes directorate which plays a crucial role in administering and operationally delivering several significant social and environmental schemes on behalf of the Department for Energy Security and Net Zero (DESNZ). These schemes, such as the Boiler Upgrade Scheme, the Great British Insulation Scheme, Energy Company Obligation and Warm Home Discount, are pivotal to achieving government's fuel poverty and net zero emissions targets.

In May 2024, government published a Strategy and Policy Statement (SPS) for Energy Policy which outlines government's strategic priorities for the sector and the roles of government, Ofgem and NESO in delivering these priorities. Ofgem and NESO have a statutory duty to have regard to the strategic priorities within the SPS. Government will update the SPS to reflect the outcomes of the review of Ofgem, current government priorities, and the respective roles of NESO and Ofgem in delivering these.

Does Ofgem have the right regulatory remit? Have you observed harms caused by uncertainty over Ofgem's remit, or by gaps in what is currently regulated in the energy sector?

The Highland region's unique position as a major contributor to the UK's renewable energy generation highlights the importance of Ofgem's regulatory remit in addressing challenges such as infrastructure constraints, energy pricing inequities, and consumer protections. While Ofgem's remit has evolved to accommodate new priorities, gaps and uncertainties remain, which can hinder effective regulation and consumer outcomes.

Gaps and Observed Harms:

1. Regional Energy Inequities:

- Despite producing significantly more energy than it consumes, the Highlands faces the UK's highest energy costs and standing charges. The lack of a mandate to address regional disparities in energy pricing perpetuates these inequities, harming rural and vulnerable communities.

2. Grid Infrastructure and Renewable Integration:

- Ofgem's remit does not sufficiently prioritise investment in grid infrastructure to accommodate renewable energy projects in regions like the Highlands. This limits the potential to fully utilise renewable energy resources and delays progress toward national net zero targets.

3. Unregulated Areas in Emerging Technologies:

- The growing role of decentralized energy systems, community energy projects, and technologies like hydrogen and energy storage has outpaced regulatory frameworks. The lack of clarity in Ofgem's oversight of these areas creates uncertainty for investors and slows innovation, particularly in rural regions like the Highlands.

4. Consumer Protection in Low-Carbon Technologies:

- Gaps in Ofgem's remit regarding consumer protection in low-carbon technology installations, such as heat pumps and solar panels, leave rural consumers vulnerable to rogue traders and subpar installations. This undermines trust and adoption of these technologies, which are crucial for decarbonisation.

5. Supplier Financial Resilience:

- Recent supplier failures have exposed gaps in Ofgem's authority to manage financial risks and protect consumers from the consequences of insolvency. Strengthened oversight is needed to prevent such incidents, which disproportionately impact remote and rural communities.

Recommendations for Enhancing Ofgem's Remit:

1. Regional Equity Focus:

- Expand Ofgem's remit to address regional disparities in energy pricing and access. For the Highlands, this means ensuring that the benefits of local renewable energy production are reflected in fairer pricing and investment in local infrastructure.

2. Proactive Support for Renewable Integration:

- Grant Ofgem greater authority to direct and incentivise grid upgrades that enable the integration of renewable energy projects in regions like the Highlands, aligning with national decarbonisation goals.

3. Clear Oversight of Emerging Technologies:

- Clarify Ofgem's role in regulating decentralised energy systems, hydrogen production, and energy storage to foster innovation and investment in these areas.

4. Consumer Protection Expansion:

- Strengthen Ofgem's enforcement powers to include protections against poor practices in low-carbon technology installations, ensuring consumer confidence and accelerating adoption.

5. Supplier Resilience Measures:

- Introduce stricter financial oversight and resilience requirements for suppliers to prevent failures that disproportionately impact consumers in remote areas like the Highlands.

While Ofgem's remit covers many critical areas, targeted enhancements are needed to address regional disparities, support renewable integration, and protect consumers in an evolving energy market. For the Highlands, these improvements would ensure that the region's energy contributions and challenges are adequately addressed.

We are seeking views on Ofgem's role in an energy system that is now, in part, driven by strategic planning following the creation of NESO, in particular, how should regulatory strategy be aligned with strategic energy plans.

The establishment of the National Energy System Operator (NESO) has shifted the energy system toward strategic, long-term planning. Ofgem's regulatory strategy must align closely with NESO's plans to ensure a cohesive, efficient, and equitable transition to net zero. For regions like the Highlands, where renewable energy potential far exceeds local demand, aligning regulatory strategy with strategic energy plans is essential to address infrastructure constraints, regional inequities, and grid reliability.

Recommendations for Alignment:

1. Regional Integration into Strategic Planning:

- Ofgem's regulatory strategy should incorporate region-specific energy contributions and challenges, particularly for areas like the Highlands that generate substantial renewable energy. Strategic energy plans must account for the region's need for infrastructure investment to export surplus energy efficiently.

2. Grid Infrastructure and Connection Policies:

- Support NESO's role in prioritising grid upgrades and expanding capacity to enable renewable energy integration. Ofgem should ensure that connection policies and charges incentivise investment in regions like the Highlands, where grid constraints limit renewable deployment.

3. Incentivizing Localized Solutions:

- Align Ofgem's strategy with NESO's to promote localised and community-based energy projects. For the Highlands, this includes decentralised solutions such as microgrids, energy storage, and demand-side response mechanisms to improve energy security and reduce transmission reliance.

4. Coordination on Renewable Energy Targets:

- Work collaboratively with NESO to align regulatory measures with national renewable energy and decarbonisation targets. This includes streamlining processes for renewable energy project approvals and ensuring that strategic energy plans address rural and remote regions' unique needs.

5. Consumer-Centric Planning:

- Ensure that NESO's strategic plans prioritise consumer outcomes, such as affordability and equity. Ofgem should advocate for pricing structures that benefit communities in energy-producing regions like the Highlands, reducing the burden of high standing charges and unit costs.

6. Proactive Risk Management:

- Ofgem's strategy should include provisions for mitigating risks associated with new technologies and market entrants. This involves collaborating with NESO to address challenges such as grid cybersecurity, energy storage integration, and hydrogen production.

Strengthening Collaboration Between Ofgem and NESO:

1. Joint Planning Mechanisms:

- Establish formal channels for collaboration between Ofgem and NESO to ensure alignment on infrastructure investments, market reforms, and decarbonisation initiatives.

2. Regular Reporting and Oversight:

- Require joint reporting on the progress of strategic energy plans, ensuring transparency and accountability. This would allow stakeholders, including the Highland Council, to monitor and contribute to planning processes.

3. Regional Stakeholder Engagement:

- Engage local authorities, such as the Highland Council, to incorporate regional priorities into NESO's strategic plans and Ofgem's regulatory strategies. This ensures that planning reflects local energy needs and opportunities.

Ofgem's regulatory strategy must align with NESO's strategic energy plans to support a coordinated approach to achieving net zero. For regions like the Highlands, this alignment is critical to addressing grid constraints, reducing energy inequities, and maximising the region's renewable energy potential. A collaborative and regionally inclusive approach will drive a fairer and more efficient energy transition.

Delivering Investment and Innovation in the Transition

The electricity network needs both significant expansion and reform of the process for connecting supply and demand to the grid. Government is aware that the lack of timely grid connections is a significant barrier to investment. Tackling this will be critical to achieving clean power by 2030. A clear direction of travel from government, Ofgem and NESO should provide businesses with the stable conditions and clear incentives to invest in technology and infrastructure upgrades. It will also support the adoption of products which move away from higher emission activities, towards net zero.

A new Growth Duty was conferred on Ofgem in the last Parliament, which Ofgem must take into account across its regulatory activities, which may particularly apply to price controls and investment mechanisms. The Government also sets direction via the Strategy and Policy Statement, the joint work on the Connections Action Plan and Transmission Acceleration Plan.

Going further and faster in approving investments can support economic growth, and there are steps Ofgem can take to support development of a supply chain for the sector. There is also scope for driving up standards to support business energy customers, for example work on energy brokers and expanding access to the Energy Ombudsman.

We are seeking views on the role Ofgem should play to support growth and the government's industrial strategy.

Ofgem has a crucial role in driving growth within the energy sector and supporting the UK government's industrial strategy, particularly in fostering investment, innovation, and equitable energy distribution. For the Highlands, this role is especially important given the region's position as a key renewable energy hub and the need to address challenges such as infrastructure constraints and high energy costs.

Key Areas Where Ofgem Can Support Growth:

1. Accelerating Renewable Energy Deployment:

- Facilitate faster approvals and grid connections for renewable energy projects, particularly in regions like the Highlands where renewable energy production far exceeds local demand.
- Prioritise strategic investment in infrastructure to unlock the Highlands' renewable energy potential and ensure efficient energy export to other parts of the UK.

2. Enabling a Just Transition:

- Support rural and remote communities by ensuring energy pricing structures are equitable. For the Highlands, this means reducing standing charges and addressing high unit costs that disproportionately impact local residents.

3. Encouraging Innovation:

- Invest in programs that support local energy solutions, such as community-owned renewable projects, energy storage systems, and hydrogen production. These innovations align with the Highland Council's ambitions to lead in decentralised energy generation.

4. Supporting Green Skills Development:

- Collaborate with local authorities, including the Highland Council, to promote green skills training and workforce development. This will help the region capitalise on job creation opportunities arising from renewable energy and decarbonisation efforts.

5. Incentivizing Low-Carbon Technologies:

- Strengthen incentives for adopting low-carbon technologies, such as heat pumps and electric vehicles, in rural areas. Tailored support schemes can ensure that rural communities benefit from the same opportunities as urban areas.

6. Streamlining Regulatory Processes:

- Simplify regulatory frameworks to encourage investment in emerging technologies and business models. For the Highlands, this could include streamlining processes for offshore and onshore wind projects, as well as energy storage and grid upgrades.

Supporting the Government's Industrial Strategy:

1. Boosting Regional Economic Development:

- Ensure that regions like the Highlands, which are central to the UK's energy future, receive targeted investment to foster local economic growth and energy innovation hubs.

2. Decentralised Energy Systems:

- Promote the development of decentralised energy systems that empower local communities to generate, store, and use their own renewable energy. This aligns with the Highlands' vision of energy self-sufficiency and local economic benefits.

3. Driving Infrastructure Resilience:

- Support grid modernisation and flexibility, ensuring that infrastructure investments enable the integration of intermittent renewable energy sources and improve energy security.

4. Collaboration with Stakeholders:

- Work closely with local authorities, industry players, and community organisations to align regulatory decisions with industrial strategy goals, particularly in regions like the Highlands that are vital to the renewable energy transition.

Ofgem can play a pivotal role in supporting the Highlands and other key energy-producing regions by fostering infrastructure investment, promoting innovation, and ensuring equitable energy policies. Aligning its regulatory strategy with the government's industrial strategy will not only drive economic growth but also support the transition to a sustainable, net-zero economy.

What can Ofgem do to increase investment and innovation in the sector?

To increase investment and innovation in the energy sector, Ofgem must focus on creating a regulatory environment that incentivises investment while addressing key regional challenges, such as those faced by the Highlands. By fostering investor confidence, streamlining processes, and supporting localised solutions, Ofgem can drive growth and innovation that benefits both the sector and consumers.

Recommendations for Increasing Investment and Innovation:

1. Streamlining Grid Connection Processes:

- Expedite grid connection approvals for renewable energy projects, particularly in regions like the Highlands where delays hinder investment. Reducing bureaucracy and improving transparency in the connections process will encourage developers to pursue projects in renewable-rich areas.

2. Incentivising Regional Infrastructure Investment:

- Provide targeted incentives for grid infrastructure upgrades in rural and remote regions, such as the Highlands. Enhanced transmission capacity would unlock the region's renewable energy potential and attract further investment in clean energy projects.

3. Supporting Emerging Technologies:

- Introduce specific funding mechanisms and regulatory frameworks to support the development of low-carbon technologies, including hydrogen production, energy storage, and smart grids. For the Highlands, these technologies are crucial for optimising renewable energy use and supporting a decentralised energy system.

4. Facilitating Innovation Hubs:

- Collaborate with local authorities, such as the Highland Council, to establish regional innovation hubs focused on renewable energy and decarbonisation technologies. These hubs could provide funding, technical expertise, and regulatory support for pilot projects and research initiatives.

5. Expanding Community Energy Initiatives:

- Support community-owned energy projects by providing regulatory exemptions, grants, and low-interest financing options. Community energy schemes in the Highlands can play a critical role in local energy independence and economic development.

6. Long-Term Policy Certainty:

- Provide clear, stable, and long-term policies that incentivise investment in the energy sector. For regions like the Highlands, certainty around renewable subsidies and grid investment plans is essential to attract investors and developers.

7. Regulatory Sandboxes for Innovation:

- Expand the use of regulatory sandboxes to enable testing of new business models and technologies without immediate compliance requirements. This approach is particularly useful for innovative projects in rural areas like the Highlands, where traditional regulatory frameworks may not fully apply.

8. Addressing Locational Price Signals:

- Reassess transmission charging mechanisms to ensure that energy-producing regions like the Highlands are not unfairly penalised. Creating a fairer pricing structure would encourage investment in areas with significant renewable potential.

Driving Innovation in the Highlands:

1. Localised Energy Solutions:

- Support projects that integrate local renewable generation with energy storage and smart grid technologies to reduce reliance on the national grid and improve resilience.

2. Green Skills and Employment:

- Collaborate with local councils to invest in training programs that build a skilled workforce for renewable energy and low-carbon technology sectors, stimulating the regional economy.

By addressing infrastructure bottlenecks, providing targeted incentives, and supporting innovation in emerging technologies, Ofgem can create an environment that attracts investment and encourages innovation. For the Highlands, these actions are critical to unlocking the region's renewable energy potential and driving economic growth.

What might Ofgem do to support an environment of falling energy prices?

To support an environment of falling energy prices, Ofgem must focus on addressing inefficiencies in the energy system, promoting fair pricing structures, and enabling access to affordable renewable energy. For the Highlands, where consumers face disproportionately high energy costs despite significant local energy production, these efforts are particularly critical.

Recommendations to Lower Energy Prices:

1. Reforming Energy Pricing Structures:

- Review and reform locational pricing and transmission charges to ensure that energy-producing regions, like the Highlands, benefit directly from their contributions to national energy generation.
- Reduce standing charges for rural consumers who currently face the highest fixed costs in the UK, making energy more affordable for low-income and vulnerable households.

2. Increasing Grid Efficiency:

- Invest in grid infrastructure upgrades to reduce transmission losses and bottlenecks that contribute to higher costs. For the Highlands, this includes expanding capacity to export renewable energy and reducing associated charges.

3. Promoting Renewable Energy Adoption:

- Support the integration of low-cost renewable energy into the national grid, leveraging the Highlands' significant renewable resources. Renewable energy, when efficiently managed, can reduce reliance on expensive fossil fuels and drive down wholesale energy prices.

4. Encouraging Demand-Side Management:

- Promote demand-side response programs that incentivise consumers to shift their energy usage to off-peak times, reducing overall system costs. This could include introducing dynamic tariffs that reflect real-time market prices.

5. Facilitating Community Energy Projects:

- Empower local communities in the Highlands to generate, store, and distribute their own energy through community energy schemes. These projects can lower energy costs for residents by bypassing traditional transmission and distribution networks.

6. Enhancing Supplier Competition:

- Increase market competition by reducing barriers for new, innovative suppliers to enter the market. Competitive pressures can drive suppliers to offer lower prices and better services.

7. Improving Energy Efficiency:

- Expand energy efficiency programs to reduce demand and lower bills. For rural and remote areas like the Highlands, prioritise retrofitting homes with insulation, energy-efficient heating systems, and renewable energy technologies.

8. Regulatory Support for Technology Integration:

- Encourage the adoption of smart meters, energy storage systems, and other technologies that enable consumers to manage their energy use more effectively and reduce costs.

Specific Actions for the Highlands:

1. Locational Price Adjustments:

- Ensure that consumers in the Highlands benefit from locally generated renewable energy by introducing locational price reductions or subsidies.

2. Support for Off-Grid Consumers:

- Provide tailored support for off-grid households in the Highlands to transition to renewable energy sources, such as heat pumps and solar panels, reducing reliance on expensive fossil fuels.

3. Targeted Consumer Protections:

- Strengthen protections for fuel-poor households in rural areas, ensuring access to affordable energy through direct financial support and fair pricing mechanisms.

By addressing regional disparities in energy pricing, improving grid efficiency, and promoting renewable energy adoption, Ofgem can create an environment conducive to falling energy prices. For the Highlands, these actions would reduce the financial burden on consumers while maximising the region's renewable energy potential.

What else might Ofgem do differently to support higher growth in the energy sector and wider economy?

To support higher growth in the energy sector and the wider economy, Ofgem must adopt policies and strategies that unlock the potential of renewable energy-rich regions like the Highlands, foster innovation, and address systemic barriers to investment and development. The Highlands, with its abundance of renewable energy resources, offers a unique opportunity to drive both regional and national economic growth.

Recommendations for Supporting Growth:

1. Targeted Infrastructure Investment:

- Focus on grid enhancements in renewable-rich areas like the Highlands to enable the connection of new energy projects and the efficient export of surplus electricity. Addressing grid constraints is critical to unlocking growth in the renewable energy sector.

2. Incentivising Renewable Energy Development:

- Provide clear and consistent policies that de-risk investment in renewable projects, such as onshore and offshore wind, hydro, and solar. For the Highlands, this includes incentives for community energy schemes and localised storage solutions.

3. Streamlining Regulatory Processes:

- Simplify and expedite approval processes for energy projects to reduce delays and uncertainty for developers. For the Highlands, this could include fast-tracking

connections for renewable projects and easing planning restrictions for community-led initiatives.

4. Promoting Regional Equity:

- Address energy cost disparities by implementing locational pricing reforms that reward energy-producing regions like the Highlands. Ensuring that local communities benefit from the renewable energy they produce will stimulate economic development and support public acceptance of new projects.

5. Fostering Innovation and New Technologies:

- Expand funding for pilot projects and emerging technologies, such as hydrogen production, energy storage, and tidal power, which are particularly relevant to the Highlands' geography and resources. Establish innovation hubs in collaboration with local authorities to test and scale these technologies.

6. Enabling Green Jobs and Skills Development:

- Partner with local authorities, such as the Highland Council, to develop green skills training programs and support workforce development in renewable energy and low-carbon industries. This will create jobs and boost local economies while ensuring the workforce is prepared for the transition to net zero.

7. Supporting Decentralised Energy Systems:

- Encourage decentralised and community-based energy systems that enhance energy security and self-sufficiency in rural areas like the Highlands. These systems can reduce transmission losses, lower costs, and provide local economic benefits.

8. Strengthening Collaboration:

- Work closely with local councils, industry stakeholders, and community groups to align regulatory strategies with regional energy priorities. Collaborative planning ensures that growth initiatives are tailored to the unique needs and opportunities of regions like the Highlands.

Sector-Wide Strategies for Growth:

1. Enhancing Market Competition:

- Promote a competitive energy market by removing barriers for new entrants, particularly those offering innovative business models and technologies. Competition drives efficiency and lowers costs for consumers.

2. De-risking Investment:

- Introduce mechanisms such as Contracts for Difference (CFD) or capacity market reforms that provide long-term revenue stability for renewable energy developers.

3. Reducing Energy System Bottlenecks:

- Address systemic inefficiencies in the energy system, such as delays in grid connections and infrastructure upgrades, to enable faster project delivery and economic growth.

By prioritising investment in infrastructure, fostering innovation, and addressing regional disparities, Ofgem can support higher growth in the energy sector while contributing to economic development. For the Highlands, these measures would unlock the region's renewable energy potential, create jobs, and drive local prosperity, ensuring that the region plays a central role in the UK's energy transition.

Are Ofgem's regulatory processes sufficiently fast, effective and user friendly?

The effectiveness of Ofgem's regulatory processes is critical to ensuring the energy market operates efficiently, promotes investment, and meets the needs of all regions, including the Highlands. However, current processes often lack the speed and flexibility needed to address

pressing issues, particularly in areas with unique challenges such as grid constraints, high energy costs, and significant renewable energy potential.

Key Observations and Challenges:

- 1. Delays in Grid Connection Approvals:**
 - Regulatory processes for grid connections are lengthy and complex, causing significant delays for renewable energy projects in the Highlands. These delays hinder the region's ability to contribute to national decarbonisation goals and deter further investment.
- 2. Inefficiencies in Decision-Making:**
 - Regulatory decisions, such as those related to price controls and infrastructure investment, often take months or years, which can be detrimental to addressing immediate challenges like fuel poverty or infrastructure bottlenecks in the Highlands.
- 3. Complexity for Stakeholders:**
 - Small developers and community energy projects in the Highlands face difficulties navigating Ofgem's processes, which are often designed for large, established market participants. This limits the growth of innovative, localised energy solutions.
- 4. Lack of Flexibility:**
 - Current frameworks are not sufficiently adaptable to emerging technologies or market changes, such as the rapid adoption of hydrogen and energy storage solutions. This is particularly challenging for the Highlands, where innovative projects could play a transformative role.

Recommendations for Improvement:

- 1. Streamlining Regulatory Approvals:**
 - Simplify and expedite regulatory approval processes, particularly for renewable energy projects and grid connections. For the Highlands, faster approvals would enable timely deployment of wind, hydro, and solar projects.
- 2. Introducing Provisional Measures:**
 - Implement mechanisms for provisional decisions or urgent rule changes to address immediate challenges, such as grid constraints or energy price disparities. This would allow Ofgem to respond more effectively to pressing regional issues.
- 3. Enhancing Support for Community Projects:**
 - Develop tailored regulatory guidance and support for community energy projects, which are particularly relevant to rural areas like the Highlands. Simplifying processes for small-scale developers would encourage innovation and local energy independence.
- 4. Investing in Digitalization:**
 - Utilise digital tools to improve transparency and efficiency in regulatory processes. For example, online portals for submitting and tracking applications could reduce administrative burdens and improve communication between stakeholders and Ofgem.
- 5. Establishing Regional Advisory Panels:**
 - Create regional advisory panels, including representatives from local authorities like the Highland Council, to ensure that regulatory decisions reflect the unique needs and priorities of different areas.
- 6. Flexibility for Emerging Technologies:**
 - Adapt regulatory frameworks to support emerging technologies, such as hydrogen, energy storage, and decentralised energy systems. This would benefit the Highlands, where these technologies are critical to maximising renewable energy use.

7. Regular Process Reviews:

- Conduct regular reviews of regulatory processes to identify and address inefficiencies. Engage with stakeholders, including local authorities, to ensure processes are user-friendly and aligned with regional needs.

While Ofgem's regulatory processes provide a foundation for market oversight, they must become faster, more effective, and more user-friendly to meet the needs of an evolving energy sector. For the Highlands, improving process efficiency and accessibility is essential to unlocking the region's renewable energy potential and addressing energy cost disparities.

Low Carbon Technologies

Diversifying our energy supply is crucial to meeting our net zero targets and delivery of a clean power system by 2030. The accelerating uptake of new low carbon technologies in homes and businesses is transforming a relatively uniform, commoditised sector into one of increasing diversity with unclear regulatory boundaries and new risks of harm to consumers.

While most people who install low carbon technologies will see genuine benefits, research by Citizens Advice² has found that trust in these technologies is at risk of being damaged by poor quality installations and rogue traders. Without action, consumer confidence could be undermined, and this could risk us not meeting our net zero targets.

Under the Consumer Rights Act 2015 all products must be of satisfactory quality, fit for purpose and as described. Consumers have the legal right to a refund if they were unfairly pressured into buying a product or a service they did not want or if they were misled about the product or service they bought. If consumers fail to resolve their complaint with the trader,

² <https://www.citizensadvice.org.uk/policy/publications/home-safe-giving-consumers-confidence-to-install-low-carbon-technologies/>

regulators can intervene, where they have powers to investigate and enforce the requirements of general consumer law.

Government acknowledges that the market for household and small business low carbon technology has become larger and more complex, expanding beyond traditional suppliers, and so beyond the scope of licensing by Ofgem. Parts of the market, such as making the fabric of buildings more energy efficient, are closely intertwined with the general building and home renovation sector, and both households and small businesses are increasingly choosing to invest in low carbon technologies and fabric upgrades.

While there are standards for some technologies, for example the Microgeneration Certification Scheme, consumer protections need to ensure good outcomes for all consumers who install low carbon technologies. The Consumer Rights Act 2015 designates Ofgem a domestic enforcer alongside the Competition and Markets Authority, district councils (Trading Standards) and others. However, the powers which underpin enforcement and the thresholds to take action vary widely between enforcers. Energy suppliers are already offering some low carbon technologies to their customers, and so we can expect that consumers are likely to look to Ofgem to regulate the selling, installation and performance of such products. However, the majority of installations are delivered by entities outside of Ofgem's licensing framework and current regulatory remit. As Ofgem is a designated enforcer under the Consumer Rights Act 2015, government is considering the case for reviewing the boundary of Ofgem's role in enforcing consumer law in respect of low carbon technologies and energy efficiency measures. Government is also examining the case for enhancing Ofgem's powers as regards to enforcement of consumer law (see the 'Powers' section of this Call for Evidence).

We are seeking views on Ofgem's remit in enforcing consumer law in respect of low carbon technologies, such as heat pumps and solar panels, and what the appropriate boundaries might be.

The transition to net zero relies heavily on the widespread adoption of low-carbon technologies such as heat pumps and solar panels. However, inadequate consumer protections and unclear regulatory boundaries can undermine public trust and slow adoption. In regions like the Highlands, where rural and remote communities may face unique challenges in adopting these technologies, it is critical that Ofgem's remit adequately addresses consumer protection and enforcement.

Challenges Observed:

1. Rogue Traders and Poor Installations:

- Consumers, particularly in rural areas like the Highlands, are vulnerable to rogue traders or poor-quality installations, which can result in financial loss and mistrust in low-carbon technologies.

2. Regulatory Gaps:

- While Ofgem oversees licensed energy suppliers, many low-carbon technology installers operate outside its regulatory remit. This creates gaps in consumer protection, especially for standalone installations not linked to energy suppliers.

3. Lack of Consumer Awareness:

- Many consumers are unaware of their rights under existing frameworks, such as the Consumer Rights Act 2015, leaving them unprepared to address issues like mis-selling or faulty installations.

Recommendations for Expanding Ofgem's Remit:

1. Enhanced Consumer Protection Standards:

- Expand Ofgem's remit to include oversight of low-carbon technology installations. This could involve setting and enforcing quality standards for products and installations, ensuring consistency across the sector.

2. Licensing or Certification for Installers:

- Introduce a mandatory licensing or certification scheme for low-carbon technology installers, similar to the Microgeneration Certification Scheme (MCS). Ofgem's involvement in regulating these schemes would ensure that consumers receive high-quality installations.

3. Clear Enforcement Powers:

- Grant Ofgem enforcement powers to investigate and address consumer law breaches by installers of low-carbon technologies. This includes the ability to impose fines or revoke certifications for non-compliance.

4. Collaboration with Local Authorities:

- Work closely with local authorities, such as the Highland Council, to identify and address regional challenges. For example, partnering with councils to ensure that rural and remote consumers have access to certified installers and are protected from exploitation.

5. Education and Awareness Campaigns:

- Launch consumer education initiatives to increase awareness of rights and protections when purchasing low-carbon technologies. This would empower consumers in the Highlands and other regions to make informed decisions and report poor practices.

6. Targeted Support for Rural Areas:

- Develop tailored strategies for rural and remote communities, such as the Highlands, where the cost and logistical challenges of adopting low-carbon technologies are greater. This could include financial support and consumer guidance specific to these areas.

Appropriate Boundaries for Ofgem's Remit:

1. Focus on Consumer Outcomes:

- While expanding its remit, Ofgem should remain focused on ensuring good consumer outcomes, such as fair pricing, reliable installations, and robust redress mechanisms, without overburdening small businesses with excessive regulation.

2. Collaboration with Other Regulators:

- Work alongside other enforcement bodies, such as Trading Standards and the Competition and Markets Authority (CMA), to ensure a coordinated approach to consumer protection in the low-carbon technology market.

Expanding Ofgem's remit to include consumer protection for low-carbon technologies is essential to building trust, ensuring high standards, and accelerating adoption. For the Highlands, where communities face unique barriers to accessing and installing these technologies, enhanced consumer protections will play a vital role in supporting a fair and inclusive transition to net zero.

Powers

Summary of current framework and powers

To deliver upon its principal objective of protecting the interests of current and future consumers, and its role as the independent energy regulator, Ofgem has a number of powers. The right framework of powers also gives assurance to investors and supports innovation. Ofgem's powers are provided in statute, such as (but not limited to):

- Gas Act 1986
- Electricity Act 1989
- Utilities Act 2000
- Competition Act 1998
- Enterprise Act 2002
- Energy Acts of 2004, 2008, 2010, 2011 and 2023
- measures and legislation arising directly from EU legislation assimilated into UK Law (e.g. Regulation on Wholesale Energy Market Integrity and Transparency / REMIT)

Ofgem is responsible for granting licences to companies that wish to supply electricity or gas, generate electricity, or distribute electricity or gas in GB; there are 11 types of licence that Ofgem administers. The Gas Act 1986 (as amended) and The Electricity Act 1989 (as amended) (the Acts) prohibit certain activities unless the person carrying on that activity is licensed, exempt from the requirement for a licence, or eligible (under the Gas Act only) for an exception to the prohibition on unlicensed activities. This means that its powers provide the framework for Ofgem to regulate the energy market, which it does primarily through its licensing regime.

Ofgem's licence conditions range from the steps a licensee is expected to take before installing a pre-payment meter in case of non-payment, to guaranteed standards of service over final bills and speed of switching. Licensed companies are obliged to work with Ofgem in managing their licence, and Ofgem monitors these companies to ensure they comply with their licence conditions, including obligations related to customer service, environmental performance, and financial stability. Ofgem also has the authority to set price controls for energy companies, including parts of the sector where competition is limited, such as with transmission and distribution. This is done to prevent these companies from making excessive profits and to ensure fair pricing for consumers.

Ofgem also has several enforcement powers to deter bad business practices and, where necessary, identify, investigate and take action to protect the interests of consumers across the market. If licensees breach their licence conditions, competition or consumer protection law, Ofgem has the power to enforce. Currently, Ofgem's enforcement action may include issuing directions, making orders, or infringement decisions³ to bring an end to a breach; remedy the loss or harm caused by a breach; imposing financial penalties; or obtaining voluntary redress

³ Competition cases only

payments. It can also include accepting commitments or undertakings relating to future conduct or arrangements.

However, the evolving complexities of the energy market, combined with the failure of some energy suppliers, have exposed limitations and created grey areas in Ofgem's current regulatory powers and areas of responsibility, as discussed in previous sections of this Call for Evidence. There are also inconsistencies with Ofgem's powers compared to other regulators such as the FCA and CMA, and there are also inconsistencies in how Ofgem's current powers can be applied. For example, some powers Ofgem has under REMIT regulations are not available in the same way under its sectoral powers due to a difference in scope.

This 'Powers' chapter highlights some of the issues, challenges and gaps identified within the sector. In some cases, government has shared early thinking and potential ideas based on lessons and concepts from the sector and other regulators, however this does not necessarily reflect a finalised proposal and we welcome views as part of this Call for Evidence. Government is committed to ensuring that Ofgem has the right tools to prevent poor behaviour in the market and take action where necessary to protect consumers in both the short and long-term, in line with Ofgem's principal objective.

Better outcomes for consumers and more accountability

In a well functioning competitive market, customers choose a balance of price and service quality that works for them, and this encourages companies to compete on a combination of cost and quality. In energy markets, a combination of factors, such as the level of switching, a narrow focus on price, and difficulty comparing service quality, means that companies do not always have an incentive to focus on service standards. Moreover, in an essential utility such as energy, decent service standards for all must be achieved.

Government wants to ensure that, even within such a system as exists for energy, consumers can expect to receive a higher minimum standard of service and, where this drops, there is the right framework in place for the regulator to take proportionate action to resolve the issue and create an effective deterrent to prevent reoccurrence. This may entail rebalancing the costs and risk within the market, and ensuring there is the appropriate level of accountability to promote a culture of high consumer standards across the whole energy system, including infrastructure players. Government wants Ofgem to promote a consumer-first culture across the whole energy system, including infrastructure players, so that all business models should consider driving better consumer outcomes.

This 'better outcomes for consumers and more accountability' section therefore seeks views around increasing accountability and consumer standards in the sector.

To deliver better outcomes for consumers and ensure accountability across the energy sector, Ofgem must implement robust mechanisms that prioritise high standards of service and fairness. For regions like the Highlands, where consumers face significant challenges such as high energy costs and limited supplier competition, increasing accountability and raising consumer standards are vital to achieving equitable outcomes.

Recommendations for Increasing Accountability and Consumer Standards:

1. Introduce a Sector-Wide Consumer Duty:

- Mandate a "Consumer Duty" requiring energy companies to prioritise consumer interests, deliver good outcomes, and act with integrity. This framework should hold

suppliers accountable for ensuring fair pricing and equitable service delivery, especially for rural areas like the Highlands.

2. Establish Minimum Service Standards for All Market Participants:

- Extend service standards beyond licensed suppliers to include third-party intermediaries, energy brokers, and low-carbon technology installers. This ensures accountability across all market actors and reduces risks for consumers adopting new technologies in regions like the Highlands.

3. Implement Transparent Metrics and Reporting:

- Require suppliers to report detailed metrics on customer service, complaint resolution, and pricing fairness. Publish regional data to highlight disparities, ensuring Highland consumers can see how suppliers are performing relative to others.

4. Incentivise High Standards:

- Reward suppliers that consistently exceed minimum service standards with public recognition, certifications, or financial incentives. For example, suppliers improving service access and affordability in rural areas like the Highlands could receive regional performance bonuses.

5. Strengthen Penalties for Non-Compliance:

- Impose stricter penalties on suppliers failing to meet consumer protection standards. Proceeds from these penalties could fund consumer support programs, such as energy efficiency grants for rural households.

6. Promote Local and Community Energy Projects:

- Provide tailored support for community energy projects that serve as alternatives to traditional suppliers. These initiatives can increase local accountability and deliver bespoke solutions for Highland communities.

7. Enhance Consumer Feedback Mechanisms:

- Create a streamlined platform for consumers to provide feedback on supplier performance. Aggregate this data to identify systemic issues and reward companies acting on consumer concerns, especially in underserved regions like the Highlands.

8. Expand Access to Ombudsman Services:

- Ensure all consumers, including those working with third-party intermediaries, can access the Energy Ombudsman. Strengthen the Ombudsman's enforcement powers to guarantee timely redress for Highland households disproportionately affected by poor service.

9. Strengthen Supplier Financial Resilience Requirements:

- Require suppliers to demonstrate financial stability and maintain sufficient reserves to protect consumers in the event of market volatility. This reduces the risk of supplier failures, which disproportionately affect remote communities.

10. Engage with Regional Stakeholders:

- Collaborate with local authorities like the Highland Council to address region-specific challenges, such as high energy costs and infrastructure constraints. Ensure that regional voices are represented in decision-making processes.

Potential Benefits for the Highlands:

1. Fairer Pricing Structures:

- Increased accountability would ensure suppliers address disparities, such as the Highlands' high standing charges and energy costs, creating fairer outcomes for rural consumers.

2. Improved Service Standards:

- Holding suppliers to higher standards would improve complaint handling, billing accuracy, and service quality for households in remote areas.

3. Support for Vulnerable Consumers:

- Strengthened consumer protections would alleviate challenges faced by fuel-poor households in the Highlands, reducing energy insecurity and financial stress.

4. Increased Trust in the Energy Market:

- Transparent reporting and consistent improvements in service delivery would build trust among Highland residents, encouraging greater participation in the energy transition.

By increasing accountability and raising consumer standards across the energy sector, Ofgem can deliver better outcomes for all consumers, particularly those in underserved regions like the Highlands. These measures will address systemic challenges, foster trust, and ensure the energy market serves the needs of all households equitably.

Improving executive accountability and consumer standards

Improving accountability and consumer standards in the sector could potentially include practices from other regulators such as a 'Consumer Duty' and 'Senior Manager Regime'. The Financial Conduct Authority's (FCA) 'Consumer Duty', for example, requires regulated firms to act to deliver good outcomes for retail customers. For the FCA, it's not sufficient to merely demonstrate that the company has the processes and frameworks in place, but whether they're actually effective in delivering good outcomes for customers. Government therefore welcomes views around the applicability of a Consumer Duty to the energy sector, and any other potential

ideas and views to promote a high level of consumer standards. The aim of such measures would be to not only deter irresponsible management practices, but also reinforce consumer confidence in the sector.

As part of Ofgem's licence conditions, licensed suppliers are already required to ensure that each customer is treated fairly as part of their licence conditions, in line with the principles of better regulation which state that regulators should focus on consumer outcomes. However, as detailed in the below 'Investigatory & enforcement powers to protect consumers' subsection, there are some activities in the market which do not require a licence meaning those companies are not subject to the same standards, and there is a potential for this to become more prevalent as new types of technologies and companies enter the market. Similarly, executives – as a body or as individuals – cannot readily be held to account for failures. Past cases have highlighted how senior executives have not been sufficiently incentivised to act responsibly and with the interests of their customers in mind. With the evolution into a larger and more complex energy market, this risk remains, and the impacts could increase.

As with other sections of this Call for Evidence, this is initial thinking and does not necessarily indicate a clear proposal.

We are seeking views on how Ofgem can ensure consumer standards are better represented – for example with reference to other business models within the sector, such as through potentially adopting a 'consumer duty' and 'Senior Management Regime'

To ensure consumer standards are better represented, Ofgem must adopt measures that not only protect consumers but also hold energy suppliers accountable for delivering high-quality services. This is particularly relevant for the Highlands, where consumers face significant challenges, such as higher energy costs and limited-service accessibility. Adopting frameworks like a 'Consumer Duty' and a 'Senior Management Regime' could significantly enhance accountability and drive cultural change across the sector.

Recommendations for Enhancing Consumer Standards:

1. Adopting a 'Consumer Duty':

- Introduce a regulatory obligation requiring energy companies to act in the best interests of their customers, ensuring that their actions deliver good consumer outcomes. Similar to the Financial Conduct Authority's (FCA) Consumer Duty, this framework would shift the focus from compliance to proactive consumer care.
- For the Highlands, this could include obligations to address regional disparities in pricing and service accessibility, ensuring rural consumers are not disadvantaged.

2. Implementing a 'Senior Management Regime' (SMR):

- Establish accountability frameworks that make senior executives individually responsible for meeting consumer protection standards. This would align with practices in other regulated sectors, such as financial services, and incentivise ethical decision-making at the highest levels of management.
- For example, executives could be held accountable for ensuring that rural consumers in the Highlands receive fair pricing, timely service, and access to compensation mechanisms when service standards are not met.

3. Strengthening Enforcement Powers:

- Equip Ofgem with stronger enforcement capabilities to ensure compliance with consumer standards. This includes the ability to impose direct penalties on senior

managers and companies for failing to meet obligations under a Consumer Duty or SMR.

4. Publishing Performance Metrics:

- Mandate the publication of detailed consumer service performance metrics, such as complaint resolution times and customer satisfaction scores. These metrics should be broken down regionally to highlight disparities and drive improvements in areas like the Highlands.

5. Incentivising Best Practices:

- Develop incentive schemes that reward suppliers for exceeding minimum consumer standards. This could include recognition programs or financial incentives tied to exemplary customer service, particularly for addressing the needs of rural and vulnerable consumers.

6. Improving Consumer Accessibility:

- Ensure that suppliers provide accessible services to rural and remote communities, such as the Highlands, by offering tailored customer support channels and ensuring prompt responses to service issues.

7. Collaboration with Local Authorities:

- Partner with local authorities like the Highland Council to identify and address region-specific consumer challenges. This collaboration could help develop targeted strategies for improving service standards in remote and rural areas.

Learning from Other Sectors:

1. Financial Services:

- The FCA's Senior Managers and Certification Regime (SMCR) and Consumer Duty provide strong examples of how accountability frameworks can improve consumer outcomes. Applying similar principles in the energy sector could promote a culture of responsibility and care.

2. Telecommunications:

- The voluntary automatic compensation scheme adopted by telecom providers incentivises service reliability and provides consumers with quick redress for service failures. A similar approach in energy could enhance consumer trust and satisfaction.

By adopting frameworks like a Consumer Duty and a Senior Management Regime, Ofgem can drive a consumer-first culture across the energy sector. For regions like the Highlands, these measures would help address systemic inequities, improve service quality, and ensure that energy suppliers are held accountable for meeting the unique needs of rural and remote consumers.

Enhanced investigatory & enforcement powers to protect consumers

Ofgem's effectiveness as a regulator hinges on timely, accurate, and comprehensive access to information from energy suppliers, but the current framework poses certain limitations.

Currently, Ofgem's investigative powers are inconsistent across the areas that they regulate and are less expansive than other regulators. For example, under the Electricity and Gas (Market Integrity and Transparency) (Enforcement etc.) Regulations 2013 (as amended) (REMIT) Ofgem have powers to compel individuals to interview but it does not under their sectoral powers.

Similarly, some activities in the energy market do not require a supply (or other) type of licence meaning that Ofgem cannot use the powers described above. For example, installation of solar panels would not, generally, be a licensed activity. For those activities, Ofgem has been designated as an enforcer under Part 8 of the Enterprise Act which means it is empowered to take action to enforce certain consumer protection legislation such as the provisions on unfair terms in consumer contracts and unfair consumer notices of the Consumer Rights Act 2015, the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 and the Consumer Protection from Unfair Trading Regulations 2008. Ofgem has the power to obtain an enforcement order (similar to an injunction) from the County Court or High Court where the person or company against whom the order is sought carries on a business or has a place of business in England and Wales (or from the Sheriff or Court of Session in Scotland if it carries on a business or has a place of business in Scotland) to prohibit the person/business from carrying on a particular course of conduct. Ofgem may initially be obliged to request an undertaking from the person/business.

However, unlike the Competition and Markets Authority (CMA), Ofgem does not have the new enhanced enforcement powers that were granted as part of the Digital Markets, Competition and Consumers Act 2024 (DMCC Act). These new powers enable the CMA to investigate, determine and take direct enforcement action, such as fixed penalties, to address infringements of consumer protection law and breaches of undertakings.

Creating consistency in powers across the areas Ofgem regulates may be ultimately beneficial to drive improved consumer outcomes. Considering additional powers for the regulator may also be beneficial to understanding a potential breach and testing/corroborating evidence for certain types of investigations.

We are seeking views on Ofgem having enhanced investigatory powers.

Enhanced investigatory powers would enable Ofgem to act more decisively in regulating the energy sector, addressing misconduct, and protecting consumers. This is particularly important for regions like the Highlands, where systemic energy inequities and high costs require robust regulatory oversight to ensure fair treatment and access to services.

Challenges Requiring Enhanced Investigatory Powers:

1. Supplier Misconduct:

- Instances of poor practices, such as failure to meet consumer service standards, disproportionately affect rural areas like the Highlands, where options for alternative suppliers are limited. Stronger investigatory powers would enable Ofgem to identify and address these issues promptly.

2. Vulnerability of Remote Communities:

- Consumers in rural areas often face higher risks of fuel poverty and energy service failures. Enhanced powers would allow Ofgem to proactively investigate and mitigate these risks, ensuring equitable treatment.

3. Market Complexity and Emerging Technologies:

- The growth of low-carbon technologies and decentralised energy systems introduces new risks of consumer harm. Ofgem requires the authority to investigate and address issues related to these emerging areas effectively.

Recommendations for Enhanced Powers:

1. Broader Investigatory Authority:

- Expand Ofgem's remit to investigate not only licensed suppliers but also third-party actors, such as installers of low-carbon technologies, brokers, and intermediaries. This would protect consumers from unfair practices in unregulated segments of the market.

2. Compulsory Information Gathering:

- Grant Ofgem the authority to compel information from suppliers and other market participants more effectively. This would reduce delays in investigations and ensure transparency.

3. Proactive Monitoring Capabilities:

- Equip Ofgem with the ability to conduct proactive audits and monitoring of supplier performance, particularly in regions like the Highlands where systemic issues such as high energy costs persist.

4. Strengthened Regional Oversight:

- Establish dedicated regional investigatory teams that can focus on areas like the Highlands to address localised issues and ensure that rural and remote communities are adequately represented in regulatory processes.

5. Improved Enforcement Linkages:

- Link enhanced investigatory powers to stronger enforcement mechanisms, such as the ability to impose fines or revoke licenses for non-compliance. For instance, suppliers that repeatedly fail to address issues in rural areas could face penalties tied to the severity of consumer harm.

6. Collaboration with Local Authorities:

- Work with councils like the Highland Council to gather localised insights and data on energy inequities, enabling more targeted and effective investigations.

Potential Benefits of Enhanced Powers:

1. Faster Resolution of Issues:

- Improved investigatory capabilities would allow Ofgem to respond quickly to consumer complaints and market failures, reducing harm and building trust.

2. Increased Accountability:

- Enhanced powers would create stronger incentives for suppliers to comply with regulations, particularly in underserved regions like the Highlands.

3. Protection for Vulnerable Consumers:

- Proactive investigations could identify and address systemic issues affecting vulnerable households, such as excessive pricing or poor service quality.

Enhanced investigatory powers would enable Ofgem to regulate the energy sector more effectively, ensuring fair treatment and consumer protection. For regions like the Highlands, where systemic energy challenges persist, these powers would be instrumental in addressing inequities, supporting vulnerable consumers, and fostering trust in the energy market.

We are seeking views on Ofgem being granted enhanced enforcement powers similar to the CMA.

Enhanced enforcement powers, similar to those held by the Competition and Markets Authority (CMA), would strengthen Ofgem's ability to regulate the energy sector effectively. Such powers would enable Ofgem to act decisively in addressing market failures, supplier misconduct, and systemic issues, particularly in regions like the Highlands, where consumers face unique challenges such as high energy costs and limited supplier options.

Challenges Requiring Enhanced Enforcement Powers:

1. Inequitable Pricing Practices:

- Consumers in the Highlands face the UK's highest energy costs despite the region producing a surplus of renewable energy. Enhanced enforcement powers could address pricing practices that disproportionately disadvantage rural and remote areas.

2. Supplier Mismanagement and Failures:

- Recent supplier insolvencies have highlighted the need for stricter enforcement measures to ensure financial resilience and consumer protection. These failures disproportionately impact vulnerable consumers, including those in the Highlands.

3. Non-Compliance with Standards:

- Instances of poor service delivery, such as delayed compensation or failure to meet Guaranteed Standards of Performance (GSoP), require stronger enforcement mechanisms to ensure compliance.

Recommendations for Enhanced Enforcement Powers:

1. **Direct Penalty Mechanisms:**
 - Grant Ofgem the authority to impose fixed penalties on suppliers for breaches of consumer protection laws or regulatory standards. This would act as a deterrent against non-compliance and promote a culture of accountability.
2. **Accountability for Senior Executives:**
 - Introduce measures that hold senior executives personally accountable for regulatory breaches, aligning with the CMA's Senior Management Regime. This would incentivise ethical and consumer-focused decision-making at the leadership level.
3. **Authority to Recover Consumer Losses:**
 - Enhance Ofgem's ability to secure compensation for consumers directly impacted by supplier failures or misconduct, ensuring timely redress for affected households.
4. **Stronger Oversight of Unregulated Market Segments:**
 - Extend enforcement powers to cover areas not currently regulated, such as installers of low-carbon technologies and energy brokers. This is critical in regions like the Highlands, where the adoption of renewable technologies is increasing.
5. **Accelerated Enforcement Timelines:**
 - Allow Ofgem to act swiftly in addressing breaches without prolonged investigation periods. This could involve introducing provisional enforcement measures that mitigate consumer harm while investigations are ongoing.

Alignment with CMA Powers:

1. **Fixed Penalties for Non-Compliance:**
 - Like the CMA, Ofgem should be able to impose fixed penalties proportionate to the severity of breaches, with a focus on deterring repeat offenses.
2. **Enhanced Market Oversight:**
 - Implement stronger monitoring mechanisms to identify and address systemic issues, such as fuel poverty and pricing disparities, which disproportionately affect regions like the Highlands.
3. **Public Reporting and Transparency:**
 - Require regular publication of enforcement actions and outcomes to build trust and demonstrate Ofgem's commitment to protecting consumers.

Potential Benefits for the Highlands:

1. **Fairer Pricing Structures:**
 - Enhanced enforcement powers would enable Ofgem to challenge pricing practices that unfairly burden Highland consumers, ensuring more equitable energy costs across the UK.
2. **Improved Service Standards:**
 - Stronger penalties for non-compliance would incentivize suppliers to deliver high-quality services, benefiting rural and remote communities.
3. **Protection for Vulnerable Consumers:**
 - Proactive enforcement could address systemic issues such as fuel poverty, which is particularly prevalent in the Highlands due to high heating costs and limited access to energy-efficient housing.

Granting Ofgem enhanced enforcement powers similar to the CMA would strengthen its ability to regulate effectively, ensuring fair treatment for consumers and fostering accountability within the energy sector. For the Highlands, these powers would help address systemic disparities, improve service quality, and protect vulnerable communities, supporting a more equitable and sustainable energy market.

Approach to Penalties and Compliance Orders

When imposing a penalty, Ofgem is legally required to ensure it is reasonable in all circumstances of the case⁴ meaning Ofgem normally has to conduct a thorough investigation to uncover the facts before it imposes a penalty. This discourages Ofgem from imposing penalties on low-level non-compliance breaches where the expected penalty level and potential compensation does not warrant the cost and level of resource needed to conduct a thorough investigation.

This is further complicated due to investigating and enforcing ultimately presenting an opportunity cost and risk to Ofgem; conducting thorough investigations on smaller cases ultimately takes away from Ofgem's resource and ability to deal with more significant cases.

Additionally, as well as some of the challenges outlined in the above 'enhanced investigatory & enforcement powers to protect consumers' subsection, current statutory deadlines for confirming a provisional order (PO) and imposing a penalty from the time of contravention are short. This leaves Ofgem insufficient time to gather adequate evidence and for the company to review and comment. This all results in a disproportionate level of cost and risk to the regulator, creating unnecessary barriers and challenges, even for straightforward cases where there is a more objective indication of a breach occurring.

On a case-by-case basis the impact of this non-compliance activity is relatively minor but there are instances of companies which conduct repeat, low-level non-compliance activity within the market. These companies capitalise on the disproportionate cost for Ofgem and this ultimately leads to a larger and more widespread negative impact on consumers and the overall standard they expect, as well as impair Ofgem's ability to regulate where it needs to expend additional resources to obtain and assure the data if it needs to do so.

Therefore, Government is considering changing the penalties framework to make it easier for Ofgem to impose lower-level penalties for straightforward or minor cases where there is an objective indication that a breach has occurred.

Government is also considering increasing the statutory deadlines for confirming a provisional order and for imposing a penalty when a provisional or final order has been served. These

⁴ Section 27A of the Electricity Act and Section 30A of the Gas Act.

potential changes would allow Ofgem to conduct a thorough investigation and ensure regulated entities do not avoid responsibility due to the difficulties of running complicated processes within time limits that are not practical for many cases. This could also potentially include changing the process to allow for penalties to be issued without the need of a thorough investigation every time by default; mitigating circumstances would still be considered but this onus would be on businesses to demonstrate as part of an appeals process.

We are seeking views on whether the scope and scale of Ofgem's current penalties are set at the right level.

The scope and scale of Ofgem's current penalties play a crucial role in maintaining accountability in the energy market. However, the existing framework, which caps penalties at 10% of a company's turnover, may not adequately deter poor practices, particularly for small suppliers or companies operating on minimal revenue. For regions like the Highlands, where consumers face unique challenges such as high energy costs and service inequities, an effective penalty framework is essential to ensure fair treatment and drive improvements in supplier performance.

Challenges with the Current Penalty Framework:

- 1. Limited Deterrence for Low-Turnover Companies:**
 - Companies with little or no turnover may view penalties as a manageable cost of non-compliance. This undermines the deterrent effect and leaves consumers vulnerable to poor practices.
- 2. Inadequate Protection for Vulnerable Consumers:**
 - Current penalties may not fully reflect the harm caused to vulnerable groups, such as rural and low-income households in the Highlands, where service failures can exacerbate fuel poverty.
- 3. Delayed Enforcement Actions:**
 - Lengthy investigation and enforcement timelines can delay consumer redress, leaving affected households without timely support.

Recommendations for Revising the Penalty Framework:

- 1. Introduce Tiered Penalties:**
 - Implement a tiered penalty structure that considers the scale of harm caused and the company's financial capacity. For example:
 - Higher penalties for systemic or repeated failures.
 - Proportional penalties for smaller companies that reflect the impact on consumers.
- 2. Incorporate Consumer Harm Metrics:**
 - Align penalties with the level of consumer harm, ensuring that companies causing significant detriment, such as pricing inequities or service failures in regions like the Highlands, face proportionate consequences.
- 3. Enhance Individual Accountability:**
 - Extend penalties to include fines for senior executives responsible for regulatory breaches. This aligns with practices in other regulated sectors and incentivizes ethical leadership.
- 4. Expand Enforcement Powers:**
 - Allow Ofgem to impose penalties on unlicensed entities, such as installers of low-carbon technologies, to protect consumers in emerging market segments.
- 5. Introduce Minimum Penalties for Severe Breaches:**

- Establish a minimum penalty threshold for severe regulatory breaches to ensure that all companies, regardless of size, face meaningful consequences.

6. Use Penalty Funds for Consumer Support:

- Direct penalty revenues toward programs that benefit affected consumers, such as energy efficiency upgrades or financial assistance for vulnerable households in regions like the Highlands.

Potential Benefits for the Highlands:

1. Improved Supplier Accountability:

- Stronger penalties would incentivise suppliers to prioritise service quality and fair pricing, addressing systemic inequities faced by Highland consumers.

2. Enhanced Consumer Protections:

- A robust penalty framework would provide greater assurance to rural and remote communities that regulatory breaches will be addressed promptly and effectively.

3. Support for Local Energy Initiatives:

- Penalty funds could be reinvested in community energy projects, further empowering local communities in the Highlands to achieve energy independence.

The current penalty framework provides a foundation for supplier accountability, but its scope and scale require enhancements to address emerging challenges and protect consumers more effectively. For regions like the Highlands, revising the framework to include tiered penalties, stronger enforcement mechanisms, and reinvestment in community support programs would ensure fairer outcomes and drive positive change in the energy sector.

Increasing the costs of bad practice

Some business models within the market operate on little to no turnover meaning that even if they commit a breach which is investigated and enforced against, the potential penalty is small to the point of creating an ineffective deterrent. This is due to the current rules that stipulate that Ofgem may only issue a penalty of up to 10% of a company's turnover. This is also paired with the fact that investigating and enforcing presents its own costs with no guarantee of success as discussed in the earlier sections.

The Government aims to strike a balance between deterring non-compliance and ensuring fines are appropriate, reflect the infringement and exceed the cost of compliance so that compliant companies are not discouraged from entering the market. And, as discussed, government expects that companies can deliver a high minimum standard of service to consumers without it affecting their profitability. Government does not welcome companies whose profitability relies on committing (and getting away with) breaches.

Government would like to move towards a market with healthy competition in which the participants use sustainable practices to win market share. For example, through competing on quality of consumer service and additional benefits, as opposed to predatory pricing which harms consumers and market stability in the long-term as prices rise after companies/competition are priced out of the market even when those companies would otherwise be financially viable.

We are seeking views on the current system of a maximum fine of 10% and whether it should change?

The current system of capping fines at 10% of a company's annual turnover may be insufficient to address systemic issues in the energy market or deter repeat offenses. For regions like the Highlands, where consumers face disproportionately high energy costs and service challenges, a more robust penalty framework is needed to incentivise fair practices, protect vulnerable consumers, and address inequities.

Challenges with the 10% Cap:

- 1. Limited Deterrence for Low-Turnover Companies:**
 - Small companies or those operating on minimal revenue are unlikely to be significantly impacted by fines capped at 10% of turnover. This reduces the incentive for compliance and allows poor practices to persist.
- 2. Inequitable Consumer Impact:**
 - The harm caused by non-compliance, such as delayed compensation or poor service quality, often disproportionately affects rural and remote areas like the Highlands. A higher or more flexible cap could reflect the severity of consumer detriment in these cases.
- 3. Lack of Proportionality for Severe Breaches:**
 - Major breaches of consumer protection laws or regulatory standards, particularly those impacting vulnerable consumers, may warrant penalties exceeding 10% of turnover to serve as an effective deterrent.

Recommendations for Reform:

- 1. Introduce a Flexible Penalty Cap:**
 - Replace the fixed 10% cap with a flexible structure that allows higher fines for severe or repeated breaches. For example:
 - Up to 20% of turnover for systemic failures impacting a large number of consumers.
 - Higher penalties for practices causing significant harm in underserved areas, such as the Highlands.
- 2. Account for Consumer Harm:**
 - Tie penalties to the scale of consumer harm, ensuring that companies causing disproportionate detriment to face higher fines. This approach would better protect vulnerable groups and incentivise fairer practices.
- 3. Incorporate Executive Accountability:**
 - Extend penalties to include fines for senior executives who fail to meet regulatory obligations. This would align with frameworks like the Senior Managers and Certification Regime (SMCR) in financial services and drive accountability at leadership levels.
- 4. Allocate Fines to Consumer Support:**
 - Use funds from penalties to support energy efficiency programs, financial assistance schemes, and community energy initiatives in affected areas. For the Highlands, this could include support for retrofitting homes, transitioning to low-carbon heating, or funding local renewable projects.
- 5. Establish Minimum Penalty Thresholds:**
 - Introduce minimum penalties for severe breaches to ensure that all companies, regardless of size, face meaningful consequences for non-compliance.
- 6. Expand Penalty Scope:**
 - Allow Ofgem to impose penalties on unlicensed entities, such as energy brokers or low-carbon technology installers, to address gaps in consumer protection.

Potential Benefits for the Highlands:

1. Improved Service Standards:

- Higher penalties would incentivise suppliers to prioritise service quality and compliance, reducing the likelihood of poor practices that disproportionately affect rural communities.

2. Enhanced Consumer Protections:

- A revised penalty framework would provide greater assurance that regulatory breaches impacting Highland consumers are addressed effectively.

3. Support for Local Communities:

- Redirecting penalty funds to benefit affected consumers could help address fuel poverty and improve energy efficiency in rural and remote areas.

The current 10% cap on fines requires reform to better address the complexities of the modern energy market and ensure fair outcomes for consumers. For regions like the Highlands, where systemic inequities persist, a flexible, harm-based penalty structure with reinvestment in consumer support programs would drive positive change and ensure accountability across the sector.

Protecting consumers in extreme scenarios

The energy market, and the role that Ofgem plays within the market, has experienced significant change since Ofgem was first established. This includes the rapid growth of new types of technologies and companies in the market, as well as a growth in the role that the energy market plays in consumers' day-to-day lives. This sub-section seeks to take account of the lessons of recent years and challenges ahead and seek views on ensuring that the regulator is properly equipped to protect current and future consumers in extreme scenarios.

Quicker response to emerging issues

Whilst Ofgem has a wide range of powers, as noted, there are still large gaps between other regulators and also inconsistencies in how Ofgem's current powers can be used which limits Ofgem's ability to deliver prompt, effective action, especially as the market grows increasingly complex and new types of technologies and companies enter the market at a faster rate than new regulation can be created to respond.

Ofgem's licence amendment powers (contained in s11A EA89/s23 GA86) provide the means for Ofgem to respond to these new challenges, however any amendments require at least a 28-day consultation and 56-day implementation period, meaning any change will always require excess of 3 months before Ofgem can act. The gas crisis and forced-fitting of PPMs is a clear example where faster action would have been more decisive and beneficial to consumers. In this example, Ofgem urgently agreed and negotiated a voluntary code of practice in order to implement changes, but having the option of 'urgent rule changes' may have facilitated more rapid and decisive action and outcomes for consumers.

However, as noted, there are limitations to this, so:

We are seeking views around whether this process should change to make it easier for Ofgem to create new rules to respond to emerging challenges

The current process for creating new rules, which requires a minimum of 28 days for consultation and 56 days for implementation, limits Ofgem's ability to respond effectively to emerging challenges. For regions like the Highlands, where grid constraints, energy inequities, and the rapid adoption of renewables create unique pressures, a more agile rule-making process is essential to address urgent issues and support equitable energy outcomes.

Challenges with the Current Process:

1. Delays in Addressing Critical Issues:

- The lengthy timeline for rule changes prevents Ofgem from acting swiftly on pressing matters, such as grid bottlenecks in renewable energy-rich areas like the Highlands.

2. Reactive Rather than Proactive Approach:

- The current process limits Ofgem's ability to proactively address emerging risks, such as poor practices in low-carbon technology markets or supplier financial instability.

3. Barriers to Innovation:

- Slow rulemaking can stifle innovation by delaying the implementation of frameworks that support emerging technologies, such as energy storage and hydrogen production, which are particularly relevant to the Highlands.

Recommendations for Process Changes:

1. Introduce an 'Urgent Rule Change' Mechanism:

- Establish a fast-track process for rule changes in response to critical issues, allowing Ofgem to implement provisional measures within 30 days while conducting a parallel consultation process. For example, this mechanism could address grid constraints impacting renewable projects in the Highlands more rapidly.

2. Enhance Stakeholder Engagement:

- Develop streamlined consultation processes that leverage digital tools to gather input from stakeholders more efficiently. Local authorities, such as the Highland Council, should be prioritised in consultations to ensure regional perspectives are considered.
- 3. Implement Provisional Rules with Safeguards:**
 - Allow Ofgem to introduce temporary rules while awaiting full implementation, with safeguards to ensure transparency and accountability. This approach would enable faster action on issues like supplier misconduct or consumer protection gaps.
- 4. Expand Data-Driven Decision-Making:**
 - Utilise real-time data analytics to identify and address emerging challenges more effectively. For example, data on grid performance and consumer complaints could inform quicker rulemaking to address regional disparities.
- 5. Align Rules with Regional Needs:**
 - Ensure new rules are adaptable to regional contexts, such as the Highlands' reliance on renewable energy and the challenges of rural infrastructure. Tailored regulations could address unique issues like high standing charges and limited supplier competition.
- 6. Increase Collaboration with NESO:**
 - Work closely with the National Energy System Operator (NESO) to ensure rule changes align with strategic energy plans, particularly for regions contributing significantly to renewable generation.

Potential Benefits for the Highlands:

- 1. Faster Resolution of Grid Constraints:**
 - A more agile rule-making process would enable quicker interventions to alleviate bottlenecks and accelerate the integration of renewable energy projects in the Highlands.
- 2. Improved Consumer Protections:**
 - Timely rules could address issues like unfair pricing or poor service delivery, ensuring that Highland consumers are not disproportionately affected by systemic market failures.
- 3. Support for Innovation:**
 - Streamlined processes would encourage investment in emerging technologies and community energy projects, fostering economic growth and energy independence in the Highlands.

Reforming the rule-making process to allow for faster, more flexible responses would enhance Ofgem's ability to address emerging challenges in a rapidly evolving energy market. For regions like the Highlands, where unique challenges and opportunities exist, these changes are critical to ensuring equitable outcomes and maximising renewable energy potential.

We are seeking views on how Ofgem might better respond, or be better equipped to respond, to emerging issues, especially for which there is not already a clear precedent

The dynamic nature of the energy sector, driven by rapid technological advancements, climate goals, and regional disparities, requires Ofgem to adopt a more agile, forward-looking approach to emerging issues. In regions like the Highlands, where renewable energy production is central to the local and national energy landscape, Ofgem must address unique challenges such as grid constraints, energy pricing inequities, and the integration of new technologies. Strengthening its ability to respond to unprecedented issues is critical to fostering equitable outcomes and ensuring robust regulatory oversight.

Challenges in Responding to Emerging Issues:

1. **Lack of Precedents for New Technologies:**
 - Technologies like hydrogen, energy storage, and decentralised systems are evolving rapidly, creating regulatory gaps that delay their adoption and impact rural areas like the Highlands.
2. **Regional Disparities:**
 - The Highlands face unique challenges, such as high energy costs and grid infrastructure bottlenecks, which often lack regulatory frameworks tailored to address these specific issues.
3. **Slow Regulatory Adaptation:**
 - Ofgem's processes are often too slow to respond to urgent issues, such as supplier failures or poor practices in emerging markets like low-carbon technology installations.

Recommendations for Improvement:

1. **Establish a Dedicated Emerging Issues Taskforce:**
 - Create a team within Ofgem to proactively monitor market trends, technological advancements, and regional energy challenges. This taskforce should engage closely with stakeholders, including the Highland Council, to identify and address region-specific issues.
2. **Introduce Provisional Regulations:**
 - Allow for temporary regulations to be implemented while long-term frameworks are developed. This would enable Ofgem to respond quickly to new challenges, such as integrating community energy projects or addressing energy price disparities in rural areas.
3. **Enhance Collaboration with Stakeholders:**
 - Strengthen partnerships with local authorities, industry experts, and community groups to gain insights into emerging challenges. In the Highlands, collaboration with the Council can ensure local priorities are reflected in regulatory responses.
4. **Expand Regulatory Sandboxes:**
 - Broaden the use of regulatory sandboxes to test innovative technologies and business models in real-world conditions. This approach is particularly relevant for the Highlands, where renewable energy and decentralised systems have significant potential.
5. **Adopt a Risk-Based Approach:**
 - Use risk assessments to prioritise regulatory responses to emerging issues, focusing on areas with the greatest potential consumer harm or market disruption. For example, addressing grid constraints in the Highlands should be a priority due to its impact on renewable energy integration.
6. **Leverage Data and Digital Tools:**
 - Invest in advanced data analytics to identify emerging issues earlier and support evidence-based decision-making. For instance, data on grid performance and consumer complaints can inform proactive interventions.
7. **Strengthen Regional Oversight:**
 - Establish regional oversight mechanisms to address unique challenges in areas like the Highlands. This could include appointing regional representatives within Ofgem to focus on localised issues and ensure timely responses.
8. **Build Flexibility into Regulatory Frameworks:**
 - Design regulatory frameworks that can adapt to unforeseen developments, such as rapid shifts in consumer behaviour or unexpected technological breakthroughs. This flexibility would support the Highlands' evolving energy landscape.

Potential Benefits for the Highlands:

1. **Faster Grid Upgrades:**

- Proactive responses to grid constraints would enable the Highlands to maximise its renewable energy potential and contribute more effectively to national decarbonisation goals.

2. **Improved Consumer Protections:**

- Timely interventions in emerging markets, such as low-carbon technology installations, would protect rural consumers from exploitation and ensure high-quality services.

3. **Support for Local Innovation:**

- By fostering innovation and addressing regulatory barriers, Ofgem could unlock the potential of community energy projects and decentralised systems in the Highlands.

To better respond to emerging issues, Ofgem must adopt more agile, collaborative, and data-driven approaches. For regions like the Highlands, these changes are essential to addressing unique challenges, protecting consumers, and maximising the region's contributions to the UK's energy transition.

Supplier failure

As mentioned, the collapse of several energy suppliers in 2021-2022 exposed critical shortcomings in the financial resilience measures overseen by Ofgem.

Ofgem's current powers in this space are limited to the licensee and once the licence is revoked (as it is due to insolvency to appoint a Supplier of Last Resort) it cannot take regulatory or enforcement action against the insolvent company. While the regulator has a new financial resilience framework and can step in to manage failures or issue fines after a breach occurs, there are limited incentives for licensees to prioritise compliance at times of financial distress. More proactive measures could prevent collapses before they occur or limit the impact of a collapse on consumers. Ofgem has limited authority to intervene in the relationships between suppliers and third parties, such as parent/group companies or those providing critical services, financial institutions, brokers, and insurers, limiting Ofgem's ability to more effectively manage certain risks associated with financial resilience.

Government will examine whether Ofgem's current powers are sufficient to manage these situations effectively or whether new powers should be created to ensure affected customers receive continuity of service and are not financially disadvantaged as a result of having been supplied by a company that has gone into insolvency.

We are seeking views on how Ofgem might be better equipped to protect consumer interests in cases of (predicted or actual) supplier insolvency and/or financial distress.

The collapse of several energy suppliers during 2021–2022 exposed vulnerabilities in Ofgem's ability to manage financial risks and protect consumers effectively. For regions like the Highlands, where energy costs are disproportionately high and supplier options are often limited, it is essential that Ofgem is equipped to anticipate and mitigate the impacts of supplier insolvencies.

Challenges in Addressing Supplier Insolvencies:

1. **Consumer Disruption:**
 - Supplier failures result in service disruptions and financial burdens for consumers, particularly in rural areas like the Highlands, where switching suppliers is often more challenging.
2. **Inadequate Oversight of Financial Resilience:**
 - Existing measures to monitor supplier financial health are insufficient, leaving consumers vulnerable to poorly managed or undercapitalised companies.
3. **Insufficient Protections for Vulnerable Consumers:**
 - Fuel-poor households, prevalent in the Highlands, are disproportionately affected by supplier insolvencies, facing delayed compensation and increased costs.

Recommendations for Strengthening Ofgem's Role:

1. **Proactive Monitoring of Financial Resilience:**
 - Enhance oversight of supplier financial health through mandatory stress testing and regular financial audits. Require suppliers to demonstrate adequate capital reserves to protect consumers in the event of market volatility.
2. **Stronger Entry and Viability Standards:**
 - Tighten licensing requirements to ensure that new and existing suppliers have robust business models and financial resilience. This would reduce the likelihood of failures that disrupt services and increase costs for consumers.
3. **Consumer Protection Funds:**
 - Establish a centralised fund, contributed to by suppliers, to protect consumers in the event of insolvency. This fund could cover credit balances, outstanding refunds, and transitional support for affected customers, including those in the Highlands.
4. **Supplier of Last Resort (SOLR) Enhancements:**
 - Improve the SOLR mechanism to ensure that consumers are seamlessly transferred to stable suppliers without financial penalties or service disruptions. For the Highlands, this includes prioritising continuity of service for remote households.
5. **Collaboration with Financial Institutions:**
 - Work with banks and insurers to ensure suppliers have access to financial guarantees and risk mitigation tools, reducing the likelihood of insolvency during market shocks.
6. **Increased Enforcement Powers:**
 - Grant Ofgem the authority to intervene earlier in cases of predicted financial distress, such as requiring suppliers to submit recovery plans or limiting their ability to acquire new customers until stability is restored.
7. **Regional Considerations:**
 - Develop tailored strategies to address the unique needs of rural regions like the Highlands, where supplier options are limited, and the impacts of insolvency are magnified. This could include ensuring that regional-specific tariffs and protections remain intact during supplier transitions.
8. **Consumer Communication and Education:**
 - Strengthen communication with consumers to provide clear guidance during supplier insolvencies. Educate households, particularly in rural areas, on their rights and the protections available to them.

Potential Benefits for the Highlands:

1. **Enhanced Stability:**
 - Proactive measures to prevent supplier failures would ensure greater stability in the energy market, reducing risks for rural consumers in the Highlands.

2. Improved Consumer Protections:

- Tailored safeguards, such as credit balance guarantees, would protect Highland households from financial loss during supplier transitions.

3. Reduced Fuel Poverty:

- Minimising the disruption and cost burdens associated with insolvencies would help alleviate fuel poverty, a critical issue in the Highlands.

To better protect consumers, Ofgem must adopt stronger oversight, early intervention mechanisms, and tailored protections to address the impacts of supplier insolvencies. For the Highlands, where the consequences of supplier failures can be particularly severe, these measures are essential to ensuring continuity of service, affordability, and consumer trust.

Standards and redress

The government wants to see an energy market that delivers better outcomes for consumers. While consumers should have confidence in the level of service they receive in the energy market, it is also important that the appropriate rules and processes are in place to ensure issues are adequately resolved when things go wrong.

Despite some recent improvements with suppliers' customer service ratings⁵, customer satisfaction with the energy sector remains low. Polling shows that the top reasons for consumer dissatisfaction continue to include difficulty contacting suppliers and the time taken to get queries resolved. Satisfaction with the handling of complaints also remains low⁶.

The government welcomes Ofgem's commitments to drive up standards and look at how consumers receive redress through its Consumer Confidence programme⁷, and it is important that the regulator continues work aimed at improving outcomes for consumers.

Automatic compensation

In its election manifesto, the Government committed to strengthening the regulator and ensuring that consumers receive automatic customer compensation when there is failure. The Guaranteed Standards of Performance (GSoP) provide automatic compensation to gas and electricity consumers if their supplier does not meet certain standards (e.g., billing issues). Compensation is also covered under the Quality of Service Guaranteed Standards (QSG) which cover issues related to Distribution Network Operators and Gas Transporters such as power outages.

The current framework for consumer compensation includes different levels of redress, eligibility criteria and automation across different issues and areas of the energy market. This potentially makes it difficult for consumers to understand their rights when things go wrong and to secure appropriate compensation in some scenarios. Consumers may also receive compensation through raising a complaint with their supplier. Compensation may be offered directly from a supplier after a complaint is raised or the Energy Ombudsman may order a supplier to pay compensation following the Alternative Dispute Resolution process.

The Government recognises there is already ongoing work related to compensation. Ofgem has announced that to reflect inflation it will be increasing the rate of compensation for supplier GSoP's from £30 to £40, which will come into effect on 2 January 2025. Through its Consumer Confidence programme, Ofgem has committed to look at reviewing current compensation arrangements within GSoPs.

The Government also recognises that other sectors have their own approaches and models regarding customer compensation. The Department for Environment, Food and Rural Affairs has recently consulted on changes to the compensation scheme in the water and sewerage

⁵ <https://www.citizensadvice.org.uk/wales/about-us/media-centre/press-releases/sluggish-improvement-in-energy-company-customer-service-according-to/>

⁶ <https://www.ofgem.gov.uk/publications/energy-consumer-satisfaction-survey-july-2024>

⁷ <https://www.ofgem.gov.uk/publications/consumer-confidence-step-standards>

sectors⁸. In the telecoms sector, there is a voluntary automatic compensation scheme that the main providers are signed up to. The rail sector has the national 'Delay Repay' scheme which refunds customers depending on the extent of any delay. The Government is interested in whether there are examples in other sectors that could be applicable to the energy sector.

The Government welcomes initial views and evidence on the extent to which the current compensation framework is fit for purpose, both now and in a future market, and how it could be improved to serve consumers better. This includes considerations around the level of payments to consumers, the scope of current compensation arrangements and the mechanisms for delivering automatic compensation.

Is the current compensation framework in the energy market fit for purpose to protect consumers and ensure they receive a consistent minimum level of service?

The current compensation framework, governed primarily by the Guaranteed Standards of Performance (GSOP), provides some consumer protections, but significant gaps remain. For regions like the Highlands, where systemic challenges such as high energy costs, limited supplier options, and grid constraints persist, the framework does not adequately address regional inequities or ensure consistent service quality.

Challenges with the Current Framework:

- 1. Limited Awareness and Accessibility:**
 - Many consumers are unaware of their rights under the existing framework, particularly in rural and remote areas like the Highlands, where communication channels are often less effective.
- 2. Inconsistent Coverage Across Issues:**
 - The framework primarily covers specific service failures, such as delays in billing or switching, but does not address broader issues like pricing inequities or regional service disparities.
- 3. Insufficient Compensation Levels:**
 - Current compensation amounts often fail to reflect the inconvenience or financial impact of service failures, particularly for vulnerable households in rural areas.
- 4. Delayed Redress:**
 - Lengthy timelines for resolving complaints and issuing compensation leave consumers waiting for redress, exacerbating financial stress in fuel-poor regions like the Highlands.

Recommendations for Improving the Framework:

- 1. Increase Compensation Levels:**
 - Align compensation rates with the severity of the issue and the financial impact on consumers. For rural areas like the Highlands, where service failures can have greater consequences, higher compensation rates should be applied.
- 2. Expand Coverage:**
 - Include compensation for systemic issues, such as prolonged grid constraints or pricing disparities, which disproportionately impact energy-producing regions like the Highlands.
- 3. Simplify the Process:**

- Streamline the compensation claim process to make it more accessible and user-friendly, particularly for consumers in remote areas. This could involve automatic compensation mechanisms for qualifying failures.
- 4. Introduce Regional Adjustments:**
 - Tailor compensation frameworks to reflect regional challenges, such as the higher costs and risks faced by Highland consumers due to grid limitations and extreme weather conditions.
- 5. Enhance Communication and Awareness:**
 - Launch targeted campaigns to educate consumers about their compensation rights. Collaboration with local authorities, such as the Highland Council, could improve outreach in rural areas.
- 6. Incorporate Proactive Protections:**
 - Require suppliers to offer upfront compensation for anticipated service failures, such as delays in grid connection for new renewable projects in the Highlands.
- 7. Leverage Penalty Funds for Compensation:**
 - Use revenues from supplier penalties to fund compensation programs, ensuring that affected consumers directly benefit from regulatory enforcement actions.

Potential Benefits for the Highlands:

- 1. Greater Equity for Rural Consumers:**
 - A reformed compensation framework would address regional disparities, ensuring Highland residents are not disproportionately disadvantaged by service failures.
- 2. Improved Consumer Trust:**
 - Clear, consistent, and timely compensation mechanisms would build trust among Highland consumers, encouraging greater engagement with the energy market.
- 3. Support for Vulnerable Households:**
 - Higher compensation levels and quicker redress would provide critical financial relief to fuel-poor households in the Highlands.

The current compensation framework needs significant reform to better protect consumers and ensure consistent service standards across the UK. For the Highlands, these changes would address unique regional challenges, enhance consumer trust, and support the region's transition to a more equitable and sustainable energy system.

Are consumers aware of their rights under the existing compensation framework and are eligible consumers receiving timely, appropriate redress when they do experience poor levels of service?

Consumer awareness of their rights under the existing compensation framework remains limited, particularly in rural and remote areas like the Highlands. This lack of awareness, coupled with delays in redress mechanisms, leaves many eligible consumers without timely or appropriate compensation for service failures. Strengthening communication, simplifying processes, and ensuring accountability are critical to improving outcomes.

Challenges with Consumer Awareness and Redress:

- 1. Low Awareness of Rights:**
 - Many consumers in the Highlands are unaware of their entitlement to compensation for issues such as delays in switching, billing errors, or outages. This is exacerbated by limited access to effective communication channels in rural areas.

2. Complexity of Processes:

- The compensation claim process can be overly complicated, deterring consumers from pursuing their rights. For vulnerable households in the Highlands, navigating these processes can be particularly challenging.

3. Delays in Redress:

- Compensation payments are often delayed due to lengthy investigation and resolution timelines. This disproportionately impacts rural consumers, who may rely heavily on timely service due to limited alternatives.

4. Inconsistent Application of Standards:

- Some energy suppliers fail to proactively inform consumers about their rights or process compensation claims efficiently. This undermines trust and leaves many eligible consumers without redress.

Recommendations for Improvement:

1. Enhance Consumer Education:

- Launch targeted campaigns to raise awareness of compensation rights, with a focus on rural and remote areas like the Highlands. Collaboration with local authorities, such as the Highland Council, can improve outreach and accessibility.

2. Simplify the Compensation Process:

- Develop a streamlined, user-friendly system for claiming compensation, including online and offline options. For rural consumers, this should include support for those without reliable internet access.

3. Introduce Automatic Compensation:

- Implement automatic compensation for common service failures, such as delayed switching or prolonged outages. This would eliminate the need for consumers to initiate claims and ensure timely redress.

4. Monitor Supplier Compliance:

- Strengthen regulatory oversight to ensure suppliers proactively inform consumers of their rights and process compensation claims efficiently. Regular audits and public reporting of compliance metrics would increase accountability.

5. Leverage Local Networks:

- Engage community organisations and local councils to disseminate information about compensation rights and provide support to consumers in understanding and accessing redress mechanisms.

6. Reduce Redress Timelines:

- Set strict deadlines for suppliers to resolve complaints and issue compensation. Faster resolution processes would alleviate financial stress for affected consumers.

Potential Benefits for the Highlands:

1. Improved Access to Compensation:

- Simplified processes and increased awareness would ensure that Highland consumers receive the compensation they are entitled to, addressing systemic inequities in service standards.

2. Enhanced Consumer Trust:

- Proactive communication and timely redress would build trust in the energy market, encouraging greater engagement from rural and vulnerable households.

3. Support for Vulnerable Consumers:

- Automatic compensation mechanisms would provide critical financial relief to fuel-poor households in the Highlands, reducing the burden of service failures.

To ensure that consumers are aware of their rights and receive timely, appropriate redress, Ofgem must prioritise education, simplify compensation processes, and hold suppliers

accountable. For the Highlands, these measures would address regional disparities, improve consumer outcomes, and support a fairer and more equitable energy market.

Are there ways in which the current compensation framework could be improved to better serve consumers? For example, are there specific issues or service areas not currently covered by the existing compensation framework where there is evidence of consumer detriment?

The current compensation framework provides baseline protections for consumers but falls short in addressing systemic and regional issues, particularly in areas like the Highlands. Gaps in the framework leave certain service failures unaddressed, and vulnerable households often face disproportionate impacts. Expanding the scope and accessibility of the framework is essential to ensure fair outcomes for all consumers.

Gaps in the Current Framework:

- 1. Regional Pricing Inequities:**
 - The compensation framework does not address disparities in energy costs, such as the disproportionately high standing charges and unit costs faced by Highland consumers despite the region's significant renewable energy contribution.
- 2. Grid Connection Delays:**
 - Prolonged delays in connecting renewable energy projects to the grid are not covered, impacting developers and communities dependent on these projects for local economic benefits and affordable energy.
- 3. Low-Carbon Technology Failures:**
 - Consumers installing technologies like heat pumps or solar panels face risks of poor-quality installations or mis-selling, yet these issues are not comprehensively addressed by the framework.
- 4. Service Failures in Remote Areas:**
 - Rural consumers, such as those in the Highlands, are disproportionately affected by extended outages and delayed service responses, which are inadequately compensated under the current framework.

Recommendations for Improvement:

- 1. Address Regional Energy Disparities:**
 - Include provisions for compensating consumers in regions where pricing inequities persist, such as the Highlands. This could involve compensation for excessive standing charges or recognition of the region's renewable energy contributions.
- 2. Incorporate Renewable Integration Delays:**
 - Extend the framework to compensate for grid connection delays that impact renewable energy projects, recognising the economic and environmental costs of such disruptions.
- 3. Protect Low-Carbon Technology Consumers:**
 - Introduce specific compensation mechanisms for issues related to low-carbon technology installations, such as delays, substandard installations, or mis-selling. This would build consumer trust and accelerate adoption in regions like the Highlands.
- 4. Expand Coverage for Outages and Service Failures:**
 - Increase compensation for extended outages in remote areas, accounting for the higher impact on rural households reliant on electricity for heating and essential services.

5. Implement Automatic Compensation:

- Expand automatic compensation to include a broader range of service failures, such as delayed grid connections, prolonged outages, and poor installation practices. This would eliminate barriers for consumers in accessing redress.

6. Enhance Consumer Awareness:

- Develop targeted educational campaigns to ensure consumers are aware of their rights under the improved framework. For the Highlands, collaboration with local authorities and community organisations could improve outreach.

7. Incorporate Fuel Poverty Mitigation:

- Provide additional compensation for households in fuel poverty, particularly in regions like the Highlands, where energy costs are a significant burden.

8. Address Broader Service Failures:

- Expand coverage to include compensation for supplier mismanagement or systemic failures, such as inaccurate billing or delays in implementing promised improvements.

Potential Benefits for the Highlands:

1. Equity for Rural Consumers:

- Addressing regional disparities and extending compensation coverage would ensure that Highland consumers receive fair treatment and financial redress for systemic challenges.

2. Support for Renewable Energy Goals:

- Recognising and compensating grid connection delays would encourage renewable energy development in the Highlands, supporting the region's economic growth and national net zero targets.

3. Improved Consumer Confidence:

- Proactive protections for low-carbon technology installations and service failures would build trust among Highland residents, encouraging participation in the energy transition.

Expanding the scope of the compensation framework to address regional disparities, grid connection delays, and low-carbon technology failures would better protect consumers and drive equitable outcomes. For the Highlands, these improvements are critical to addressing systemic challenges and ensuring fair access to affordable and reliable energy services.

Are there examples of compensation frameworks in other sectors that are worth consideration in the context of the energy market?

Compensation frameworks in other sectors, such as telecommunications, water, and transport, provide valuable lessons that could be applied to the energy market to improve consumer outcomes. These frameworks emphasise automatic compensation, consumer protection, and swift redress for service failures, all of which could address gaps in the current energy compensation framework, particularly in regions like the Highlands.

Examples from Other Sectors:

1. Telecommunications (Ofcom's Automatic Compensation Scheme):

- Ofcom's scheme ensures broadband, and landline customers receive automatic compensation for service failures, such as delayed repairs, missed appointments, or missed service activation dates.
- **Applicability to Energy:**

- Automatic compensation for delayed grid connections, missed service appointments, or prolonged outages could provide Highland consumers with quicker redress and reduce the administrative burden of claiming compensation.
- 2. **Water Industry (Guaranteed Standards Scheme - GSS):**
 - The water sector provides compensation for service interruptions, such as supply outages or poor pressure, with fixed rates and mandatory redress for failures.
 - **Applicability to Energy:**
 - A similar approach could ensure Highland households receive consistent compensation for power outages or poor-quality service, particularly during extreme weather events.
- 3. **Rail Transport ('Delay Repay' Scheme):**
 - Train operators compensate passengers for delays starting from as little as 15 minutes, with proportional refunds based on the length of the delay.
 - **Applicability to Energy:**
 - A proportional compensation system for energy service disruptions, such as delayed resolution of complaints or power restoration, would better reflect the impact on rural communities like those in the Highlands.
- 4. **Financial Services (Financial Ombudsman Service - FOS):**
 - The FOS compensates consumers for poor practices in financial services, emphasising consumer-first principles and holding providers accountable for failures.
 - **Applicability to Energy:**
 - A similar consumer-first approach could empower Highland households to seek compensation for issues like mis-selling of energy tariffs or poor-quality low-carbon technology installations.
- 5. **Aviation (EU Regulation 261/2004 for Flight Delays and Cancellations):**
 - Airlines are required to compensate passengers for delays or cancellations based on the length of the delay and distance travelled.
 - **Applicability to Energy:**
 - Compensation linked to the duration and severity of service failures could provide a fairer system for consumers in the Highlands, where extended outages or delays in grid connections have greater impacts.

Key Lessons for the Energy Market:

1. **Automatic Compensation:**
 - Automatic compensation for common failures, such as outages or delayed connections, would ensure Highland consumers are not burdened with the responsibility of initiating claims.
2. **Proportional Redress:**
 - Compensation should be proportional to the duration and severity of the failure, as demonstrated in the rail and aviation sectors.
3. **Consumer-Centric Design:**
 - Adopt a consumer-first approach similar to financial services, prioritizing clear communication, accessibility, and accountability in the compensation process.
4. **Regional Adjustments:**
 - Tailor compensation frameworks to address regional disparities, such as the high energy costs and infrastructure challenges faced by Highland households.

Potential Benefits for the Highlands:

1. **Improved Consumer Trust:**

- Automatic and proportional compensation mechanisms would build trust among Highland consumers, ensuring they feel valued and protected.
- 2. **Fairer Outcomes for Rural Areas:**
 - Adapting lessons from other sectors to reflect regional challenges would ensure that Highland households are not disproportionately disadvantaged.
- 3. **Support for Energy Transition:**
 - Compensation for delays in renewable energy integration and low-carbon technology installations would encourage greater participation in the energy transition, supporting the Highlands' role as a leader in renewable energy production.

Conclusion: Compensation frameworks from other sectors demonstrate the importance of automatic, proportional, and consumer-centric mechanisms. Applying these principles to the energy market would address systemic gaps and improve outcomes for all consumers, particularly those in regions like the Highlands, where service failures and regional inequities remain significant challenges.

How should Ofgem drive energy suppliers to go beyond minimum levels of service and deliver high standards of customer service?

To ensure that energy suppliers consistently exceed minimum service standards, Ofgem must adopt a multi-faceted approach that incentivises high performance, ensures accountability, and incorporates region-specific considerations. For regions like the Highlands, where challenges such as high energy costs and limited supplier options persist, a focus on delivering high-quality, equitable services is critical.

Recommendations for Driving High Standards:

1. **Incentivise Superior Performance:**
 - Introduce a performance-based reward system that incentivises suppliers to deliver exemplary customer service. Suppliers exceeding targets in areas like complaint resolution, response times, and customer satisfaction could receive public recognition or financial incentives.
 - Regional performance incentives could be tailored to address specific challenges faced by consumers in the Highlands, such as reducing response times for rural service issues.
2. **Strengthen Supplier Accountability:**
 - Expand reporting requirements to include detailed, region-specific customer service metrics, such as complaint resolution rates, call waiting times, and service quality for rural areas.
 - Publish performance data regularly to create transparency and foster competition among suppliers to improve service standards.
3. **Implement a 'Consumer First' Framework:**
 - Develop a framework similar to the Financial Conduct Authority's (FCA) Consumer Duty, requiring suppliers to act in the best interest of their customers. This would ensure that service improvements prioritise consumer outcomes, especially for vulnerable and rural populations like those in the Highlands.
4. **Introduce Penalties for Poor Performance:**
 - Impose meaningful penalties for suppliers that fail to meet baseline service standards. These penalties could be proportionate to the severity and frequency of failures, with higher fines for repeated or systemic issues impacting rural communities.

5. Encourage Tailored Solutions for Rural Areas:

- Require suppliers to develop strategies for addressing the unique challenges of rural and remote areas, such as the Highlands. This could include dedicated rural service teams, improved response times, and tailored communication channels.

6. Expand Consumer Protections:

- Strengthen protections for vulnerable consumers by requiring suppliers to provide additional support, such as proactive outreach during outages or dedicated resources for addressing rural service challenges.

7. Incorporate Customer Feedback:

- Mandate regular consumer surveys to gather feedback on supplier performance. This feedback should be analysed and used to develop targeted service improvements, with specific emphasis on addressing regional disparities.

8. Introduce a High-Performance Certification Scheme:

- Create a certification or rating system that recognises suppliers demonstrating exceptional customer service. This could be modelled on Citizens Advice star ratings and prominently displayed to help consumers make informed choices.

9. Promote Innovation in Service Delivery:

- Encourage suppliers to adopt innovative technologies, such as AI-driven chatbots or smart meters, to enhance service delivery and accessibility. For the Highlands, this could include innovations to improve communication during outages or provide real-time updates on service restoration.

Potential Benefits for the Highlands:

1. Improved Equity in Service Delivery:

- Tailored performance incentives and accountability measures would ensure that Highland consumers receive the same high-quality service as those in urban areas.

2. Enhanced Consumer Trust:

- Transparent reporting and consistent improvements in service quality would build trust among Highland households, encouraging greater engagement with suppliers and the energy market.

3. Support for Vulnerable Consumers:

- Strengthened protections and targeted rural strategies would address the unique needs of vulnerable households in the Highlands, reducing the impact of systemic challenges.

4. Boost to Regional Development:

- By prioritising high standards, suppliers can contribute to the broader economic development of regions like the Highlands, fostering trust in renewable energy projects and infrastructure investments.

To drive energy suppliers to go beyond minimum service levels, Ofgem must implement a combination of incentives, accountability measures, and tailored strategies. For the Highlands, where service challenges are magnified by rurality and systemic inequities, these efforts are essential to ensuring fair, high-quality, and consumer-centric energy services.

Energy Ombudsman

The Energy Ombudsman (EO) is an independent, not-for-profit company appointed by Ofgem as the Alternative Dispute Resolution (ADR) body for retail energy complaints about suppliers.

Currently, if a customer is unable to reach a settlement with their supplier within 8 weeks of raising a complaint (or if a supplier notifies a customer that they can do no more before this point) they are able to refer their complaint to the EO.

Households and companies with fewer than 10 employees are already eligible to use the EO's services to settle disputes with their energy supplier – including issues with billing, customer service, or how a product has been sold by an energy supplier. Government has [announced](#) that, in a significant move to bolster protections for small businesses within the energy sector, it will introduce a new threshold enabling a wider range of non-domestic energy customers to seek redress through the EO. The changes came into effect on 1 December 2024.

⁸ <https://consult.defra.gov.uk/water-affordability-and-consumers/consultation-on-updating-the-guaranteed-standards/consultation/intro/>

Consumers should have confidence that issues will be resolved efficiently when things go wrong. The Government and Ofgem intend to work together to consider the 8-week referral timeframe, as well as identifying ways more generally to drive quicker resolutions when problems occur.

The EO works with suppliers and consumers to collect and review relevant information when dealing with disputes. The EO then has the power to issue decisions which may include suppliers providing compensation, amending customer accounts or it can make wider recommendations aimed at improving practices and preventing issues from recurring. While the EO has powers to issue binding decisions on suppliers it does not have enforcement powers to compel suppliers to implement the remedies contained within their resolutions. Data shows that the EO is able to resolve the majority of the complaints it deals with. However, the Government recognises that there is the possibility of scenarios where the lack of enforcement powers held by the EO may mean that consumers face delays in receiving redress from suppliers or may not receive it at all.

Currently, the EO refers any concerns with specific suppliers not implementing their decisions to Ofgem. The Government is interested in views on the extent to which the EO's current powers and Ofgem's monitoring role are sufficient to enable consumer disputes to be investigated fully with any remedies implemented promptly and in full.

As well as being responsible for appointing the EO, Ofgem is required to review the performance of the EO on a biennial basis to ensure it still meets the approval criteria under which it was appointed⁹. There are different examples of governance models for Ombudsman services in other sectors, such as the Financial Ombudsman which has a statutory basis. The Government welcomes views on whether the current model in the energy sector is the right one for efficiently resolving consumer disputes.

We are seeking views on whether there are changes that could be made to the model under which Ofgem appoints the Energy Ombudsman, to strengthen the Energy Ombudsman's ability to resolve consumer disputes.

The Energy Ombudsman (EO) plays a critical role in resolving consumer disputes and ensuring accountability within the energy sector. However, its current model has limitations that can delay redress and limit its effectiveness, particularly in addressing the unique challenges faced by rural and remote areas like the Highlands. Strengthening the Ombudsman's powers, processes, and regional sensitivity would enhance its ability to deliver fair and timely outcomes for all consumers.

Challenges with the Current Model:

1. Limited Enforcement Powers:

- While the EO can make binding decisions, it lacks direct enforcement powers to compel suppliers to implement remedies, leaving some consumers without timely redress.

2. Awareness Gaps:

- Many consumers, especially in rural areas like the Highlands, are unaware of the EO's role and how to access its services, leading to underutilisation of this critical dispute resolution mechanism.

3. Delayed Resolutions:

- The current 8-week referral timeframe and resolution processes can leave consumers waiting for extended periods, exacerbating financial and service-related stress.

4. Regional Disparities:

- The EO's centralised approach may not fully account for the specific needs of rural and remote consumers, such as those in the Highlands, who face higher energy costs and unique service challenges.

Recommendations for Strengthening the Energy Ombudsman:

- 1. Grant Enforcement Powers:**
 - Equip the EO with direct enforcement powers to ensure suppliers implement decisions promptly. This could include the ability to impose penalties or fines for non-compliance, reducing delays in consumer redress.
- 2. Enhance Consumer Awareness:**
 - Launch targeted outreach campaigns to increase awareness of the EO's services, particularly in rural areas like the Highlands. Collaboration with local authorities and community organisations could improve accessibility.
- 3. Reduce Referral Timelines:**
 - Shorten the 8-week referral period to allow consumers to escalate disputes to the EO more quickly. This would ensure faster resolutions for urgent issues, such as prolonged outages or billing errors.
- 4. Expand Coverage for Rural Issues:**
 - Develop a regional support framework within the EO to address the specific needs of rural and remote consumers. This could include dedicated caseworkers familiar with the challenges faced by Highland households.
- 5. Strengthen Supplier Accountability:**
 - Require suppliers to report unresolved disputes to the EO proactively and provide quarterly updates on dispute resolution rates. This would ensure greater accountability and transparency.
- 6. Leverage Technology for Accessibility:**
 - Use digital platforms to streamline the dispute resolution process, allowing consumers to submit and track complaints online. For the Highlands, ensure that offline support options remain available for consumers without reliable internet access.
- 7. Increase Stakeholder Collaboration:**
 - Work closely with Ofgem, local councils like the Highland Council, and consumer advocacy groups to ensure the EO's approach aligns with regional energy priorities and consumer needs.
- 8. Periodic Performance Reviews:**
 - Conduct regular independent assessments of the EO's performance, focusing on resolution times, consumer satisfaction, and regional impact. These reviews should include feedback from stakeholders in rural areas to identify and address gaps.

Potential Benefits for the Highlands:

- 1. Improved Access to Redress:**
 - Enhanced awareness and reduced referral timelines would ensure Highland consumers can resolve disputes more efficiently and effectively.
- 2. Stronger Consumer Protections:**
 - Direct enforcement powers would provide greater assurance that suppliers comply with EO decisions, protecting vulnerable households in the Highlands.
- 3. Addressing Regional Inequities:**
 - A tailored approach for rural and remote areas would ensure that Highland consumers receive fair and equitable treatment in the dispute resolution process.
- 4. Increased Trust in the Energy Market:**
 - A strengthened Ombudsman model would build consumer confidence, encouraging greater participation in renewable energy initiatives and other market opportunities.

Strengthening the Energy Ombudsman's powers, processes, and regional focus is essential to ensuring fair and timely dispute resolution for all consumers. For the Highlands, where systemic energy challenges persist, these changes would address regional inequities, protect vulnerable households, and foster trust in the energy market.

⁹ <https://www.ofgem.gov.uk/publications/biennial-assessment-ombudsman-services-under-alternative-dispute-resolution-adr-regulations-2021-2023>

Consultation questions

Legal Mandate

We are seeking views on what Ofgem's mandate should be.

Duties

We are seeking views on whether Ofgem's duties should be streamlined, and if they should, views on which goals might be prioritised.

Transparency and accountability

We are seeking views on making more detailed information available about energy company performance and behaviour, and how this might assist other licensees and consumers.

We are inviting views on Ofgem's annual report and the KPIs it reports against, and how to strengthen Parliamentary scrutiny of Ofgem's performance.

Skills and capability

We are seeking views on the capabilities Ofgem needs to be an effective regulator in a more digital, fast-moving sector.

Ofgem's Regulatory Remit

Does Ofgem have the right regulatory remit? Have you observed harms caused by uncertainty over Ofgem's remit, or by gaps in what is currently regulated in the energy sector?

We are seeking views on Ofgem's role in an energy system that is now, in part, driven by strategic planning following the creation of NESO, in particular, how should regulatory strategy be aligned with strategic energy plans.

Delivering Investment and Innovation in the Transition

We are seeking views on the role Ofgem should play to support growth and the government's industrial strategy.

What can Ofgem do to increase investment and innovation in the sector?

What might Ofgem do to support an environment of falling energy prices?

What else might Ofgem do differently to support higher growth in the energy sector and wider economy?

Are Ofgem's regulatory processes sufficiently fast, effective and user friendly?

Low Carbon Technologies

We are seeking views on Ofgem's remit in enforcing consumer law in respect of low carbon technologies, such as heat pumps and solar panels, and what the appropriate boundaries might be.

Better outcomes for consumers and more accountability

The 'better outcomes for consumers and more accountability' section therefore seeks views around increasing accountability and consumer standards in the sector.

Improving executive accountability and consumer standards

We are seeking views on how Ofgem can ensure consumer standards are better represented – for example with reference to other business models within the sector, such as through potentially adopting a 'consumer duty' and 'Senior Management Regime'

Enhanced investigatory & enforcement powers to protect consumers

We are seeking views on Ofgem having enhanced investigatory powers.

We are seeking views on Ofgem being granted enhanced enforcement powers similar to the CMA

Approach to Penalties and Compliance Orders

We are seeking views on whether the scope and scale of Ofgem's current penalties are set at the right level.

Increasing the costs of bad practice

We are seeking views on the current system of a maximum fine of 10% and whether it should change?

Quicker response to emerging issues

We are seeking views around whether this process should change to make it easier for Ofgem to create new rules to respond to emerging challenges

We are seeking views on how Ofgem might better respond, or be better equipped to respond, to emerging issues, especially for which there is not already a clear precedent

Supplier failure

We are seeking views on how Ofgem might be better equipped to protect consumer interests in cases of (predicted or actual) supplier insolvency and/or financial distress.

Automatic compensation

Is the current compensation framework in the energy market fit for purpose to protect consumers and ensure they receive a consistent minimum level of service?

Are consumers aware of their rights under the existing compensation framework and are eligible consumers receiving timely, appropriate redress when they do experience poor levels of service?

Are there ways in which the current compensation framework could be improved to better serve consumers? For example, are there specific issues or service areas not currently covered by the existing compensation framework where there is evidence of consumer detriment?

Are there examples of compensation frameworks in other sectors that are worth consideration in the context of the energy market?

How should Ofgem drive energy suppliers to go beyond minimum levels of service and deliver high standards of customer service?

Energy Ombudsman

We are seeking views on whether there are changes that could be made to the model under which Ofgem appoints the Energy Ombudsman, to strengthen the Energy Ombudsman's ability to resolve consumer disputes.

Next steps

This call for evidence will close ten weeks after launch. Government will consider the responses we receive to this call for evidence to agree what further steps are required to strengthen Ofgem and we will subsequently publish a summary of responses and a report.

Annex

Ofgem's duties

Ofgem, the Office of Gas and Electricity Markets, is the non-ministerial government department that supports the Authority. The Authority is established as the independent economic regulator of gas and electricity markets in England, Scotland and Wales under the Utilities Act 2000. We use "Ofgem" in this document as a short-hand way of referring to the Authority as well as Ofgem itself.

Ofgem's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

The Authority must carry out its functions in the manner which it considers best calculated to further the principal objective, wherever appropriate by promoting effective competition within the electricity and gas sectors. Before deciding to carry out its functions in a particular manner with a view to promoting competition, the Authority must consider the extent to which the interests of consumers would be protected by that manner of carrying out those functions and whether there is any other manner (whether or not it would promote competition) in which the Authority could carry out those functions which would better protect those interests. The Authority must also, in this context have regard to the need to secure that all reasonable demands for electricity and gas are met; the need to secure that licensees can finance their regulated activities, and the need to contribute to the achievement of sustainable development. Furthermore, it must have regard to the interests of vulnerable individuals, including those who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas and may have regard to other types of vulnerability.

The following is a non-exhaustive summary of Ofgem duties:

Ofgem is required to carry out the functions referred to in the manner which it considers is best calculated to:

promote efficiency and economy on the part of those licensed under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;

protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity; and

In carrying out these functions Ofgem must also have regard to:

the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and

the strategy and policy statement designated by the Secretary of State.

The main duties are referenced in Section 4AA Gas Act 1986 and Section 3A Electricity Act 1989

<https://www.legislation.gov.uk/ukpga/1986/44/section/4AA>

<https://www.legislation.gov.uk/ukpga/1989/29/section/3/enacted>

The Energy Act 2023 provided for the modification of Ofgem's duties, as set out in the Gas Act 1986 and Electricity Act 1989, by including a duty for Ofgem to consider consumers' interests in the Secretary of State's compliance with the net zero targets and five-year carbon budgets provided for in sections 1 and 4(1)(b) of the Climate Change Act 2008.

<https://www.legislation.gov.uk/ukpga/2023/52/section/202>

Government has also added Ofgem to the list of regulators that must comply with the growth duty provided for in the Deregulation Act 2015. This requires Ofgem to have regard to the desirability of promoting economic growth when carrying out its core regulatory functions.

<https://www.legislation.gov.uk/ukpga/2015/20/section/108>

Ofgem has been appointed as the regulator for heat networks in England, Wales and Scotland.

<https://www.legislation.gov.uk/ukpga/2023/52/part/8>

Ofgem's powers to enforce competition law are derived from the Competition Act 1998

<https://www.legislation.gov.uk/ukpga/1998/41/contents>

Ofgem's consumer protection powers are derived the Enterprise Act 2002

<https://www.legislation.gov.uk/ukpga/2002/40/contents>

Ofgem's duties for maintaining a price cap are referenced in the Domestic Gas and Electricity (Tariff Cap) Act 2018

<https://www.legislation.gov.uk/ukpga/2018/21/contents>

This consultation is available from: www.gov.uk/government/calls-for-evidence/review-of-ofgem-call-for-evidence

If you need a version of this document in a more accessible format, please email alt.formats@energysecurity.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.