Performance Report

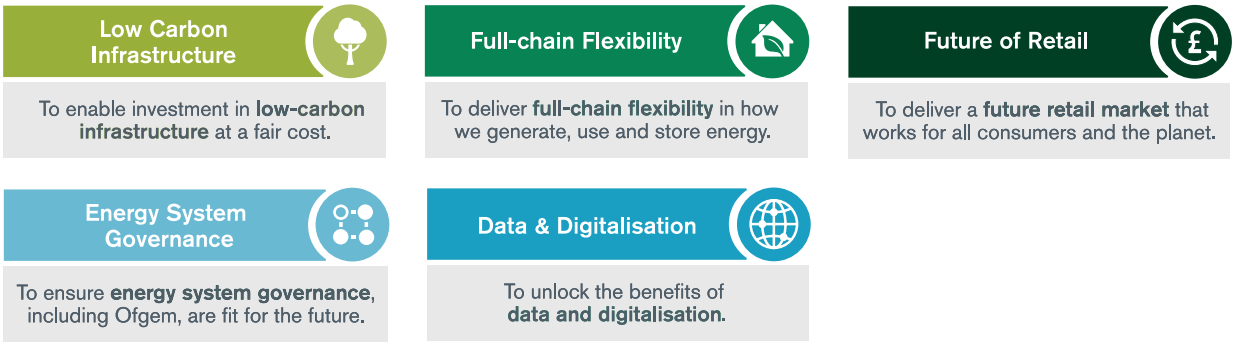
2020-21 Overview

Ofgem's new strategic framework

The energy system is undergoing a major transformation as we move to a net zero economy, with a rapid growth in renewable power, the electrification of cars, and the decarbonisation of heat, alongside the growing opportunities from a more flexible, data enabled system. Ofgem has an important role to play in leading this transition, delivering a smarter, greener energy system in the interests of energy consumers and the climate.

Building on the priorities set out in our 2019-23 **Strategic Narrative**, during 2020 we developed and published a new Strategic Framework. We sought stakeholder feedback through the development process, which confirmed high levels of support for the new strategic direction and priorities that we identified.

Formally adopted in December 2020, our **Strategic Framework** re-emphasised our core regulatory responsibility to protect consumers and deliver government environmental and social schemes, and set out five new strategic change programmes, where Ofgem can deliver the greatest impact to protect the interests of consumers and the climate. Our strategic change programmes are:



As with many public and private sector organisations, we significantly reprioritised our 2020-21 work programme in April 2020 due to the impact of the COVID-19 crisis. Our priority during this time was – and remains – to work with government, industry and consumer groups to protect consumers, especially the vulnerable. But we also continued to work to deliver wider and longer-term benefits to consumers as set out in this report.

Our commitments to protecting the interests of consumers and the climate are in line with the government's key energy and climate announcements and publications, including the Prime Minister's 10 Point Plan and the Energy White Paper with the Department for Business, Energy and industrial Strategy ('BEIS'), and we are working closely with government as they develop and implement their plans.

We have continued to deliver commitments that we made in our Decarbonisation Action Plan (the 'DAP'). We have also developed these into a more strategic approach by focusing on the changes needed to enable a decarbonised energy system through our strategic change programmes. Details of progress against actions are highlighted throughout this performance report.

Ofgem also continued to manage risks relating to cross border arrangements for the end of the transition period of the United Kingdom's (UK) withdrawal from the European Union (EU). Ofgem worked to ensure suitable contingencies were in place for electricity trading that went into effect when the UK left the Internal Energy Market at the end of 2020. We remain committed to working with European partners, government, and industry stakeholders to seek to maximise outcomes for energy consumers under the EU-UK Trade and Cooperation Agreement announced on 24 December 2020.

In late March we published our Forward Work Programme for 2021-22, which sets out the activities that we intend to deliver to support our strategic change programmes, as well as our enduring priorities.

Key achievements in 2020-21

Aggregated direct benefits – three-year average

Ofgem delivers significant value for energy consumers. Much of this cannot be easily quantified, but we aim to do so for the major decisions that we take. We expect that the major decisions we have taken in the previous three years will deliver over **£4.2 billion of direct benefits to consumers**. Ofgem's decisions have also enabled a range of investments which will support further decarbonisation of the energy sector.

Considering Ofgem's average cost of £108 million the correspondent cost-benefit ratio is 39. This means we expect to deliver on average £39 of benefit for every £1 of our costs.[2] Major decisions this year that we have quantified through a formal Impact Assessment include RIIO2 Final Determinations and Cap and Floor Variations.

3.2 million smart and advanced **smart meters** installed in the 2020 calendar year

More than **£10 million** made available through the Energy Redress Scheme for **fuel voucher support**

Consumer benefit of **£16.5 million** from prepayment meter warrant protections

Consumer benefit of **£1.5 million** from self-disconnection protections

Price cap and price protection refunds secured for over **1 million consumers**

- **Set a price control for gas and electricity transmission networks** that reduced allowed rates of return for network companies, saving consumers **£2.9bn** over the five year price control period, whilst also unlocking **£30 billion** of new investment to enable decarbonisation and ensure secure energy suppliers
- **Interconnector capacity increased to 6 gigawatts for electricity,** and will further increase to 7.4 gigawatts in 2021-22, helping to reduce carbon emissions and consumer costs
- **3.2 million smart and advanced meters installed in homes and small businesses (2020)** in total 23.6 million, enhancing consumer engagement to reduce consumers' bills and carbon consumption
- **The Innovation Link supported energy innovation** and shared insights with 18 regulators / bodies across the world
- **Support to industry during the COVID-19 crisis** - energy suppliers and shippers were able to defer around **£65m** of payments through Network Charge Deferral scheme
- **We published our review of energy system operation**, which considered whether the right governance framework is in place for the challenge of net zero - it recommended greater responsibilities for system operators, and called for independence of the system operator from transmission network owner
- **85 innovators used our 'Fast, Frank Feedback'** service to develop new products and services
- **As part of our work with BEIS and Innovate UK (Modernising Energy Data)**, we delivered three industry-facing Data Best Practice workshops with the Energy Systems Catapult
- **We issued guidance** and a call for energy companies to produce and publish their digitalisation strategies and action plans

[2] We use a three-year average to smooth out fluctuations in decision making from year to year. For further details, see the methodology section in the Consumer Impact Report 2019 p.42 https://www.ofgem.gov.uk/system/files/docs/2020/07/2020_cir_final.pdf

Detailed performance and achievements summary - 2020-21

In each section of the report, we have set out how the activities that we carried out during the year contributed to our new strategic programmes, in line with our principal objective to protect the interests of current and future energy consumers. Each section is further sub-divided by the consumer outcomes our activity has contributed to during 2020-21.

Low-carbon infrastructure

Through this strategic change programme our goal is to enable investment in **low-carbon infrastructure at a fair cost**. Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes help us achieve this strategic goal.

Strategic value of RIIO-2 price controls take effect

Throughout 2020-21, we continued to work closely with stakeholders on the development of our second-generation price controls (RIIO-2). Ofgem manages a performance-based framework – RIIO – to set price controls for those who own and operate our electricity and gas network monopolies, to ensure that they can run the networks effectively, while delivering what customers need. The RIIO framework stands for Revenue = Incentives + Innovation + Outputs. For more information on the framework, please visit our website.

Price controls – introduction

£30bn upfront investment for a **greener fairer energy** system

£660m innovation funding for green energy and **consumers in vulnerable situations**

£3bn upfront funding for **green energy projects** and facilitating net zero

£2.3bn saved as cost of capital reduced, and changes made to allowances

£132m funding to support **consumers in vulnerable situations**

£10bn potential further funding for **future green energy** projects to help hit **net zero** emissions

£10 fall in network charges on bills from 2021

15,500 KM iron piping replaced with safer plastic

£60 paid to domestic consumers for every 24 hours off gas

Four RIIO-2 price controls went live in April 2021 covering:

- **gas distribution and transmission**
- **electricity transmission**
- **Energy System Operation (Refer to the Energy System Governance section for more details).**

Over the next price control period (2021-22 to 2025-26), we expect our Final Determinations for the gas distribution, gas transmission and electricity transmission sectors to deliver net benefits to consumers of up to £2.9 billion.

RIIO-2 includes 're-openers' and 'uncertainty mechanisms' which, for example, enable additional investment in projects that emerge during the price control period. Our re-openers windows ensure network companies invest efficiently and are able to adapt to changes in technology and policy, in particular, ensuring that they support the path to net zero, as it becomes clearer (DAP Action 1).

We are setting up the Strategic Innovation Fund to ensure that funding is focused on tackling the biggest challenges in the energy transition (DAP Action 2). In addition, we have allocated existing network innovation spending to enable trials of hydrogen in networks, to seek to enable hydrogen as a potential low-carbon energy system, and to inform Government decisions on heat (DAP Action 4).

We have also been developing, in consultation with the sector and other stakeholders, our guidance for the next electricity distribution price control (RIIO-2 ED) that will run from April 2023 to 2028. Distribution Network Operators ('DNOs'), which transport electricity around Britain's homes and businesses, will play a crucial role as they expand to manage new sources of demand for electric heating and transport needs, and as we see increased levels of electricity generation and storage by households and businesses.

Impact of and compliance with RIIO-1 price controls are identified

In March 2021, we published the 2019-20 performance and financial annual reports for electricity distribution, gas distribution electricity transmission and gas transmission network companies against our first generation RIIO-1 price controls.

We acknowledge that the overall costs to consumers of the RIIO-1 framework have been too high and that lessons and changes are required in terms of our approach to setting cost budgets, incentive targets, and the methodology for setting the returns that can be achieved by equity investors. We accept recommendations in the National Audit Office's (NAO) review of electricity networks in full, and significant progress has been made on their implementation through the design of the RIIO-2 controls, which were developed explicitly to address the weaknesses in the first generation of price controls.

Electricity networks offer value for money

Interconnectors

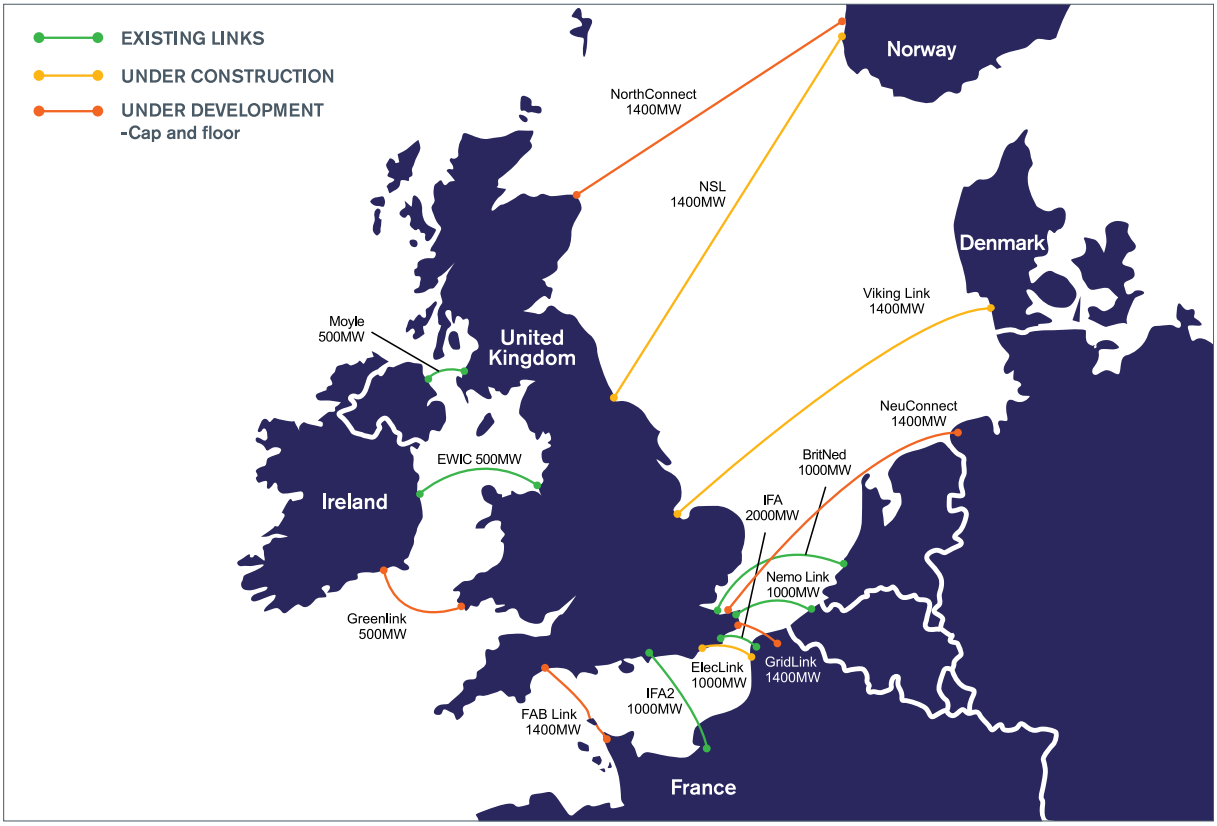
Interconnectors are a network of undersea cables, which allow us to exchange electricity with neighbouring countries. This flexibility helps keep costs low for consumers, supports security of supply, and can provide a useful source of low-carbon electricity. During the year, we considered an application to vary our 'Cap and Floor' regime from Greenlink and NeuConnect, which would allow them to attract alternative sources on financing to fund the construction and operation of their projects. We have previously estimated that the two projects seeking regime variations would generate around £891 million in Great Britain consumer benefits. Our approval of the variations is seeking to maximise delivery of these consumer benefits, while minimising additional risks for consumers. For more information on the Great Britain interconnector network, and the 'Cap and Floor' regime, please visit our website.

During the year, we also began a policy review to establish if there is a need for further interconnection capacity, beyond the links which already have approval. Initial work suggests the case for additional interconnection remains strong, and we will publish the findings of our review in the summer of 2021.

Offshore transmission

Ofgem continued to carry out tender processes for the ownership and operation of offshore transmission owner (OFTO) assets during the year. Competition created through our tender processes drives lower costs, delivering significant savings for consumers.

We are also exploring, with government and industry, opportunities for greater coordination to enable rapid expansion of an offshore grid at lowest cost (DAP Action 3). We commissioned the Electricity System Operator ('ESO') to conduct a review on the cost effectiveness of a coordinated approach, with Phase 1 published in December 2020 and we are also working with BEIS on its Offshore Network Transmission Review, to deliver a more coordinated approach to transmission by 2030.



Full-chain flexibility

Through this strategic change programme, our goal is **to increase flexibility across the energy supply chain in how we generate**, use and store energy. This will significantly develop our commitment to create a more flexible electricity system to help enable the costs effective integration of increasing renewable energy and ensure that consumers will benefit from the lowest cost transition to a reliable net zero system (DAP Action 4).

In addition, we will support roll out of electric vehicles – a key source of flexibility – reducing system costs and maximising the benefits to consumers (DAP Action 6 and 7).

Below, we have detailed how our activities – both those that directly deliver our change programme, and our core regulatory activities – have delivered outcomes that help us to achieve this strategic goal.

More consumers manage their energy flexibility through smart metering

Regulatory role

Ofgem provides regulatory oversight of the smart meter rollout by energy suppliers, so that more consumers can take advantage of the benefits and have a quality installation experience.

In response to the challenge of installing smart meters during the pandemic, in June 2020, we published an open letter to suppliers, setting out the Government's six-month rollout extension, in line with public health and Government guidance.

In June 2020, the Government published decision on a new regulatory framework that will continue to drive the smart meter rollout for domestic and smaller non-domestic premises, including annual installation targets to mid-2025. To support this, we published a decision in December 2020, for the reporting requirements that energy suppliers that will need to follow from July 2021.

We also published our annual price control in February 2021 for the Data Communications Company (the 'DCC'), which provides a monopoly licensed service for Great Britain-wide smart metering communication services. The price control is set to ensure that the DCC can continue to deliver both high-quality service while offering value for money and taking into consideration views from stakeholders.

Market-wide half-hourly settlement

Ofgem provides regulatory oversight of the smart meter rollout by energy suppliers, so that more consumers can take advantage of the benefits and have a quality installation experience.

Market-wide half-hourly settlement (MHHS) will strengthen incentives on retailers to develop and offer new tariffs and innovation that encourage and enable more flexible use of energy, for example: time of use tariffs, vehicle to grid solutions and battery storage. We published a final decision to introduce MHHS, based on the Design Working Group's Target Operating Model, in April 2021. Once in place, we expect that MHHS will bring very significant benefits to consumers by enabling an incentivising great system flexibility through demand side response. We also expect that MHHS will enhance competition between suppliers and other retailers, and support changes in consumer behaviour when considering tariffs.

Cost-effective net zero is supported through flexibility, while maintaining security of supply

Capacity markets

The Capacity Market ensures that sufficient electricity capacity is available to meet demand. It is intended to incentivise investment in more sustainable, low carbon electricity capacity at the least cost to consumers, and to ensure that our electricity supply is secure for the future.

In July 2020, we published an initial consultation on seven main changes to the Capacity Market Rules, including: improvements to the prequalification process, amendments to reporting requirements, and discussed wider market interactions. In September 2020, we published an informal consolidated version of the Capacity Market Rules, following amendments made by BEIS in July 2020. This will form the basis of a further consultation in 2021-22, ahead of a decision on rule changes.

Energy system operation

During the year, we introduced new incentives to promote and grow more active distribution system operators as part of the RIIO-2 electricity distribution price control methodology. These incentives have resulted in greater system efficiency by developing DSO flexibility markets, by enabling improved access to energy data and by better coordination between the Electricity System Operator and the distribution network operators ('DNO').

Improved coordination and standardisation between DNO flexibility markets has delivered a number of benefits to consumers. Lowered transaction costs have made these markets more accessible through improved access to data, decision making and investment decisions. Improved access to data and DNO flexibility markets has provided a catalyst to generate low-carbon solutions and for network companies to effectively manage growth in electrification of transport and heat.

Efficient and effective network changing arrangements are in place

Ofgem continued to work on two significant code reviews; the Access Charging Review and the Targeted Charging Review.

During the year, we worked with industry to identify options for charging reforms to improve network efficiency and support achieving net zero, as part of our Access Charging Review. The review aims to improve the signals sent to users about where it is most efficient for them to locate and the impact of their usage. This should result in more efficient investment decisions by renewable generation and demand, deferring the need for reinforcement and supporting achievement of net zero at least cost.

We also worked with industry to implement the Targeted Charging Review reforms, so that charging arrangements for generators and network operators remain compatible with the way the energy system – and energy system participants – are changing.

The changes will benefit consumers from April 2021 when the Embedded Benefit reforms are implemented, and then from April 2022, when the changes to Residual charges are implemented.

Future of Retail

Through this strategic change programme, our goal is **to deliver a future retail market that works for all consumers and the planet**. Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes which help us to achieve this strategic goal.

Consumers pay a fair price for energy and benefit from rights and protections

COVID-19 response

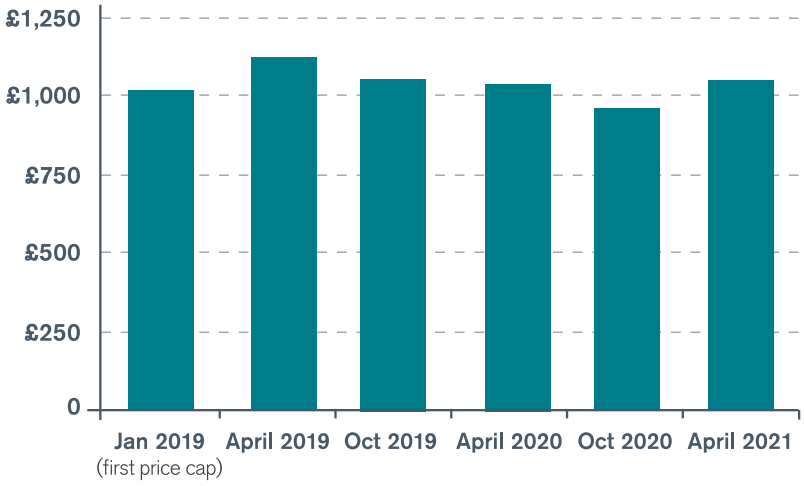
At the height of the COVID crisis, we gathered data from retail energy suppliers to understand what was happening in the market. We were interested to gather:

- financial information, to monitor the financial effects of COVID on suppliers, and
- consumer impacts, to understand how consumers were affected, for example, by debt.

In April 2020, we issued a new official request for information (an 'RFI') for weekly data from all active domestic and non-domestic suppliers, between April and July 2020[3].

This included questions on financial relief and payment holidays provided by suppliers to customers, direct debit cancellations and reductions, prepayment meter smart self-disconnections and emergency credit. All this information has helped us advise the Government's response to the pandemic, to alleviate the impacts on industry and customers. Jointly, with our quarterly Social Obligations Reporting data, the RFI has also informed our decision to strengthen protections for customers who are struggling to pay their energy bills.

Default tariff price cap



Price Cap Levels

1 April 2021 - £1,138
1 Oct 2020 - £1,042
1 April 2020 - £1,126
1 Oct 2019 – £1,143
1 April 2019 - £1,217
1 Jan 2019 - £1,104 (first price cap)

Ofgem has continued to operate the Default Tariff Price Cap (the 'price cap'), with the aim of ensuring consumers unable to or choosing not to switch, do not experience unfair pricing.

In August 2020, Ofgem decided that the price cap would continue to protect default prepayment meter customers after the Competition and Markets Authority Prepayment Meter Price Cap was due to expire at the end of 2020.

[3] A reduced and monthly version of this RFI is still running, so that we can continue to monitor the impact of the pandemic.

We also published cap levels for the fifth cap period, which decreased by 7% to £1,042. The previous cap levels published in February 2020 were set at £1,126. This reduction reflected reduced wholesale and smart meter rollout costs.

In our most recent update to the price cap in February 2021, we increased the cap levels from period five by 9%, to £1,138. This reflected increased wholesale costs, networks and policy costs, and an adjustment for COVID-19.

We set the cap at what we consider to be minimum reasonable levels, mindful of the impact that higher bills will have on consumers. Suppliers will recover some of their COVID-19 related costs in a phased approach over the coming year.

Retail compliance and enforcement

Throughout the year, Ofgem has continued to hold retail energy suppliers to account, to ensure that the energy market remains fair for consumers. We do this by promoting good practice, gathering intelligence on supplier performance, and intervening where necessary.

In 2020-21, we concluded compliance engagement with 18 suppliers in relation to their adherence with price protection rules, securing refunds to over one million consumers worth more than £10 million. We also concluded engagement with 28 suppliers in relation to price cap compliance, securing over £0.5 million in refunds and compensation for over 40,000 customers on default tariffs, who were wrongly overcharged.

Further details on investigations and enforcement activity are set out in Appendix II of this report.

Suppliers provide consumers with a stable energy supply and effective service

During 2020-21, we continued to see a number of supplier failures in the retail energy market. We used our 'Supplier of Last Resort' process to ensure that customers' energy supplies were not disrupted and that their credit balances were protected. To respond to the COVID-19 crisis, we enhanced our monitoring of suppliers' financial status, to enable us to respond effectively when suppliers were experiencing issues. As part of our response to COVID-19, we allowed some energy suppliers and shippers to defer around £65m of their network charges through Network Charge Deferral schemes. To continue to minimise the likelihood and the impact of disorderly supplier failures, we introduced new rules as a part of our supplier licensing review, to build on changes to new entry requirements made in 2019. These new arrangements were agreed in November and implemented in early 2021. The changes are designed to further strengthen our regulatory regime, drive up standards among energy suppliers and minimise industry and consumer exposure to financial risks and poor customer service.

Consumers, particularly the vulnerable, are treated fairly by suppliers

Consumer Vulnerability Strategy 2025

In line with our principal objective of protecting the interest of consumers, our Consumer Vulnerability Strategy 2025 committed to strengthening protections for prepayment meter customers and those who are struggling with their bills. Protecting the most vulnerable customers was particularly important in the context of the COVID-19 crisis (see details on our COVID-19 response below).

In December 2020, we introduced a package of reforms to improve outcomes for prepayment meter customers. These include new licence conditions for suppliers to identify and offer short-term support to prepayment meter customers who are self-disconnecting, as well as enhanced requirements to support all customers that are facing financial difficulties, through the inclusion of updated 'Ability to Pay' principles in their supply licences. We estimate the overall monetised consumer benefits as a result of the introduction of the self-disconnection policy to be around £1.5 million (excluding business costs) until 2025.

Ofgem extended the prepayment meter warrant protection until 2025 to prevent disproportionate charges to a customer's outstanding debt and create consistency across the market. We estimate monetised impact of this policy decision to be around £16.5 million.

Ofgem also continued to support vulnerable consumers through the newly-founded Crisis Fund, forming part of our Energy Redress Scheme, to help

address the impact of COVID-19. The Crisis Fund allocated £10.8 million to charities that support vulnerable households that are at crisis point and unable to top up their prepayment meters. The fund was developed quickly in response to the crisis and launched in May 2020

Microbusiness retail market review

In July 2020, we published a policy consultation setting out initial proposals to reform the microbusiness retail market to empower consumers. We intend to publish final proposals in summer 2021, with a view to implementing reforms starting later this year, followed by post-implementation monitoring to assess the full range of consumer benefits delivered.

Consumers engage and take advantage of a competitive retail market and technological change to support decarbonisation

Switching programme and the Retail Energy Code

The objective of Ofgem's 'faster, more reliable' switching programme is to introduce reforms that will result in more positive experiences for domestic customers, when they change their energy supplier. Following delays caused by COVID-19, our new target for the launch of the switching programme is the summer of 2022.

To facilitate the delivery of the switching programme, we published a consultation in December 2020, which asked for stakeholders' views on a consolidation of the Retail Energy Code, and provisions that will underpin faster more reliable switching, which will come into forced at the same time as the new switching systems and process.

Innovation Link

To allow innovators to create new products and services that help consumers use energy in ways that support decarbonisation (DAP Action 8), we continued to offer our Innovation Link services, and to adapt our approach to regulation.

In July 2020, we launched a refreshed and expanded Energy Regulation Sandbox service, incorporating rules within industry's Balancing and Settlement Code and the Distribution Connection and Use of System Agreement. As well as continuing to support innovators to carry out trials, the Sandbox now offers enduring support for those businesses ready to bring new products and services to market, by providing (where appropriate) derogations.

During the year, we also continued to provide our "Fast, Frank Feedback" service, helping innovators to understand whether their ideas would be possible or not under existing rules and regulations.

Energy System Governance

Through this strategic change programme, our goal is to ensure that **energy system governance, including the role of Ofgem, is fit for purpose**. Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes which help us achieve this strategic goal.

Net zero transition goals are met through system operation

Energy System Operation

The ESO (currently part of National Grid) has a central role in our energy system. It performs a number of important functions from the real time operation of the system, through to market development, managing connections and advising on network investment. We regulate the ESO to help ensure the actions it takes align with the interests of consumers.

In December 2020, Ofgem published a new bespoke price control for the ESO, which will drive innovative new approaches to electricity system operation to push down costs for consumers as system operation keeps pace with energy decarbonisation. The price control provides financial incentives for the ESO to progress changes necessary to operate the electricity system carbon-free by 2025, to maximise competition and to facilitate a whole system approach to network operating and planning. Please see our Price Control section above for direct benefits.

System Operation review – gas and electricity

We said that we would review the way our energy systems are managed to ensure they are fit for a net zero future (DAP Action 5). A key part of this concluded in January 2021, when we published our review of energy system operation, which considered the current and future challenges facing system operation in Great Britain. The review concluded that an Independent System Operator with enhanced functions will be best placed to enable and facilitate the integrated, flexible energy system that is needed to deliver net zero at least cost.

Based on these findings, our key recommendations were that:

- The energy system operators (gas and electricity) be given additional responsibilities.
- The ESO is made fully independent from the transmission network owner.
- There is also a good case for separating key gas network planning functions from the gas transmission owner and combining them with electricity requirements in the recommended new independent energy system operator.

Network companies are cyber resilient

To increase the overall cyber-security and resilience of downstream gas and electricity Operators of Essential Services, Ofgem and BEIS are the joint Competent Authority under The Security of Network & Information Systems Regulations 2018. During the year, Ofgem expanded its Competent Authority function, with a focus on Operators of Essential Services' critical systems. Our mission is to protect users' energy supply, through cyber improvement monitoring and NIS compliance, the security aspects of the Smart Energy Code, RIIO Price Control and other statuary powers.

New cross-border arrangements are in place with the EU

On 31 January 2020, the UK left the EU, and following the ratification of the Withdrawal Agreement, a transition period came into force. In October, we published a letter to wholesale market participants to confirm that REMIT[5] arrangements, including enforcement regulations, would continue to apply in Great Britain from 1 January 2021, after the transition period came to an end. We also set out changed registration requirements, and that Ofgem would continue – until further notice – to monitor the wholesale market for possible breaches, as the European body, ACER[6], would no longer have responsibility for these functions (for further details on Ofgem's developing relationship with EU bodies, please refer to the energy system security and stability section).

Codes benefit consumers and licensing is robust

Throughout the year, we continued to deliver licensing decisions in line with our key performance indicators (details are set out in Appendix I of this report). We engaged with industry codes processes to deliver code modification decisions in a timely way where possible, noting that competing priorities can impact the timings of code decisions.

We expect the code changes we approved to deliver benefits across the system, in areas ranging from network charging to balancing, metering and open data.

As part of our work to respond to the challenges of COVID-19, we worked with industry and code bodies to ensure that urgent code decisions were prioritised to protect consumers.

Data and digitalisation

Through this strategic change programme, our goal is **to unlock the benefits of data and digitalisation** for the benefit of consumers. Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes, which help us to achieve this new strategic goal.

Through 2020-21, we worked with industry on our data and digitalisation standards, with these being embedded in the RIIO-2 price control licence conditions as well as the sector methodology and business plan incentives for the electricity distribution price control. Our draft Data Best Practice, and Digitalisation Strategies and Action Plan guidance were made available for market participants, with all networks publishing digitalisation strategies in winter.[4] These guidance documents also formed the basis of our approval of code modifications, which refer to one or both guidance documents with the goal of opening up energy systems data.

In addition, we have worked closely with BEIS and Innovate UK on the Energy Data & Digitalisation Strategy, and two innovation competitions. Modernising Energy Data Access and Modernising Energy Data Applications are both a direct response to the Energy Data Taskforce recommendations, and are expected to increase access to data.

We continued to deliver quality assurance of business critical models, impact assessment and evaluation, in line with recommendations in the HM Treasury review of quality assurance of Government analytical models.[5] Through this work, we support our policy teams to develop their analytical models and review their cost-benefit analysis and impact assessments, before it is published.

[4] https://www.ofgem.gov.uk/publications-and-updates/digitalisation-strategies-modernising-energy-data
[5] https://www.ofgem.gov.uk/publications-and-updates/digitalisation-strategies-modernising-energy-data

Delivering renewable energy and social schemes

In addition to our five strategic change programmes, and our core regulatory activities Ofgem administers a range of environmental and social schemes on behalf of government, which are collectively worth £9 billion per-annum. The schemes fall into three main categories.

Renewable electricity schemes

Renewables electricity sector **supports 738,000 jobs**

26,582 Renewables Obligation **generating stations**

112.8 TWh of renewable electricity generated from the Renewables Obligation

121.9 TWh of total supply from renewable sources generated from the Renewables Obligation **(41.2% of UK supply)**

Some of the figures are provisional and may change upon finalisation. The final figures will be reflected in each scheme's annual report.

The Renewables Obligation ('RO'), was launched in 2002, as one of the main support mechanisms for large-scale renewable electricity projects in the UK. Currently, the scheme supports 30% of renewable electricity supplied in the UK; significantly above the 3% when it began. Smaller-scale renewable and low-carbon generation is mainly supported through the Fit-in-Tariff ('FIT') scheme, which makes payments to participants that install electricity generating installations, such as photovoltaic panels. While both schemes are now closed to new applicants, we will continue to operate them until all eligible payments and certificates have been issued. RO certificates will continue to be issued until March 2038, and FIT payments will be made until March 2040.

In January 2020, the Smart Export Guarantee ('SEG') scheme was launched to provide a new opportunity for those with FIT scheme technologies to receive a guaranteed price from electricity suppliers for the electricity that they export to the National Grid. During the year, we have seen a range of tariffs have been offered, some including bundling with battery storage. We have also seen other tariffs offered outside of SEG obligations, which are helping to increase competition in the export tariff market.

Renewable Heat Incentive schemes

59.77TWhth thermal heat generated to date

5,309MW of thermal heat capacity installed

Payments issued in 2020-21 worth around **£792.29m**

235.3 Gwh heat generated by installations (Northern Ireland RHI)

Payments issued in 2020-21 worth around **£144.9m** (domestic RHI)

£3.58M total payments made to scheme participants (Northern Ireland RHI)

5.52Mt CO_2 of carbon savings of over the lifetime of the scheme (domestic RHI)

Some of the figures are provisional and may change upon finalisation. The final figures will be reflected in each scheme's annual report.

Renewable Heat Incentive ('RHI') schemes were established to help consumers – both domestic and non-domestic – to overcome the costs involved with installing renewable heating systems, compared to more convention fossil fuel heating systems. The schemes have helped early adopters deliver towards the UK's net zero goals, by installing technologies such as heat pumps and biogas injection.

In early 2021, regulations were laid in Parliament to prepare for the closure of the domestic and non-domestic schemes, which also relaxed some application requirements to respond to pressures on applicants caused by the COVID-19 crisis.

While the non-domestic schemes were closed to new applicants in March 2021, it will continue to make payments to participants until March 2042, with domestic payments made until March 2029. During the year, we continued to work with BEIS to develop new heat schemes, to continue to offer incentives for renewable heat generation and the deployment of biogas.

Energy Efficiency and Social Schemes

Over 400 installers fit on average **830** Energy Company Obligation measures daily

Over 830k Energy Company Obligation measures installed in **over 500k households** to date

£6.62 Billion in lifetime bills savings deliverable to vulnerable households

Some of the figures are provisional and may change upon finalisation. The final figures will be reflected in each scheme's annual report.

The Energy Company Obligation ('ECO') continues to improve to energy efficiency in the homes of those in fuel poverty, by permanently reducing their energy use and bills. These improvements are delivered by larger energy suppliers. The Warm Home Discount also continues to provide direct assistance with energy costs to those who are in fuel poverty or are at risk of it, largely in the form of a £140 rebate.

During the year, the supplier threshold for both schemes dropped to 150,000 customers, which increased the number of energy suppliers that are obligated to support their vulnerable customers.

Despite the increased coverage, ECO installations were affected by COVID-19 crisis, which restricted access to homes. This means that suppliers remain behind schedule with their installations, and are facing a significant increase in the delivery required for them to all meet their obligations by March 2022.

Our GB stakeholders

Stakeholder engagement is essential in helping to inform our decisions so they are grounded in a sound understanding of the needs of all energy consumers. During the pandemic virtual engagement has allowed us to capture the diverse needs and priorities of our stakeholders, helping to ensure we are proactively responding.

Stakeholder engagement

In 2020-21, our focus has been on continuing to provide regular, meaningful engagement opportunities; to both maintain our broad network of stakeholders and understand the far-reaching effects of the pandemic. This engagement has been key to our decision-making and ongoing response to COVID-19.

Due to the Great Britain-wide lockdown an online approach to events enabled us to continue engaging with external event organisers with Ofgem speakers delivering keynotes at virtual conferences, joining webinars, or speaking in podcasts. We also launched our 2021-22 Forward Work Programme consultation during a live webinar, which brought in an audience of over 600 delegates.

This year we have provided varied opportunities for stakeholder voices to be heard alongside increasing transparency. In the RIIO-2 decision-making process, we held Open Meetings and a series of webinars attended by over 600 delegates to inform our price controls.

We have created new channels for engaging consumer groups and charities this year. In April 2020 we launched a monthly consumer group call to fuel discussions on vulnerability during the pandemic and led regular policy briefings and meetings with our Senior Leadership team to share ongoing consumer concerns and viewpoints.

We continue to run our internal engagement programme, Customer Connections, which provides regular opportunities for all staff to hear the experiences of energy consumers. Across 2020-21 we organised over 15 virtual engagement visits for our Senior Leadership team to meet consumer groups and charities, including Christians Against Poverty, Fuel Bank Foundation and the Bromley-By-Bow Centre.

We continue to engage with a number of key stakeholders through our ‘working groups’ such as the Large User Group for non-domestic consumers, the academic panel, and two working groups with decarbonisation stakeholders.

We remain committed to achieving the Greening Government Targets which include the following objectives (against a 2009-10 baseline):

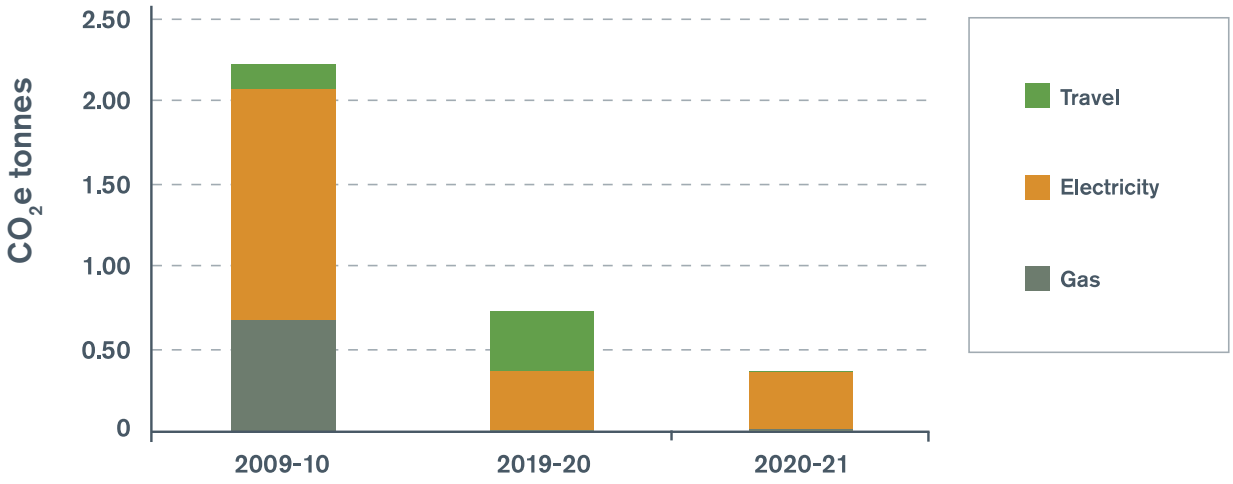
- **32% reduction in overall carbon**
- **Reduce landfill to 10% of total waste**
- **Increase the proportion of waste that is recycled**
- **Reduce paper consumption by 50%**
- **Reduce water consumption**

Highlights

- Carbon, particularly travel carbon has reduced dramatically
- Waste has been reduced significantly
- Water usage has dropped to the minimum necessary to keep the systems clean and functional

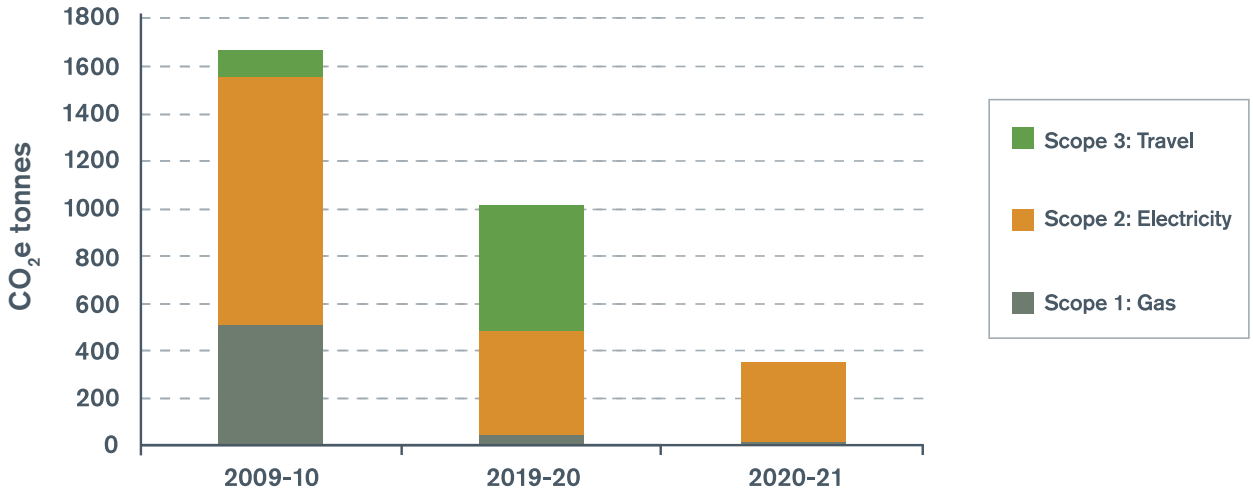
A key driver of the 2020-21 reductions has been reduced travel due to COVID and remote working by the majority of Ofgem staff. Therefore, we don't expect these significant reductions to be sustained in future but remain on track to achieve our targets overall.

Carbon usage by FTE



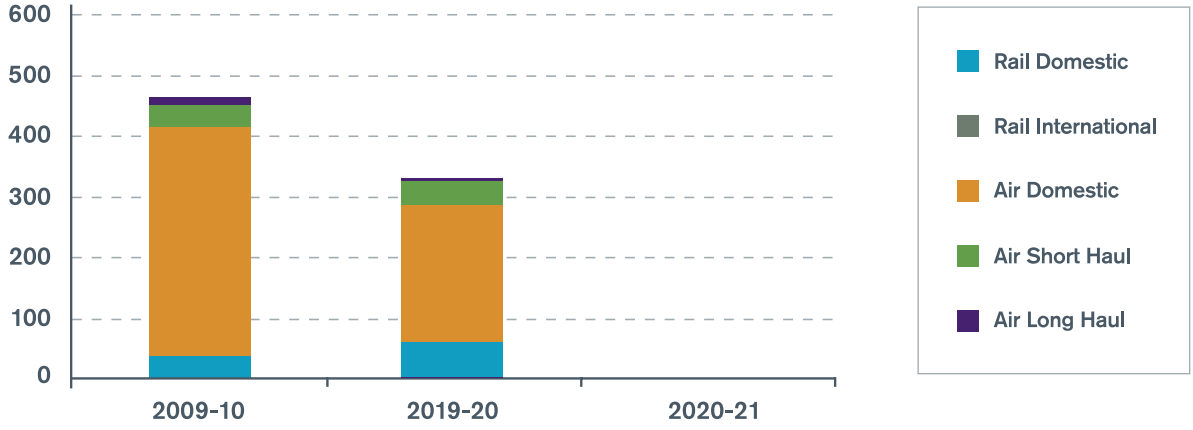
Due to COVID restrictions, there was minimal travel during the year and very low numbers of staff in the offices. As a result, our Carbon usage in 2020-21 has more than halved compared with the previous year. In a post COVID world it will not be possible to maintain this level of the low carbon usage, but we are trying to limit the bounce back to within the previous levels.

Total Carbon



Although our offices have been mostly empty for the entire year, our electricity and gas usage has not dropped because our properties still needing to be occupiable as per central government (London) and local council (Glasgow) guidelines and therefore the mechanical and electrical systems operating within, such as security, ventilation and lighting (even when the lights are off) are still running.

Travel Carbon



Last year, travel accounted for half of our carbon usage. This year, due to limited travel just 0.08 tonnes of carbon was produced. We are working to prevent the travel from retuning to its previous levels in a post COVID world through more a rigorous application of our travel policy and adopting different ways of working.

Greenhouse gas emissions		2009-10	2019-20	2020-21
Non-financial indicators (tCO_2e)	Total gross emissions	1,670	671	278
	Per FTE	2.23	0.92	0.23
	Total net emissions	1,671	860	278
	Scope 1: Direct GHG emissions	511	7	6
	Scope 2: Energy indirect GHG emissions	1,045	330	273
	Scope 3: Other indirect GHG emissions	115	334	0
Related consumption data (kWh)	Electricity: Renewable (k)	1,130	1,292	1,170
	Gas (k)	1,578	35	30

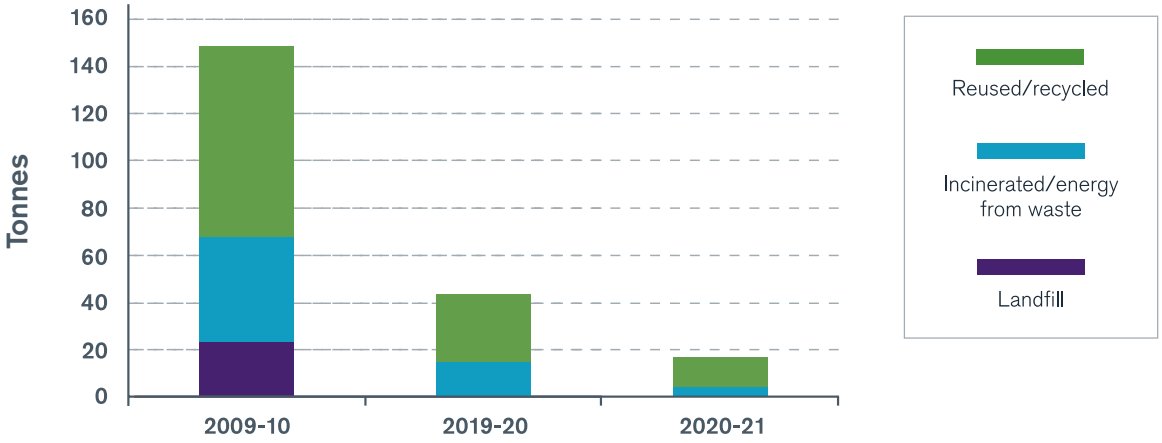
DEC

The Display Energy Certificate (DEC) rating for the 10SC office is an E-125. This is a significant improvement from last year's F-143. We expect a better evaluation in a building with a BREEAM rating of 'Very Good' and to that end we will be working with 10SC management to improve this.

Together we've installed sub-metering, to better track where energy is being used. We've had an energy efficiency review and survey. The resulting report will drive progress to ISO50001 Energy Management Certification for 10SC.

Waste

Total waste



Waste is the clearest indication of building occupancy regarding environmental impact, as water and power are not entirely influenced by occupancy.

Waste has reduced by 66%. Almost no waste was produced until October and since then a steady stream of confidential waste. Those few that are going into the office are getting rid of paperwork that we've all learned to work without over the past year.

A confidential waste audit is scheduled for after the majority of staff return to the office to identify what is going out and if it can be diverted to normal recycling, which requires less processing and expense.

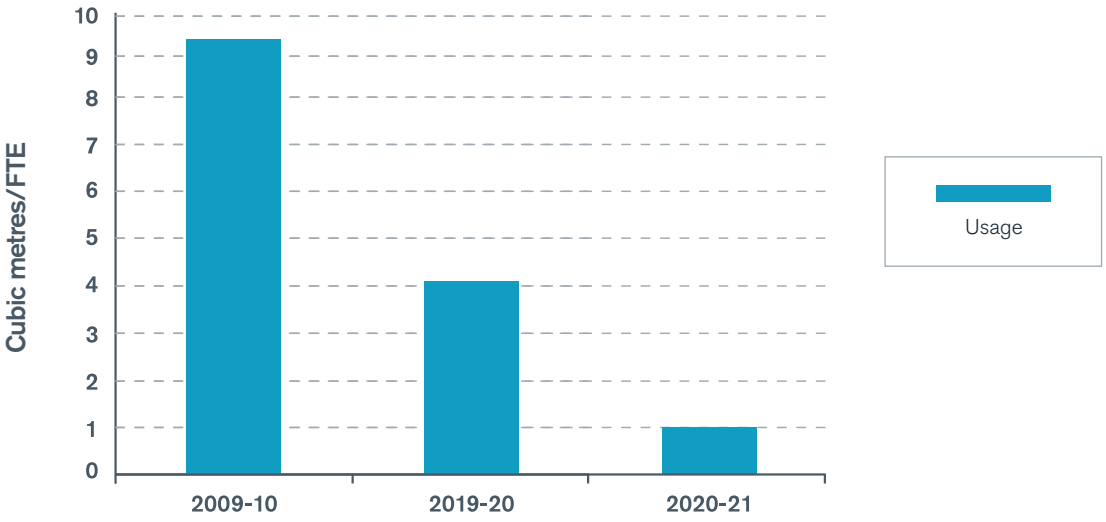
Waste			2009-10	2019-20	2020-21
Non-financial indicators (tonnes)	**Target**		-	-	-
	Total waste		149	43	14
	Total waste per FTE		0.2	0.05	0.02
	Hazardous waste		1	-	-
	Non-hazardous waste	Landfill	23	0	0
		Reused/Recycled	81	28	11
		Incinerated/ energy from waste	44	16	3

As so few people have been in the office, we have not purchased any paper in the year.

Water

While our water use has decreased it hasn't decreased to zero consumption. This is largely due to the need to flush all the water systems for a minimum of 10 minutes per week to reduce the risk of Legionella and bacteria build up in stagnant water.

Water per FTE



Water			2009-10	2019-20	2020-21
Non-financial indicators	Target				
	Water consumption (m^3)	Supplied	7,116	3,875	896
		Per FTE	9.5	4.2	1.0

Information presented above related to the consumption of energy and water and the production of waste relates to our London office only, which is metered and apportioned to the building's tenants. The landlord in our Glasgow office is unable to share information on consumption of energy, water and waste, and as we pay a fixed cost for our utility usage, we are unable to estimate or report on the consumption of the Glasgow Office. We continue to press our Glasgow landlord for the information needed to report or estimate the relevant consumption. We will report on these matters in future if the necessary information becomes available.

Jonathan Brearley
Chief Executive

12 July 2021