

December 2000

**Ofgem proposed Plan and Budget
2001/2**

Foreword

This document sets out Ofgem's priorities for the year 2001/2, the resources we expect to devote to them, and the results which we plan to produce, against a timetable. It builds on last year's Plan and Budget, and reflects the same groupings of priorities.

These priorities are:

- ◆ **Social and environmental action:** we want to continue the four areas of work in Ofgem's Social Action Plan, and to develop our work on environmental issues.
- ◆ **Regulation of monopoly businesses:** the main workstreams are the Transco price control, to take effect in April 2002, and the work on the Information and Incentives Project (IIP), the next important development for the electricity distribution companies.
- ◆ **Efficient trading in the wholesale electricity and gas markets:** the New Electricity Trading Arrangements (NETA) are due to be introduced in March 2001. Thereafter we expect continuing work to revise the codes governing both electricity and gas trading as these activities develop, and the development of new arrangements governing access to the transmission networks. We will also seek to extend trading and transmission arrangements to Scotland.
- ◆ **Managing the move to competitive supply markets:** Ofgem plans to withdraw from price regulation of supply markets where they are competitive. Our efforts will therefore concentrate on taking forward steps to facilitate competition (eg, an easier transfer process), and to act against anti-competitive behaviour.
- ◆ **Work on industrial structure and competitiveness:** Ofgem will continue to work to implement the separation of supply from distribution businesses in electricity, and to respond to the various corporate restructuring initiatives which we expect to be a continuing feature of both gas and electricity.

- ◆ **Work to develop Ofgem as an efficient regulator:** this remains a preoccupation for us, where we are particularly concerned to solve the problem (common to all regulators) of attracting and retaining good staff, and striking the right balance between full and real consultation and excessive publication.

In maintaining this grouping of priorities, Ofgem is demonstrating a continuity of purpose. Our overriding aim remains to bring choice and value to all customers of the British gas and electricity industries, where we can by competition, and where necessary through regulation. In this sense, 2001/2 is no different from the current year. In important ways, however, next year is different. The legal powers under which Ofgem works will be those of an Authority, rather than of an individual (a change which can be regarded as giving statutory effect to what had de facto been anticipated by the creation of the Ofgem Management Board). The direct contact with consumers which the electricity consumers' committees brought in electricity has moved to energywatch. The duties, functions and powers of Ofgem have been changed in a number of significant respects. Our Plan and Budget reflect these changes, in particular in the further attention given to environmental issues, which we expect to become more sharply focused.

Other changes reflect not changes in objectives, or in priorities, but rather what has already been done. We plan to introduce NETA by the end of the current reporting year. Although this date has still to be confirmed, which we aim to do in January 2001, the present plan assumes that we achieve this. There will be new work as a result of NETA, particularly on industry codes, but if we proceed on plan, the immense effort of introducing NETA should be over, with an associated reduction in people and costs. The full extent of Ofgem's work on NETA – already done and to be completed before NETA can be introduced – is often not properly appreciated. It involves the construction of the legal, regulatory and systems infrastructure for an entirely new set of electricity trading arrangements, the establishment of new trading rules, a new balancing and settlement code, a new company called Elexon to replace the Pool, and an ending of the intricate Pool rules. Separately, the work on bringing OFFER and Ofgas together, not least physically through reorganising offices, will be substantially completed.

These changes will give rise to a very marked reduction in Ofgem's total staff numbers and costs. The total costs for this year, which are estimated to be £87.1 million, are

forecast to fall to £33.5 million. Total staff numbers are forecast to fall from 558 to 334. We are still considering whether there are further adjustments which can be made sensibly – that is, where a reduction in resources would not result in an unacceptable loss of benefit. On a like for like basis, our costs are forecast to be lower next year than in 1998/9.

I am committed to ensuring that Ofgem controls its costs carefully, and manages its resources efficiently. But I should also make clear that Ofgem cannot control the demands we have to meet. Decisions on environmental issues taken by the British and the Scottish Parliaments will impose duties and costs upon us. We are required to respond to complaints made to Ofgem for action under the Competition Act 1998. We have an important role in relation to gas and electricity mergers, over whose timing we have little if any influence. The Secretary of State may request Ofgem to undertake special tasks. The Plan and Budget may need adjusting if these demands materialise.

The costs of Ofgem also need to be seen in the context of what Ofgem achieves. The range of activities remains as wide as ever – indeed in a number of ways widened by the Utilities Act 2000. The benefits which Ofgem brings are correspondingly large and outweigh our costs by orders of magnitude. They include helping to make competition a reality in all British gas and electricity supply markets – something which the National Audit Office estimates to bring benefits well in excess of £1 billion each year, and regulation of natural monopolies which has transferred nearly £1 billion annually from companies to their customers. The lower energy prices to which both regulation of monopolies and the spread of competition have contributed so much have reduced the number of households in fuel poverty in England by 700,000 over the last three years, the largest single contribution to reducing this problem. This is putting into reality Ofgem's purpose of bringing choice and value to all customers, where we can through competition, and where we cannot by regulation. Ofgem's costs are often the subject of discussion. So too should be the benefits which we produce.

Callum McCarthy

Chairman of the Gas and Electricity Markets Authority,

Chief Executive of Ofgem

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1. Introduction

Background

- 1.1 This document is Ofgem's proposed Plan and Budget covering the period April 2001 to March 2002. This is Ofgem's second annual Plan and Budget and it establishes the organisation's priorities and work plan for the coming year.

Structure

- 1.2 Chapter 2 of the document sets out the context in which Ofgem has developed its priorities and work plan for 2001/2.

Chapters 3-8 explain the six priority areas for 2001/2:

- ◆ Social and environmental action (chapter 3)
- ◆ Regulation of monopoly businesses (chapter 4)
- ◆ Efficient trading in the wholesale electricity and gas markets (chapter 5)
- ◆ Managing the move to competitive supply markets (chapter 6)
- ◆ Work on industrial structure and competitiveness (chapter 7)
- ◆ Work to develop Ofgem as an efficient regulator (chapter 8).

- 1.3 Each chapter explains the work which has been undertaken in 2000/1 and sets into context the work planned for 2001/2. The chapters also describe the detail of the projects in 2001/2 and conclude with a list of key deliverables (by quarter of the financial year³), relevant timings and the direct costs associated with each priority area.

- 1.4 Chapter 9 sets out the summary costs of Ofgem in 2001/2. This includes the direct costs associated with each priority area, and the running costs of Ofgem. This chapter also puts Ofgem's costs in 2001/2 into the context of expenditure in gas and electricity regulation over the last four years.

* Q1 – April to June 2001, Q2 – July to September 2001, Q3 – October to December 2001 and Q4 – January to March 2002.

- 1.5 The document also contains a number of appendices which include a summary of progress so far against deliverables for 2000/1 (appendix 1) and a summary of planned deliverables for 2001/2 (appendix 2).

Timetable

- 1.6 The process for developing Ofgem's Plan and Budget for 2001/2 begins in December 2000 with the publication of this document for consultation.

- 1.7 Comments on the proposed Plan and Budget are invited by **Wednesday 7 February 2001**.

The consultation process will be supplemented by two public meetings. These will be held in London on Wednesday 17 January and in Glasgow on Thursday 18 January 2001. All of those affected by Ofgem's work are invited to attend. Details of the public meetings can be obtained from Robert Jones, Ofgem Public Affairs: telephone 020 7901 7484 or e-mail robert.jones@ofgem.gov.uk. These can also be found on the Ofgem website (www.ofgem.gov.uk).

- 1.8 Comments will be considered in February/early March. The final Ofgem Plan and Budget for 2001/2 will be published by the end of March 2001.

Ofgem will not reply individually to every consultee. Consultees' comments will be summarised and published together with Ofgem's response in a separate document which will accompany the publication of the final Plan and Budget.

Ofgem contacts

- 1.9 All comments on the proposed Plan and Budget for 2001/2 should be sent to:

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Ideally, all responses should be sent by e-mail. Alternatively, these can be sent by mail or by fax.

All responses will be made publicly available in the Ofgem library and on the Ofgem website (www.ofgem.gov.uk).

Confidentiality

- 1.10 All responses to Ofgem's proposed Plan and Budget for 2001/2 will be made publicly available unless there are good reasons why they must remain confidential. Consultees should mark the part of their response (or the whole response) which is to remain confidential if this is the case, and where possible should consign any confidential material to appendices.

2. Context

Ofgem's duties

- 2.1 Ofgem's duties are laid down in statute: the Gas Act 1986 and the Electricity Act 1989 as amended by the Utilities Act 2000. Ofgem's principal statutory objective is to protect the interests of consumers. To meet this, Ofgem works to bring choice and value to gas and electricity customers by promoting competition, where appropriate, and by regulating monopolies.
- 2.2 Ofgem performs a number of functions in support of its duties. For example, Ofgem regulates the prices of monopoly businesses, licenses gas and electricity companies, monitors compliance, where necessary taking enforcement action, and develops and implements policy, making sure that the views of those who are affected are taken into account through consultation.
- 2.3 A number of regulatory standards have been established and are applied to ensure that Ofgem operates effectively, accountably and professionally in the way in which it fulfils its duties and functions.

The changing context in which Ofgem operates

- 2.4 The Plan and Budget establishes the priorities and work plan which Ofgem will pursue to meet its overall duties and functions in the coming year.
- 2.5 In preparing this second Plan and Budget, Ofgem has also considered the external environment in which the organisation operates and the issues over the next three years to which it will need to pay regard.
- 2.6 These issues, which were drawn up following discussions with a number of internal and external constituents, are summarised in the paragraphs below.

Changes to the emphasis of regulation

- 2.7 The historical emphasis on economic regulation will have to accommodate a greater emphasis on social, environmental, and regional considerations. Ofgem will need to consider how it balances its duties taking account of these considerations which are sometimes complementary and sometimes conflicting.

There are clearly opportunities for these obligations to work in the same direction, for example increased efficiency in electricity transmission and distribution networks helps to reduce losses and prices, and thus helps both economic and environmental objectives. Ofgem will pursue these opportunities. However, there will continue to be a need to balance duties and functions not all of which are easily reconciled.

Regulation where competition is established

- 2.8 Competition in gas and electricity supply is now established, delivering real benefits to customers in terms of greater choice and lower prices.
- 2.9 Where competition is working effectively, market forces will drive customer prices and commercial success or failure. Ofgem's role will be to ensure that these forces alone are influencing prices. Ofgem therefore expects to withdraw from direct price regulation in competitive markets and to concentrate on ensuring that these markets operate free from abuse.

Investment in safety

- 2.10 Safety will always be a high priority. The responsibility for regulating safety in gas and electricity rests with the Health and Safety Executive (HSE). Ofgem will work closely with the HSE to meet its responsibilities to ensure sufficient revenues in price controls for necessary infrastructure investment. These are responsibilities which Ofgem takes very seriously.

Convergence and market changes

- 2.11 The pace of convergence between gas and electricity and other utilities and products will quicken.
- 2.12 Companies will define their businesses in very different ways. Systems operation issues will increasingly need to be addressed on a combined gas and electricity basis. Businesses will restructure as the pressure for growth increases and new financial models will develop.
- 2.13 These developments will have implications for Ofgem in the way it defines and monitors markets. There will also be a continuing set of merger decisions and new proposals for financing to consider. These issues will also require much

closer collaboration with other competition, utility and financial regulators to promote consistency and provide certainty on common issues.

The impact of Europe

- 2.14 There will be greater interaction with continental Europe both physically, in particular in gas, and in regulation. Ofgem is concerned about European Union (EU) issues as they affect British customers' interests. This arises from arbitrage between the competitive market in Great Britain and those in the rest of Europe which have yet to be liberalised. In addition, since British regulation and trading rules, designed to protect British customers, will be affected by EU developments, Ofgem has to play a part in ensuring that these are soundly based.

Technological change

- 2.15 Technology will also be a factor which Ofgem will need to take into account as regulation develops over the medium term. The growth of embedded generation, new energy storage technology, smart metering and e-commerce are some of the areas which will see the impact of developments on costs and levels of service.

The legal context

- 2.16 Legislative changes in the UK and in the EU will continue apace. In the UK, the Utilities Act 2000, Competition Act 1998, Human Rights Act 1998 and Freedom of Information legislation will have an obvious impact. Ofgem will be active in considering and influencing developments as well as adjusting to the changes which these bring.

Costs and efficiency

- 2.17 Efficiency and costs will continue to be a priority for all who are affected by regulation. Ofgem is committed to ensuring that costs are carefully controlled, resources managed efficiently and that value for money is delivered. It will become increasingly important to establish value for money by demonstrating the impact of regulation on customer choice and prices.

3. Social and environmental action

Background

- 3.1 Four and a half million households in Great Britain are in fuel poverty which means they need to spend more than 10% of their household income on energy to maintain a satisfactorily warm home.
- 3.2 Low income, poor housing conditions and energy costs contribute to the causes of fuel poverty. Ofgem has a clear role to play in respect of the last of these. Low energy prices, achieved by the spread of competition and effective price regulation, have had the effect of lifting 700,000 households out of fuel poverty in England in the three years up to 1999. In this period reduced energy costs have had a greater impact on alleviating fuel poverty than any other measure.
- 3.3 To support its general work to keep prices as competitive as possible, Ofgem has also developed a programme of specific measures to help the fuel poor which were published this year in the Social Action Plan. The plan is based on four strands of activity to help the fuel poor specifically:
- ◆ enhanced licence obligations
 - ◆ further initiatives to enhance competition and improve regulation
 - ◆ research, and
 - ◆ monitoring and reporting.
- 3.4 Good progress has already been made against the objectives of the Plan. Revised licence obligations have required companies to strengthen their codes of practice which will mean better information and advice to customers on a range of special services, for example those which are available for older and vulnerable customers and customers in debt. In line with the Plan, Ofgem has brought forward proposals to reduce the right which companies have to block customers in debt from switching to a new supplier. Research, sponsored by the industry and other partners, is also underway on a number of problems which exacerbate fuel poverty. The conclusions will help to inform the development

of new solutions. A report of the first year's progress against the plan will be published at the end of the year.

- 3.5 Tackling fuel poverty is a priority for Government, which will shortly publish a strategy to address this. In the coming year Ofgem will continue to place a high priority on work under the Social Action Plan, integrating this with initiatives led by Government, industry and other agencies.
- 3.6 Much of Ofgem's work affects the environment. This year Ofgem reviewed how it considers environmental issues in the context of its work to develop an Environmental Action Plan. The Plan seeks to define Ofgem's role on environmental matters (taking account of new duties under the Utilities Act 2000 and the role of other agencies), and to ensure a coherent approach to environmental issues across the organisation. It also seeks to identify the opportunities for social, environmental and economic obligations to work in the same direction, as well as the issues which need to be addressed when they do not.
- 3.7 Ofgem will complete the Environmental Action Plan this year after receiving a further draft of the guidance on environmental and social issues from the Secretary of State. Implementation will follow in 2001/2. In the future Ofgem will do more on the environment. For example, Ofgem is working to implement the Government's new renewables regime. Ofgem will also play a leading role to ensure a fair and transparent regulatory regime for embedded generation on the basis of recommendations from the Ofgem-chaired Government working group which will report this year. The Environmental Action Plan will establish the basis for Ofgem to take environmental considerations into account in its work.

The year ahead - April 2001 to March 2002

Social Action

- 3.8 Work will continue in the four areas of activity under the Social Action Plan.

◆ Enhanced licence obligations

- 3.9 Ofgem will monitor the application and effectiveness of the new codes of practice to ensure that they provide relevant advice and information and encourage the take-up of special services. Further work will be needed to introduce codes for electricity distribution companies, reflecting their responsibilities for issues connected with priority services customers and customer complaints, following the separation of distribution from supply.
- 3.10 Licence changes to remove debt blocking will be progressed. These require the agreement of licensees. Ofgem has proposed, and will seek to implement, such changes in two stages. The first is to British Gas Trading's (BGT) licence, subject to reaching agreement with them on proposals which form part of the review of the price control. The second involves work in 2001/2 to propose similar new obligations on debt blocking in the licences of other suppliers.

◆ Further initiatives to enhance competition and improve regulation

- 3.11 The most direct benefit which Ofgem can bring to the fuel poor is to ensure that energy prices are as competitive as possible. Much of the work described elsewhere, particularly the work on introducing new electricity and gas trading arrangements, on the price controls of the natural monopolies, and on developing competition in the domestic markets, contributes heavily to this. This work will ensure that prices are as low as can be achieved. It will not, and cannot, isolate electricity and gas customers, whether industrial, commercial or domestic, from price movements caused by the fundamentals of demand and supply, but prices will be lower than they would otherwise be.

◆ Research

- 3.12 Reporting the findings of the seven research projects will be a key strand of activity in the year. The conclusions are likely to influence the development of policies to tackle fuel poverty and how these are prioritised. Ofgem will review the conclusions of the research projects carefully, and will consider further measures which clearly fall within its scope to pursue.

◆ Monitoring and reporting

- 3.13 Monitoring and reporting progress under the plan will be important to assess the impact of the measures that have been pursued, as well as informing the development of policies for the future. The first annual report on the Social Action Plan is due at the end of this year.

Environmental Action

Environmental Action Plan

- 3.14 Once the Environmental Action Plan is agreed at the end of this year, work will be taken forward on implementing the commitments made. Concordats with the Environment Agency and Scottish Environmental Protection Agency will be agreed, and a policy on environmental statements and reporting will be implemented. In parallel, Ofgem will develop its regular dialogue with Non-Governmental Organisations (NGOs) active in the fields of energy and the environment. The first annual report under the Environmental Action Plan will be published at the end of 2001/2.

Renewables obligation

- 3.15 New systems to administer Ofgem's statutory duties under the Utilities Act 2000 and Finance Act 2000 in relation to electricity generated from renewable sources are being established.

Energy efficiency

- 3.16 Ofgem will continue to administer the Energy Efficiency Standards of Performance (EESoPs) until the end of this scheme in 2002 and will contribute to the development of the new scheme which will be set by the Department of Environment, Transport and the Regions (DETR) and administered by Ofgem, after that date.

Embedded generation

- 3.17 In 2001/2 Ofgem will play a leading role in taking forward recommendations of the Ofgem-chaired Government working group on embedded generation. Issues on which action is likely to be required include charges for embedded

generators and a review of the incentives on electricity distribution companies to enable the provision of embedded generation on fair and transparent terms while maintaining security of supply.

Key deliverables and timing

Activity	Key deliverables
Social action	<ul style="list-style-type: none"> • Publish further proposals on reducing debt blocking (Q2) • Develop new Codes of Practice for electricity consumer issues (Q2) • Disseminate and act on the results of the seven research projects (Q3) • Publish second annual report on Social Action Plan (Q4)
Environmental action	<p data-bbox="555 748 895 779"><u>Environmental Action Plan</u></p> <ul style="list-style-type: none"> • Implement Environmental Action Plan following publication in March 2001 (from Q1) • Agree concordat with the Environment Agency and Scottish Environment Protection Agency (Q2) • Publish first annual report under the Environmental Action Plan (Q4) <p data-bbox="555 1037 772 1068"><u>Energy Efficiency</u></p> <ul style="list-style-type: none"> • Publish guidelines on best practice on energy efficiency advice (Q4) • Finalise procedures for implementing new EESoP scheme (Q4) <p data-bbox="555 1218 842 1249"><u>Embedded Generation</u></p> <ul style="list-style-type: none"> • Respond to initial recommendations of the Government working group on embedded generation (Q1) • Put in place programme of work to implement recommendations of working group (Q3)

Direct costs

	Staff	Contractors	Other	Total
£ 000	695	369	101	1,165

4. Regulation of monopoly businesses

Background

- 4.1 Where competition is not feasible or sufficiently effective, Ofgem will continue to regulate through price controls to ensure that customers receive value for money and a reliable service. This applies to the monopoly network businesses which run the pipes and wires to bring gas and electricity to businesses and homes.
- 4.2 This year Ofgem has implemented new price controls on the electricity distribution and supply businesses. These controls, which were accepted by all 14 Public Electricity Suppliers (PESs), have had the effect of reducing customers' bills by £1 billion a year. Ofgem has also implemented new price controls on the monopoly transmission businesses in Scotland.
- 4.3 This year Ofgem has completed a review of the price control on the monopoly transmission business in England and Wales which is operated by the National Grid Company (NGC). The costs of transmission represent a small proportion (about 5%) of customers' electricity bills. In 2001/2 Ofgem will continue to monitor the application of these price controls and will begin the process in 2001/2 to review the need for further price controls in electricity supply (see para 6.10).
- 4.4 This year work has also begun on the review of Transco's price control. On average, Transco's charges represent about 30% of a domestic gas customers' bills. The new control is due to take effect in April 2002 and much of the work on price controls in 2001/2 will be concerned with this important review.
- 4.5 Work to improve the well established RPI-X form of price regulation for electricity distribution businesses began this year under the Information and Incentives Project (IIP). The principal objectives of this project are to strengthen the incentives on companies to deliver the appropriate quality of supply, and to reduce the risk and burden associated with the price control process by improving the quality of information collected between reviews.

The year ahead - April 2001 to March 2002

Gas transportation

- 4.6 The priority in the coming year is to develop a new price control for Transco for implementation in 2002. The key objectives of the review are to ensure the best deal for customers, to facilitate competition and promote efficient use of the system, and to recognise the different roles that Transco plays as the owner of the assets and the system operator. Ofgem will also need to ensure that Transco can provide the safe and efficient operation and development of its system.
- 4.7 Ofgem will also begin work next year to review the regulation of Independent Public Gas Transporters (IPGTs) who between them transport gas from off-takes on Transco's system to approximately 150,000 households in Great Britain. The review will look at charging policies and the incentives on IPGT's with the objective of reducing costs and improving the quality of service.

Electricity distribution

- 4.8 Work will continue in 2001/2 to monitor the operation of the distribution price controls and to deal with related use of system issues. Work will also continue to review the structure of electricity distribution charges, which will seek to improve the methods of charging adopted by the distribution businesses. The key objectives of this work are to protect the interests of customers, to promote efficient use of the distribution systems, and to promote competition in the supply and generation of electricity.

Information and incentives

- 4.9 This year has been occupied by work on measurement of quality of supply targets and on securing agreement among the PESs to provide the information which will enable more robust reporting of performance against targets. In the coming year the focus will shift to strengthening the incentives on companies to deliver quality of supply, and to encourage greater emphasis on the relative performance of companies. Once the project is complete, the aim is to operate the new incentives regime on a transitional basis, until the next distribution price control in 2005, when it will be reviewed as part of the price control review.

Regulatory accounts

- 4.10 Proposals to develop the form and content of regulatory accounts have been made this year and will be completed and implemented in 2001/2. The objective of these reforms is to improve the quality of information on the costs of network monopolies thereby allowing a better comparison to be made between the information in the accounts and the assumptions underlying the price controls.

Key deliverables and timing

Activity	Key deliverables
Gas transportation	<u>Transco Price Control Review</u> <ul style="list-style-type: none"> • Publish draft proposals (Q1) • Publish final proposals (Q2). Implementation planned for April 2002 <u>IPGT Regulation</u> <ul style="list-style-type: none"> • Carry out initial consultation and survey (Q4)
Electricity distribution	<ul style="list-style-type: none"> • Publish proposals on structure of charges (Q1)
Information and Incentives	<ul style="list-style-type: none"> • Publish initial proposals on incentive regimes (Q1) • Publish final proposals (Q3)
Regulatory accounts	<ul style="list-style-type: none"> • Revised regulatory accounting licence conditions including regulatory accounting guidelines for the electricity distribution businesses. Consultation (Q1). Implement (Q2) • Regulatory accounting guidelines for NGC and the Scottish transmission businesses. Consultation (Q2). Issue (Q3)

Direct costs

	Staff	Contractors	Other	Total
£ 000	1,257	1,791	188	3,236

5. Efficient trading in the wholesale electricity and gas markets

Background

- 5.1 Wholesale electricity and gas costs make up a major part of customers' bills. For domestic customers the costs of generation make up around 50% of their electricity bills and wholesale costs make up about 45% of gas bills.
- 5.2 Much of Ofgem's work in the last year has focused on creating the conditions for efficient trading and effective competition in these wholesale markets.
- 5.3 The three year Ofgem/DTI programme to reform electricity wholesale trading arrangements in England and Wales, through the introduction of New Electricity Trading Arrangements (NETA), is nearing completion. Many of the major statutory and legal milestones to bring NETA into effect were passed this year. Work involving participants and central service providers is now underway to test the systems and interfaces which will support the new trading arrangements. The target date for implementation, which will be confirmed in January 2001, is currently set for March 2001.
- 5.4 Once NETA is implemented Ofgem's role in the programme will change. Elxon will have an important role in administering the new arrangements, for example by managing the contracts of central service providers and processing proposed modifications to the Balancing and Settlement Code (BSC). Ofgem will retain a residual role (and resource) to help bed down the new arrangements, to ensure that NETA is working effectively, and will also retain an enduring role in approving any modifications to the BSC. This change in Ofgem's role will be reflected in a significant scaling back of resources.
- 5.5 Ofgem considers that new transmission access and pricing arrangements are required in England and Wales to ensure that the full benefits of NETA are realised. In December 1999 Ofgem proposed new arrangements based around markets in firm rights for access to the transmission system. During the year seminars and workshops have been held to discuss core design issues related to defining firm entry and exit rights and associated system requirements. Ofgem

will publish a further consultation document in January 2001 which will begin a process to develop detailed proposals for implementation in 2001/2.

- 5.6 In Scotland, there has been less opportunity for competition in the wholesale market as a consequence of a number of factors, many of which stem from the original structure of the industry on privatisation. Wholesale prices are administered and related to Pool prices in England and Wales. Transmission and distribution prices in Scotland have risen relative to England and Wales, resulting in Scottish prices overall moving from below to above those in England and Wales.
- 5.7 Following consultation, Ofgem has concluded that the objective of introducing effective competition in Scotland can best be served by:
- ◆ extending the New Electricity Trading Arrangements (NETA), which are planned for implementation in England and Wales in March 2001, into Scotland, and
 - ◆ extending the transmission access and pricing arrangements under development in England and Wales into Great Britain-wide arrangements.
- 5.8 These two measures should deliver new, market based energy trading and transportation arrangements across Great Britain. These will replace the present complex, non-transparent and administered arrangements in Scotland.
- 5.9 It is intended that the project to create British Electricity Trading and Transmission Arrangements (BETTA) will have passed two key milestones by the end of this year. The first is to reach broad agreement on the kinds of reform which would be required to implement BETTA. The second is to agree the interim arrangements which will need to be put in place until the implementation of the reforms.
- 5.10 The emphasis in developing the BETTA project has been on establishing a consensus with the major companies involved (British Energy, NGC, Scottish Power and Scottish and Southern Energy), in consultation with potential competitors in Scotland, customer representatives and representatives from the Department of Trade and Industry (DTI) and the Scottish Executive. Ofgem is

determined to bring more competition into the Scottish market on the basis that this should benefit all customers, including those in Scotland, as well as providing a broader competitive arena for all companies (including the Scottish companies). It is very much hoped that implementation will proceed on a consensual basis, to include wider consultation at the appropriate times.

- 5.11 Reforms to the wholesale gas market through the introduction of New Gas Trading Arrangements (NGTA) began in October 1999 with the auctioning of entry capacity on the National Transmission System (NTS) and the creation of a new independently operated screen-based on-the-day commodity market. Further reforms under NGTA, in particular to the gas balancing regime, will be progressed in 2001/2.
- 5.12 Delivering effective competition in the electricity and gas wholesale markets is also conditional on developing appropriate governance arrangements, market monitoring and tackling market abuse. This year Ofgem made considerable progress in all of these areas. New governance arrangements to support NETA have been established, a new licence condition has been introduced and employed successfully to tackle market abuse in electricity generation (see paragraph 5.27 for comment on the Competition Commission decision on this initiative), and Ofgem has reorganised to give greater emphasis to its work on market surveillance. Ofgem will continue to place a high priority on work in each of these areas in the coming year to ensure that the electricity and gas wholesale markets remain competitive and free from abuse.
- 5.13 In electricity, Ofgem's regulatory duties and powers extend throughout the supply chain, including electricity production. However, this is not the case in gas, where the task of regulating gas production, including the associated offshore pipelines and England/Belgium interconnector falls to the DTI. Ofgem has impressed upon Ministers the inter-dependencies between the onshore and offshore regimes which clearly influence the successful development of competition in the gas wholesale and retail markets.
- 5.14 In Europe, Ofgem has been active in the Council of European Energy Regulators (CEER) and has played a full part in the processes which have been established by the Commission to create liberalised energy markets. This is important, since anti-competitive policies on the continent can adversely affect Britain, as the gas

market demonstrates. Ofgem's work in Europe will remain a priority for the coming year.

The year ahead - April 2001 to March 2002

Developing trading regimes in electricity and gas

◆ Electricity

Ensuring NETA is delivering effective trading arrangements

- 5.15 Ofgem will monitor the implementation of NETA after "Go Live" and highlight any need for adjustments to the arrangements to ensure that the new trading regime is working effectively. A full review of NETA and its impact will be undertaken at the end of its first year of operation.

Reforming arrangements for access to the transmission network and system operation

- 5.16 Reforming the arrangements for access to the high voltage transmission network and charging for transmission losses will be taken forward to help ensure that the full benefits of NETA are realised. The establishment of firm, tradable capacity rights and more cost-reflective charges for losses will complement the NETA reforms and help ensure the efficient development and maintenance of the transmission system by NGC, the transmission owner. Introduction of new arrangements will require modifications to the new Connection and use of System Code (CUSC) and system development by NGC. Implementation is not expected before Autumn 2001 at the earliest.
- 5.17 In parallel, Ofgem will also review the incentives that apply to NGC in its role as system operator to encourage efficient day-to-day operation of the transmission system.

BETTA

- 5.18 Much of the work to create a single British market in electricity trading and transmission will need to be undertaken in 2001/2. Proposals will be developed to create a single system operator, to establish new interconnector and transmission access arrangements, to develop new connections policies, to set

interim wholesale prices, and to facilitate the re-negotiation of contracts established at the time of privatisation. A number of consultations will be published in 2001/2 working towards the implementation of BETTA in 2002.

◆ Gas

- 5.19 The thrust of Ofgem's work in 2001/2 will be to build on the first stage of reforms to gas trading arrangements which began in 1999 with the introduction of a new entry capacity regime and an on-the-day commodity market, by making further improvements to the entry capacity and gas balancing regimes and reforming the exit capacity regime.

Entry capacity regime and long term investment signals and incentives

- 5.20 Work will continue in the coming year to review the operation of auctions of entry capacity which are designed to ensure that all capacity on the NTS is sold on non-discriminatory terms and that network constraints are managed efficiently. In parallel, work will be completed in 2001/2 on a new regime of incentives and signals which will make Transco's long term investment decisions more responsive to shippers' needs. These reforms will pave the way for the first release of long term entry capacity from April 2002.

Gas balancing regime

- 5.21 Initial proposals for the development of the regime to balance gas inputs and off-takes on the NTS will be published this year. These will be implemented in 2001/2. The objectives of the reforms are to enable effective arbitrage between gas and electricity markets, to reduce volatility and therefore balancing costs, and to improve the balancing performance of shippers thereby reducing the role for Transco in balancing the system.

Exit capacity

- 5.22 In 2001/2 a project will be taken forward to review the arrangements for the sale and pricing of exit (including interruptible) capacity. The objective of these reforms will be to provide efficient and non-discriminatory release of exit capacity and pricing of interruptible capacity, to provide incentives for Transco

to operate the system effectively and to prevent cross-subsidies between customers.

Offshore and interconnector issues

- 5.23 On upstream issues, where Ofgem has no regulatory powers, and limited information-gathering powers, Ofgem will continue to work with the DTI and the other responsible regulatory agencies to encourage arrangements offshore which facilitate a competitive wholesale gas market in Great Britain. With regard to interconnectors, where Ofgem's powers are similarly limited, Ofgem will continue to work with the DTI, the European Commission and the CEER as appropriate to encourage access and pricing arrangements for all interconnectors which promote trade, competition and efficient arbitrage.

Develop codes which underpin the operation of electricity and gas trading regimes

- 5.24 The three codes which underpin the electricity and gas trading regimes are the BSC, the CUSC and the Network Code in gas. Each of these codes are at different stages of their development. The BSC is agreed and CUSC will be agreed by the end of this year. The Network Code has been operating since March 1996. Ofgem's role is to agree any modifications to the codes. Ofgem's work on these codes in 2001/2 will be focused on improving the processes by which modifications are considered and the transparency with which decisions on these are communicated.

Monitoring and compliance

- 5.25 This year Ofgem has reorganised its resources to give greater emphasis to its monitoring and compliance functions. This work will continue to be a priority for Ofgem in 2001/2 to ensure that the new trading regimes remain competitive and free from abuse.
- 5.26 Ofgem will undertake regular market surveillance, where necessary pursuing investigations under the licences and the Competition Act 1998. The Competition Act 1998 and Utilities Act 2000 strengthen Ofgem's enforcement powers.

5.27 Since the Competition Commission rejected the proposed market abuse licence condition for the two generators which had refused the condition, Ofgem has been obliged to remove it from all the licences in which it had been introduced earlier in the year. Ofgem believes this will remove an important regulatory measure which has already been used to protect customers. The scope for abuse of market prices by generators clearly exists, and will not be eliminated by NETA. Protection of customers from such abuse will remain a preoccupation for Ofgem, as it so clearly falls directly within Ofgem's principal statutory objective. Ofgem will therefore consider how to act against abuse of market power, despite the unwelcome decision of the Competition Commission which has made it significantly more difficult for Ofgem to discharge its statutory duties.

Europe

5.28 In the coming year, Ofgem will continue to place a priority on its work to influence developments in continental Europe to ensure that these are pro-competitive and in the best interests of customers in Great Britain. Ofgem will continue to play an active role in the CEER of which it was a founding member. Working with DTI, the European Commission and other regulators, Ofgem will contribute to developing policy on European electricity and gas liberalisation and on gas and electricity interconnectors.

Key deliverables and timing

Activity	Key deliverables
<i>Electricity</i>	
NETA	<ul style="list-style-type: none"> • Complete review of NETA (Q4) [dependent on NETA timetable]
Transmission access and system operation	<ul style="list-style-type: none"> • Implement new transmission access regime (Q3) • Implement new System Operator incentives (Q4)
<i>Gas</i>	
Entry capacity and long-term investment signals and incentives	<ul style="list-style-type: none"> • Publish final proposals on long-term investment signals (Q1)
Gas balancing	<ul style="list-style-type: none"> • Implement new gas balancing arrangements (Q3)
Exit capacity	<ul style="list-style-type: none"> • Publish initial proposals on exit and interruptibles capacity regime (Q1). Publish decision document (Q2). Implement (Q4)

Direct costs

	Staff	Contractors	Other	Total
£ 000	3,221	3,995	720	7,936

6. Managing the move to competitive supply markets

Background

- 6.1 The National Audit Office estimates that the introduction of competition to the domestic gas and electricity markets has brought benefits in excess of £1 billion annually. Competition is at a relatively early stage of development: the gas market has been fully open for just two and a half years, and the electricity market for only 18 months. Despite this, competition in gas and electricity supply is strong and developing.
- 6.2 In gas, BGT's prices have fallen by 9 per cent since 1998 and savings of up to 20 per cent are available in the market. In electricity, PESs' prices have fallen by an average of 6 per cent since 1999 and savings of as much as 18 per cent are available from competitors. In both gas and electricity supply markets, around 6 million customers have switched supplier, and continue to do so at a rate of around 57,000 a week in gas, and 139,000 a week in electricity.
- 6.3 Ofgem's principal statutory objective is to protect the interests of consumers, wherever appropriate by promoting competition. In gas supply competition is now delivering the best deal for customers on price and choice. The position in electricity supply is pointing to the same conclusion.
- 6.4 Against this background, Ofgem is now actively reviewing the need for continued price regulation in the competitive supply markets. This year Ofgem has proposed lifting the remaining price controls on BGT. In the coming year Ofgem will begin an equivalent review of the price controls in electricity supply.
- 6.5 Even where competition is established, supply markets continue to require regular monitoring to ensure that they are operating effectively and are free from abuse. In March Ofgem assumed new powers to tackle anti-competitive behaviour under the Competition Act 1998 and will continue its work in 2001/2 to monitor markets, where necessary pursuing investigations. Competitive market reviews, the results of which led to proposals this year to lift the remaining BGT price controls, will also play an important role in 2001/2 in assessing how effectively competition is working.

- 6.6 Making it easy for customers to access competitive supply markets and building consumer confidence are important priorities for Ofgem. Work has begun this year in three key areas: a review of the process for transferring customers between suppliers, the provision of comprehensible information on prices and service standards, and a review of the regulation of the marketing and selling of gas and electricity. Improving the transfer process and regulating marketing activities will continue to be important priorities in 2001/2. Continuing work to provide information on prices and service standards will pass to energywatch.
- 6.7 Earlier this year Independent Energy's gas and electricity supply businesses failed. As competition intensifies, and particularly against a background of high wholesale gas prices, it is possible that there will be further failures. Using the experience of customers, industry and other interested parties, Ofgem is currently considering what improvements can be made to present arrangements for dealing with supplier failures. This work will continue in the first part of 2001/2.
- 6.8 Maintaining good contact with customers will be key to developing effective policies and taking appropriate enforcement action. This year has seen the transfer of functions to the new independent consumer watchdog, energywatch, whose role is to provide information, advice, advocacy and complaint handling. Ofgem will build on the working relations and arrangements which have been established with energywatch this year. Independent customer research has also played an important role this year in informing Ofgem of the take-up of competition and of customer issues and concerns and will continue to be a feature of the work programme in 2001/2.

The year ahead - April 2001 to March 2002

Competition and deregulation

- 6.9 Ofgem will continue its programme of competitive market reviews in the coming year and will come forward with recommendations to remove any remaining barriers to competition which these identify. These reviews will also provide the background to Ofgem's approach to related projects, discussed below. In parallel, Ofgem will also conduct an internal review of the regulation

of supply markets making recommendations to remove regulations which are no longer required.

Gas and electricity supply price controls

- 6.10 Subject to agreement on the proposals which have been published by Ofgem, the final price controls which apply to BGT in gas supply will be lifted at the beginning of 2001/2. This will pave the way for work to begin on the review of the future of electricity supply price controls.

Improving customer access to, and confidence in, the competitive market

- 6.11 Proposals to change the customer transfer process to make it easier for customers to switch supplier and less costly for companies to administer will be developed with industry and other interested parties in 2001/2.
- 6.12 Further proposals on the way in which marketing and selling will be regulated in the future will be made in 2001/2 in time for the next review of the marketing licence condition in March 2002.

Dealing with supplier failures

- 6.13 Proposals resulting from Ofgem's review of supplier failures will be finalised in June 2001.

Developing customer contact

- 6.14 Ofgem will continue to develop its working arrangements with energywatch, established under the Memorandum of Understanding and working level agreements, to ensure that customers' interests are being represented effectively and that duplication is avoided.
- 6.15 Ofgem will maintain its programme of regular customer research, and will review trends in complaints and standards of performance to develop its understanding of customer issues and concerns and feed these into the policy development process. This research programme will be co-ordinated with that of energywatch.

Monitoring and compliance

6.16 Monitoring compliance with licence obligations and the behaviour of dominant suppliers, in particular Centrica, will continue to be a priority in 2001/2. This year Ofgem has seen its powers strengthened by the Competition Act 1998 and Utilities Act 2000.

Key deliverables and timing

Activity	Key deliverables
Competition and deregulation	<ul style="list-style-type: none">• Carry out survey of electricity and gas retail supply (Q1)• Publish recommendations for revising regulatory regime (Q3)
Supply price control reviews	<ul style="list-style-type: none">• Publish initial proposals on price regulation of PES supply businesses (Q3) Publish final proposals (Q4)
Access to/confidence in competitive market	<ul style="list-style-type: none">• Publish decision document on improving customer transfers (Q1)• Publish initial proposals for future regulation of marketing (Q3) Publish decision document (Q4)
Dealing with supplier failures	<ul style="list-style-type: none">• Publish decision document on supplier failures (Q1)

Direct costs

	Staff	Contractors	Other	Total
£ 000	1,757	660	349	2,766

7. Work on industrial structure and competitiveness

Background

- 7.1 Ofgem plays an important role in establishing appropriate industrial structures which provide the right incentives for competition and deliver the best deal for customers.
- 7.2 A major programme of work this year has been the separation of the supply and distribution businesses of the 14 PESs. Business separation aims to ensure equal access to the electricity distribution network for all suppliers and to remove the opportunity for cross-subsidies. Monitoring of PESs progress will continue throughout 2001/2.
- 7.3 Considerable work has been undertaken this year to consult both internally and with DTI on new measures and powers contained in the Utilities Act 2000. External consultation has taken place on the secondary legislation required as a result of the Act. In parallel, licences have been re-drafted and consulted on to incorporate new standard conditions in electricity and revised ones in gas, and a new licence for electricity distribution has been produced. Much of this work will be completed early in 2001/2.
- 7.4 Progress has also been made during the year on the regulatory changes required to establish competition in gas metering and meter reading and electricity connections. Agreement has been reached on splitting the Transco price control to separate the businesses of metering and meter reading from transportation. A consultation paper on Ofgem's strategy to progress work in this area will also be published before the end of the year. Ofgem has completed its work on a framework for competition in electricity connections and is now working with the industry to facilitate its development. Effective competition in these service areas will provide the best opportunity for investment in new technologies and improvements in service delivery.
- 7.5 This year Ofgem has seen the impact and effect of business amalgamations and acquisitions. The pressure for growth has led to an increase in the number and nature of corporate transactions and in the development of new financial models. Ofgem does not expect the pace to slacken in 2001/2.

The year ahead - April 2001 to March 2002

Implementing the Utilities Act 2000

- 7.6 Work will continue in the coming year on the introduction of new measures and powers contained in the Utilities Act 2000.

Business Separation

- 7.7 Work will be undertaken in 2001/2 to develop licence conditions to reflect recent developments in the way that distribution businesses are managed. This will ensure that licence conditions requiring separation are flexible enough to adapt to changing circumstances whilst retaining safeguards where these are needed. Ofgem will continue to monitor and report on the progress made by PESs towards the target date for separation in 2002.

Metering

- 7.8 Ofgem will progress competition in metering in 2001/2 through the implementation of a metering strategy. The objectives of the strategy, which will be published for consultation before the end of this year, will be to achieve cheaper, higher quality metering and meter reading services, improve energy measurement accuracy, and maintain safety.

Connections

- 7.9 In 2001/2 Ofgem will publish the first competitive market review in connections and will consider the need for further policy to promote competition on the basis of its findings.

Licence development

- 7.10 Work to complete the introduction of new licences for all licensees, incorporating standard conditions, will be completed early in 2001/2.

Mergers and acquisitions

7.11 Ofgem will continue its important work to consider proposals for business transactions and new financial models, providing advice to the Office of Fair Trading (OFT) and DTI and liaising with the European Commission on how these protect customers and meet their best interests.

Key deliverables and timing

Activity	Key deliverables
Utilities Act	<ul style="list-style-type: none">• Complete preparation of statutory instruments and orders resulting from the introduction of the Utilities Act (Q1)
Business separation	<ul style="list-style-type: none">• Publish second consultation paper on licence changes (Q2). Publish final proposals (Q3)• Implement licence conditions (Q4)
Metering	<ul style="list-style-type: none">• Publish metering policy proposals (Q1)• Publish metering decision document (Q2)
Licence development	<ul style="list-style-type: none">• Modify standard licences for all licensees (Q1)

Direct costs

	Staff	Contractors	Other	Total
£ 000	1,097	440	143	1,680

8. Work to develop Ofgem as an efficient regulator

Background

- 8.1 Developing Ofgem as an efficient and effective regulator is key to building the confidence in Ofgem of those we regulate and of those on whom our work has an impact.
- 8.2 Much has been done this year to build Ofgem. The merger of Ofgas and OFFER has been completed along with the recruitment programme to bring in new expertise and replace those staff who have not re-located to London. New systems for planning and project management have been implemented to support the type of work which dominates Ofgem's activity. The move to new premises, which is now complete, will facilitate new flexible ways of working. Work to improve the allocation of staff resources and review staff reward and retention has begun following recommendations from the strategic staffing review conducted earlier in the year. Finally, improvements have been made to the way in which Ofgem communicates its work and a strategy to develop effective management of corporate knowledge will be agreed before the end of the current year.
- 8.3 In parallel, we have seen a considerable change this year in Ofgem's status, powers and the scope of its work, as a result of the Utilities Act 2000. The legal powers under which Ofgem works will be those of the Gas and Electricity Markets Authority, a move which gives statutory effect to the arrangements which were created in 1999 under the Ofgem Management Board. The direct contact with customers which Ofgem had, through the electricity consumers' committees, has now passed to energywatch. The duties, functions and powers of Ofgem have also been changed in a number of respects.
- 8.4 Increasing efficiency has been a high priority for Ofgem in the current year and will continue to be a priority in 2001/2. Externally, Ofgem has contributed to the efficiency review of utility regulators undertaken by the Treasury. Its conclusions are due imminently. Internally, Ofgem has taken the opportunity to review the provision of technical services and advice. These are currently provided primarily by an Ofgem-staffed Technical Directorate. A project to

review the range of services and determine whether some of these may be provided more efficiently by external suppliers is underway.

- 8.5 The costs of Ofgem in this financial year have been the subject of close scrutiny. Expenditure in the current year has been dominated by two one-off items: the introduction of NETA and the merger of Ofgas and OFFER to create Ofgem. The budget and headcount for the coming year will reflect the completion of these projects and the transition of staff and resources to energywatch.

The year ahead - April 2001 to March 2002

- 8.6 Ofgem is now fully staffed and the appropriate support systems have been developed. The focus in the coming year will be to invest in the development of the people and systems which will enable Ofgem to meet its objectives efficiently and effectively.

Efficiency

- 8.7 Ofgem is committed to ensuring that costs are controlled carefully and resources are managed efficiently. The recommendations from the Treasury efficiency review will be considered and, where appropriate, implemented. Work to review the provision of technical services will be completed, with the aim of retaining the highest quality advice and support on technical issues as cost-effectively as possible.

Developing Ofgem staff

- 8.8 In the coming year, Ofgem will continue its work in a number of areas to attract, develop and retain the people on whom the delivery of the organisation's objectives depend. Priorities include implementing the new reward and learning and development strategies, as well as obtaining Investors in People (IIP) accreditation.

Building corporate knowledge

- 8.9 A strategy to build corporate knowledge by developing new systems and resources to support this will be a key priority in the coming year. The objective will be to improve access to relevant and reliable information and increase the efficiency and quality of decision making.

Communications

- 8.10 A communications strategy will be developed and implemented in support of the priorities for 2001/2. It will also focus on promoting the distinctive but complementary roles of Ofgem and energywatch, and on implementing best practice standards for consultation which Ofgem has established this year.

Key deliverables and timing

Activity	Key deliverables
Efficiency	<ul style="list-style-type: none"> • Implement, where appropriate, the recommendations of the Treasury's efficiency review of all regulators (from Q1) • Complete review of Technical directorate (Q1). Implement conclusions (Q2).
Developing Ofgem staff	<ul style="list-style-type: none"> • Implement learning and development and reward strategies (from Q1) • Obtain Investors in People accreditation (Q3)
Building corporate knowledge	<ul style="list-style-type: none"> • Implement strategy to build Ofgem's corporate knowledge (from Q1)
Communications	<ul style="list-style-type: none"> • Implement corporate communications strategy to support priorities for 2001/2 (from Q1) • Consult on Plan and Budget (Q3). Publish Plan and Budget (Q4)

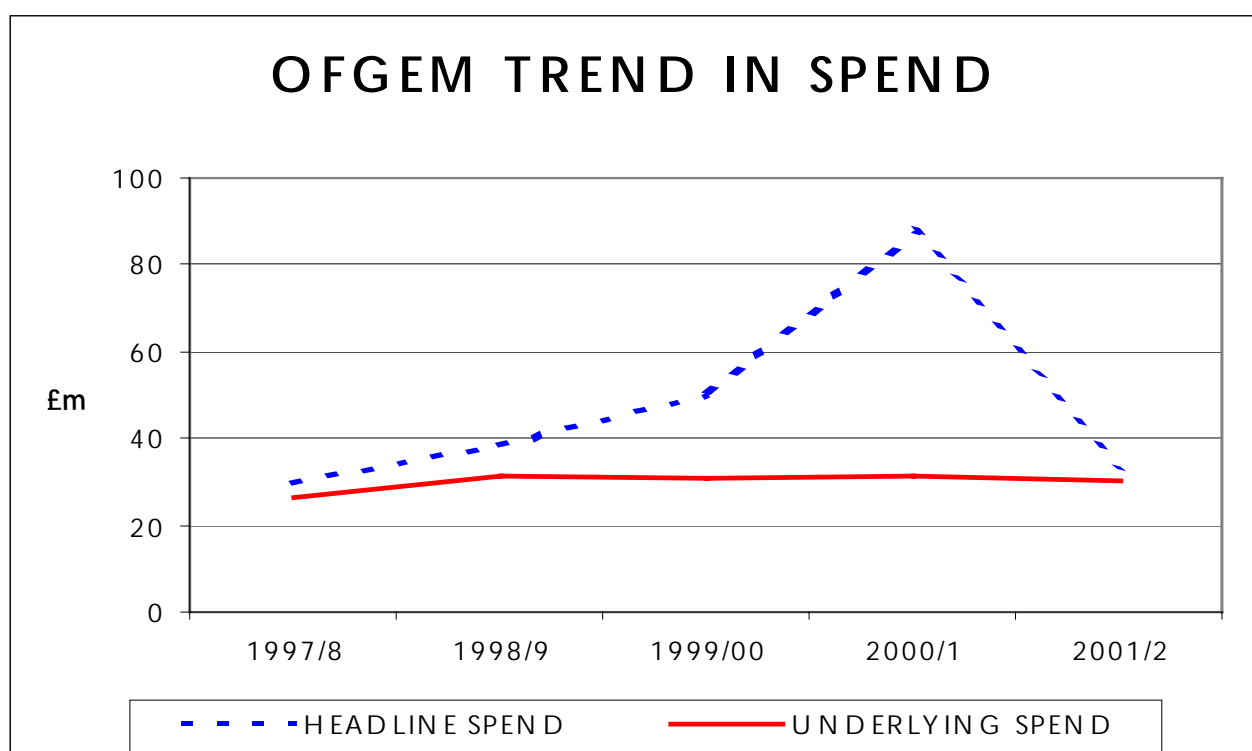
Direct costs

	Staff	Contractors	Other	Total
£ 000	415	120	445	980

9. Ofgem Costs - 2001/2

- 9.1 In addition to the direct costs attributed to the priorities identified in chapters 3 – 8, Ofgem also incurs costs associated with its Technical Directorate at Leicester (£2.2 million), central functions - Human Resources, Finance, Legal and Public Affairs (£5.9 million), accommodation and running costs (£5.4 million) and the merger run down cost (£2.2 million).
- 9.2 Ofgem's headline total cash spend is forecast to fall from an estimate of £87.1 million this year to £33.5 million in 2001/2. Included in this are £3.2 million of residual costs associated with the merger and NETA.
- 9.3 Underlying costs (excluding NETA, merger, and Regional Offices) for 2001/2 are forecast to be £30.3 million, 3 per cent lower than the current year.
- 9.4 Since 1998/9 underlying costs have remained level at around £30 million even before taking account of inflation.
- 9.5 Staff costs are forecast to fall in 2001/2 by 17 per cent to £13.4 million due to reduced staff numbers. The main reasons for this are the transfer of the Regional Offices to energywatch, and a significant reduction in Operations staff following the completion of the merger / relocation to Millbank.
- 9.6 Total staff numbers are projected to decrease by 40 per cent from 558 to 334. On an underlying basis, staff numbers are projected to fall by 15 per cent.
- 9.7 Excluding NETA, the cost of policy contractors is forecast to fall by 19 per cent to £7.7 million.
- 9.8 For the period 2002 – 2004, Ofgem anticipates expenditure to continue at a similar level. This will, of course, depend on the future volume of work, much of which is determined by factors outside Ofgem's control.

HEADLINE SPEND	COMBINED OFFER / OFGAS			OFGEM	
	1997/8	1998/9	1999/00	2000/1	2001/2
(£ 000)	ACTUAL	ACTUAL	ACTUAL	BUDGET	ESTIMATE
STAFF	10,017	11,393	13,197	16,153	13,416
CONTRACTORS	7,046	10,102	14,438	37,988	8,386
OTHER	12,706	16,905	22,344	33,008	11,663
TOTAL SPEND	29,769	38,400	49,979	87,149	33,465
LESS REGIONS	(3,349)	(4,321)	(5,086)	(5,512)	0
LESS NETA	0	(2,630)	(10,214)	(30,245)	(1,000)
LESS MERGER	0	0	(3,876)	(20,223)	(2,150)
UNDERLYING TOTAL SPEND	26,420	31,449	30,803	31,169	30,315



Appendix 1 - Progress against 2000/1 deliverables

Ofgem's Plan and Budget for 2000/1 published a number of key deliverables to be achieved in each quarter. While Ofgem intends to report progress against all of these in the annual report, an interim report is provided.

In 2000/1 a number of major pieces of work arose that were not identified in the Plan and Budget. This will always happen. It is, for this reason, inevitable and desirable for Ofgem to re-order, during the course of the year, the priorities that are set out in the Plan and Budget.

	Deliverables	Progress Report
Q U A R T E R 1	<u>Social Action Plan</u> Implement social obligation licence conditions (Q1)	Achieved by target date
	Agree proposals for a modified licence condition on customers in debt wishing to change supplier (Q1)	Revised proposals discussed in Q1; further proposals published in Q3
	<u>Customer Choice of Energy Supplier</u> Review of suppliers' marketing licence conditions (Q1)	Achieved by target date
	<u>Customer Protection</u> Begin implementation of Unfair Terms in Customer Contracts Regulations (Q1)	Achieved by target date
	Implement new customer standards applied to electricity distribution businesses (Q1)	Achieved by target date
	<u>Environment</u> Implement new Energy Efficiency Standards of Performance (Q1)	Achieved by target date
	Revise codes of practice on energy efficiency advice (Q1)	Agreed in September
	Consultation on Environmental Action Plan (Q1)	Published in July
	<u>Complaint Handling</u> Establish memorandum of understanding with GECC (Q1)	Achieved in July

	Deliverables	Progress Report
Q U A R T E R 1	<u>New Gas Trading Arrangements</u> Implement further revision to trading arrangements (Q1)	Achieved by target date
	Review OCM (Q1)	Published in July
	Review Network Code Governance Arrangements - consultation (Q1)	Planned for January 2001
	<u>NGC System Operator Incentives</u> Review NGC system operator incentives - interim proposals (Q1)	Achieved by target date
	Review of NGC capacity regime - consultation (Q1)	Planned for January 2001
	<u>Review of NGC Price Control</u> Draft proposals (Q1)	Achieved by target date
	<u>Transco Price Control Review</u> Background consultation (Q1)	Achieved by target date
	<u>Separation of Distribution and Supply</u> Agree PES compliance plans (Q1)	All compliance plans except one achieved by target date; last one agreed in July
	Receive first compliance reports (Q1)	Achieved by target date
	<u>Assessing Competition in Connections</u> Decision document on competition in electricity connections (Q1)	Published in July
	<u>Assessing Competition in Metering</u> Implement Transco's split price control (Q1)	Planned for Q4
	<u>Deregulation of Gas Storage</u> Implement LNG storage auctions (Q1)	Achieved by target date
	<u>Resourcing</u> Complete majority of recruitment programme (Q1)	Achieved by target date
	<u>New Working Practices</u> Implement new public affairs programme (Q1)	Achieved by target date

	Deliverables	Progress Report
Q U A R T E R 2	<u>Social Action Plan</u> Review pre-payment meter infrastructure arrangements (Q2)	Being taken forward as part of the Social Action Plan research programmes
	<u>Customer Choice of Energy Suppliers</u> Publish initial consultation on the transfer process review (Q2)	Published in November
	<u>New Electricity Trading Arrangements</u> Establish the Balancing and Settlement Company (Q2)	Achieved by target date
	Agree Balancing and Settlement Code (Q2)	Achieved by target date
	Start trialling, testing and commissioning (Q2)	Tests started, although delay to start of end-to-end testing
	<u>Trading Arrangements in Scotland</u> Review of Scottish trading arrangements (Q2)	Achieved by target date
	<u>Review of NGC Price Control</u> Final proposals (Q2)	Achieved by target date
	<u>Separation of Distribution and Supply</u> Implement separate licences for electricity supply and distribution (Q2)	Planned for Q1 in 2001-02, in accordance with DTI's implementation of the Utilities Act
	<u>Resourcing</u> Complete strategic resourcing review (Q2)	Achieved by target date
	<u>New Working Practices</u> Establish and develop new working practices (Q2)	Achieved by target date

	Deliverable	Progress Report
Q U A R T E R 3	<u>Social Action Plan</u> Publish initial company monitoring reports required under the Social Action Plan (Q3)	Aim to agree monitoring procedures by Q4
	<u>Customer Choice of Energy Supplier</u> Implement new price comparison requirements (Q3)	Achieved by target date
	<u>Customer Protection</u> Issue new standard licences to take account of customer protection requirements in the Utilities Bill (Q3) [dependent on Utilities Bill timetable]	Planned for Q1 in 2001-02, in accordance with DTI's implementation of the Utilities Act
	<u>Environment</u> Publish Environmental Action Plan (Q3) [dependent on Utilities Bill timetable]	To be published in March 2001, following further draft of social and environmental guidance
	<u>New Electricity Trading Arrangements</u> Go live with new trading arrangements (Q3)	'Go live' date delayed because of delay to start of end-to-end testing due to failure to successfully meet minimum criteria.
	Establish a core Ofgem team to take forward the development, refinement and modification of new trading arrangements (Q3)	Achieved by target date
	<u>New Gas Trading Arrangements</u>	
	Implement further revision to trading arrangements (Q3)	Achieved by target date
	Implement new Transco System Operator Incentives and review the NTS capacity regime (Q3)	Completed in July
	Review Network Code Governance Arrangements - decision (Q3)	Planned for June 2001
	<u>NGC System Operator Incentives</u>	
	Review NGC system operator incentives - decisions (Q3)	To be published in December 2000
Review of NGC capacity regime - proposals (Q3)	Planned for March 2001	

	Deliverable	Progress Report
Q U A R T E R 3	<u>Transco Price Control Review</u>	
	Obtain business plan from Transco for next price control period (Q3)	Achieved by target date
	<u>Separation of Distribution and Supply</u> Issue report on initial review of implementation (Q3)	Achieved by target date
	<u>Assessing Competition in Supply</u> Report on developments in gas and electricity supply (Q3)	Achieved by target date
	<u>Assessing Competition in Metering</u> Report on developments in competition in gas and electricity metering and meter reading (Q3)	Planned for Q4
	<u>Ofgem Premises</u> Complete move to new Ofgem head office (Q3)	Achieved by target date

Appendix 2 - Summary of planned deliverables 2001/2

	Key Deliverables
Q U A R T E R 1	<ul style="list-style-type: none"> • Implement Environmental Action Plan following publication in March 2001 (from Q1) • Respond to initial recommendations of the government working group on embedded generation • Publish draft proposals under Transco price control review • Publish proposals on structure of electricity distribution charges • Publish initial proposals on incentive regimes under IIP project • Consult on revised regulatory accounting licence conditions, including regulatory accounting guidelines, for the electricity distribution businesses • Publish final proposals on long-term investment signals • Publish initial proposals on exit and interruptibles capacity regime • Carry out survey of electricity and gas retail supply • Publish decision document on improving customer transfers • Publish decision document on supplier failures • Complete preparation of statutory instruments and orders resulting from the introduction of the Utilities Act • Publish metering policy proposals • Modify standard licences for all licensees • Implement, where appropriate, the recommendations of the Treasury's efficiency review of all regulators (from Q1) • Complete review of Technical Directorate • Implement learning and development and reward strategies (from Q1) • Implement strategy to build Ofgem's corporate knowledge (from Q1) • Implement corporate communications strategy to support priorities for 2001/2 (from Q1)

	Key Deliverables
Q U A R T E R 2	<ul style="list-style-type: none"> • Publish further proposals on reducing debt blocking • Develop new Codes of Practice for electricity consumer issues • Agree Concordat with the Environment Agency and the Scottish Environment Protection Agency • Publish final proposals under Transco price control review. Implementation planned for April 2002 • Implement revised regulatory accounting licence conditions, including regulatory accounting guidelines, for the electricity distribution businesses • Consult on regulatory accounting guidelines for NGC and the Scottish transmission businesses • Publish decision document on exit and interruptibles capacity regime • Publish second consultation paper on business separation licence changes • Publish metering decision document • Implement conclusions from review of Technical Directorate

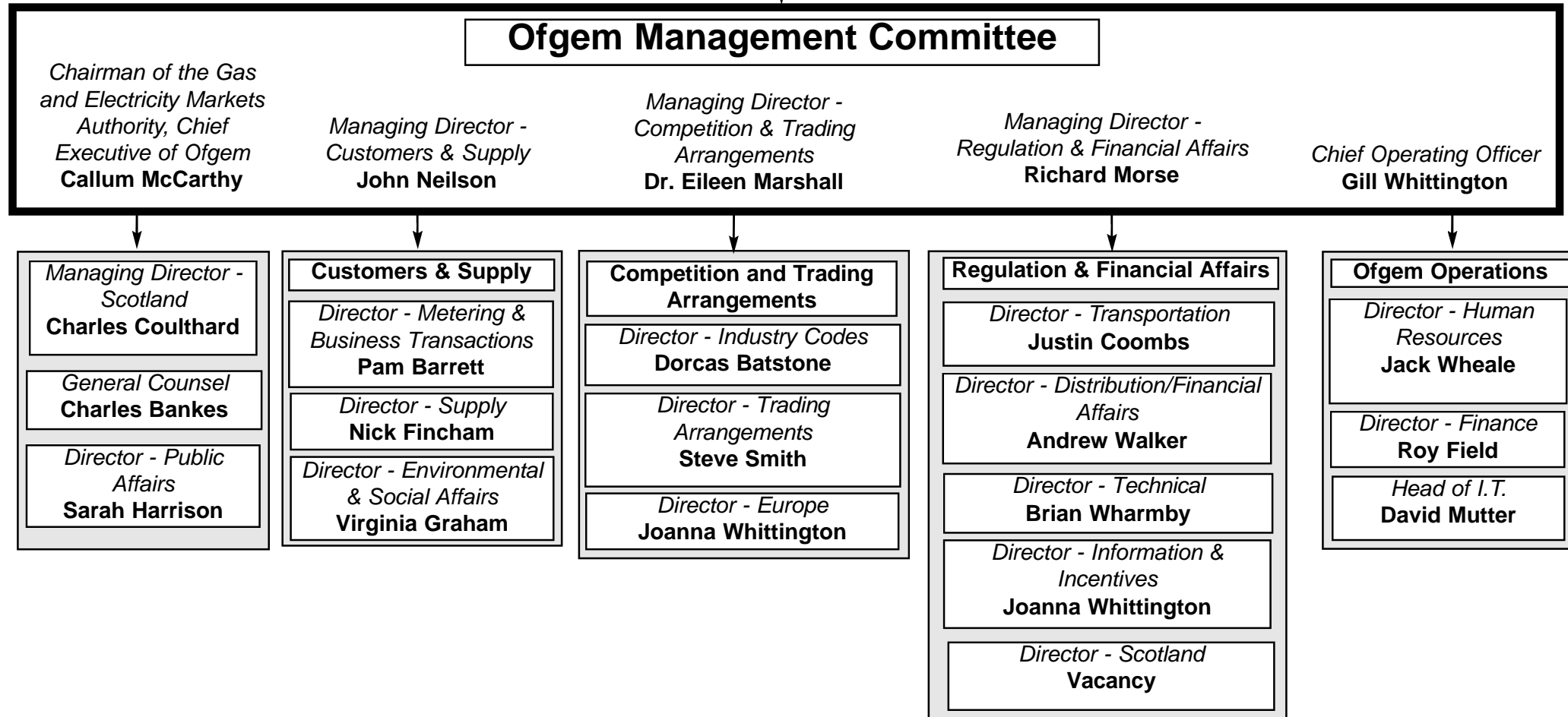
	Key Deliverables
Q U A R T E R 3	<ul style="list-style-type: none"> • Disseminate and act on the results of the seven research projects under Social Action Plan • Put in place programme of work to implement recommendations of government working group on embedded generation • Publish final proposals on incentive regimes under IIP project • Issue regulatory accounting guidelines for NGC and the Scottish transmission businesses • Implement new transmission access regime • Implement new gas balancing arrangements • Publish recommendations for revising regulatory regime in retail supply • Publish initial proposals on price regulation of PES supply businesses • Publish initial proposals for future regulation of marketing • Publish final proposals on business separation licence changes • Obtain Investors in People accreditation • Consult on Plan and Budget

	Key Deliverables
Q U A R T E R 4	<ul style="list-style-type: none"> • Publish second annual report on the Social Action Plan • Publish first annual report under the Environmental Action Plan • Publish guidelines on best practice on energy efficiency advice • Finalise procedures for implementing the new EESoP scheme • Carry out initial consultation and survey about IPGT regulation • Complete review of NETA [dependent on NETA timetable] • Implement new System Operator incentives • Implement exit and interruptibles capacity regime • Publish final proposals on price regulation of PES supply businesses • Publish decision document on future regulation of marketing • Implement business separation licence conditions • Publish Plan and Budget

Appendix 3 - Ofgem Corporate Structure

The Gas and Electricity Markets Authority

(appointments are due to be announced shortly)



Appendix 4 - Ofgem regulatory standards

Ofgem's standards are the principles by which we aim to work in regulating the electricity and gas industries.

Competition

We seek to achieve effective competition wherever possible throughout all parts of the electricity and gas industries. We shall bring this about by actively:

- ◆ removing barriers to entry, including changing the industry structure, and
- ◆ regulating the behaviour of organisations with market power.

Regulation

We shall regulate the areas of the electricity and gas industries where competition is not effective, in line with our statutory powers, to protect the interests of customer. To do this we shall:

- ◆ set price controls which give incentives to improve efficiency,
- ◆ set standards of service as a means of ensuring reliability and value for money, and
- ◆ settle disputes.

Enforcement

We shall monitor the industry and enforce regulation for the benefit of customers, and be seen to do so. To do this we shall:

- ◆ collect and publish market information,
- ◆ maintain regulatory effectiveness through a combination of influence, incentives, intervention and legal action, and
- ◆ make regulation simple so it does not require over-elaborate and expensive maintenance.

Effectiveness

We aim to regulate effectively and in a consistent way, so that customers, shareholders and others understand our position. To do this we shall:

- ◆ be clear about our direction, principles and priorities, and set these out clearly and publicly,
- ◆ act quickly in line with these principles as issues arise,
- ◆ seek a reputation for impartiality and independence, and
- ◆ ensure that neither we, nor those whom we regulate, are overloaded by our work.

Accountability

We believe that as a public body we have a duty to account for our actions. We also believe that clear accountability will enhance our authority as a regulator. To do this we shall:

- ◆ communicate effectively with the outside world – customers, interest groups and the electricity and gas industries,
- ◆ present our objectives and work transparently and in good faith, and
- ◆ involve both customers and the electricity and gas industries, and be accessible to them.

Professionalism

We believe that high internal standards, consistently achieved, will enhance our authority as a regulator. To do this we shall:

- ◆ operate efficiently and competently in all our work,
- ◆ actively innovate in the way we regulate, and find ways to ‘work smarter’,
- ◆ build on current constructive working relationships with all interested parties, and
- ◆ keep in close touch with developments in the market and its regulation, including internationally.

Appendix 5 - Glossary of terms

BETTA	British Electricity Trading and Transmission Arrangements
BGT	British Gas Trading
BSC	Balancing and Settlement Code
CEER	Council of European Energy Regulators
CMR	Competitive Market Review
CUSC	Connection and Use of System Code
DETR	Department of the Environment, Transport and the Regions
DTI	Department of Trade and Industry
EA	Environment Agency
EESoP	Energy Efficiency Standards of Performance
EU	European Union
IIP	Information and Incentives Project
IiP	Investors in People
IPGT	Independent Public Gas Transporters Regulation
LNG	Liquified Natural Gas
MoU	Memorandum of Understanding
NGO	Non-Governmental Organisations
OFT	Office of Fair Trading
PES	Public Electricity Supplier
NETA	New Electricity Trading Arrangements
NGC	National Grid Company
NGTA	New Gas Trading Arrangements
NTS	National Transmission System
RPI	Retail Price Index
SSE	Scottish and Southern Energy

Appendix 6 - Consultees

- ◆ Academics and policy institutes
- ◆ Consumer groups (representing domestic and industrial customers)
- ◆ Financial analysts
- ◆ Government Ministers and relevant officials
- ◆ Industry and business associations
- ◆ Interest groups
- ◆ Licensees
- ◆ Local Government representatives
- ◆ Parliamentarians: Westminster, Edinburgh and Members of the Welsh Assembly
- ◆ Regulators
- ◆ Unions



Invitation

Ofgem Plan and Budget 2001/2 - Public Meetings

London and Glasgow

Ofgem will be holding two public meetings early in the New Year to present and discuss its draft plan and budget. These will be in **London on Wednesday 17 January** (please note this date has changed from the timetable advertised in November), and in **Glasgow on Thursday 18 January**.

Ofgem's Management Committee will present the proposed priorities and work plan for the coming year, followed by discussion and questions and answers. Both public meetings will be followed by a reception to which all attendees are invited.

Venue and timings

London

The London meeting will be held at Ofgem's offices.

9 Millbank
London
SW1P 3GE

Time: 4pm - 6pm
(followed by reception)

Glasgow

Institute of Electrical Engineers
Teacher Building
14 St Enoch Square
Glasgow
G1 4DB

Time: 10.30am – 12.30pm
(followed by reception)

If you wish to attend

Please contact Robert Jones, Ofgem Public Affairs by email: robert.jones@ofgem.gov.uk or by telephone on: 020 7901 7484.

Alternatively, complete your details below and fax this back to Ofgem on **020 7901 7064**.

Name:

Title:

Organisation:

Please delete as applicable: London/Glasgow

RSVP: Wednesday 10 January 2001