

**March 2001**

**Ofgem Plan and Budget 2001/2**

## Foreword

1. Everything Ofgem does is designed to protect and advance the interests of consumers. Our overriding aim is to help bring choice and value to all customers of the British gas and electricity industries, where we can by competition, and where necessary through regulation. We rely increasingly on competition, and aim to continue the process, already well established, of withdrawing from detailed regulation wherever possible.
2. This document, which reflects views expressed to us at public meetings in London and Glasgow and many subsequent comments, 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 also identifies the cost of all key projects and processes.
3. We have the same groupings of priorities as last year. These 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. Our priorities here will be developed further, as we consider how best to discharge the Authority's duties under the Utilities Act 2000. We are, for example, waiting for the guidance on social and environmental issues which the Secretary of State is due to give us under the Act.
  - ◆ **Regulation of monopoly businesses:** in respect of the monopoly transmission and distribution systems, regulation is unavoidable. Here 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:** in electricity, the New Electricity Trading Arrangements (NETA) are due to be introduced in March 2001. Thereafter we expect continuing work to revise the codes governing electricity 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. In gas, we intend to reform the gas balancing arrangements and the transmission arrangements relating to exit. These reforms will seek to align the regimes as the markets increasingly converge and to promote efficient arbitrage and trade with Europe. All these initiatives are designed to promote market efficiency, and promote competition rather than regulation.

- ◆ **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 to achieve the most effective approach to consultation for those interested in Ofgem's work – not an easy task given the range and scale of our work. We have established a new and more formal system of corporate governance based on the powers and duties of the Authority to which Ofgem reports. Further developing this effectively is a priority for 2001/2.

4. Within the six groupings of priorities, there are three areas of action of particular importance to Ofgem in 2001/2. These are:

- (i) **introducing NETA effectively:** electricity trading is a business with a turnover of £7.5 billion annually and whose costs make up 50 per cent of domestic electricity bills. It is a crucial link in establishing a chain of effective competition from generation all the way through to retail

competition. It opens up the prospect of increasing arbitrage in the use of gas. The change both to systems and to commercial practices is profound. The first major priority for Ofgem will be to monitor and where necessary adjust the NETA arrangements and to ensure that the trading arrangements in gas and electricity lead to efficient arbitrage through appropriate reforms to the gas trading arrangements;

(ii) **the Transco price control review:** Transco's regulated revenue is some £3 billion annually. Transco's costs are some 40 per cent of domestic gas bills. An effective control is needed which provides the right incentives for Transco investment, for both the national transmission system and for local distribution zones, as well as for metering. The price control must also incentivise Transco to be an efficient and safe operator. The Transco price control review, and the associated work on improving long term investment signals and incentives for Transco to invest in its National Transmission System, are therefore a second major priority for Ofgem;

(iii) **ensuring that competition continues to develop effectively at the retail level for all electricity and gas customers.** Success here will allow Ofgem to withdraw from regulation and instead rely on competition. This work has many facets: improving the provision of effective price comparison and easing the process for those who decide to switch; stopping obstacles such as unwarranted debt blocking; building confidence in the competitive market. In many of these, Ofgem will need close collaboration with energywatch.

5. Ofgem aims to control its costs carefully, and to manage its resources efficiently. We will consider how best to do this, in the light of the recent report from the Treasury efficiency review of the utility regulators. But 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.

6. The costs of Ofgem 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 – a reality which enables credit customers to save up to £85 a year by switching. Thirty per cent of gas customers and 25 per cent of electricity customers have already switched - numbers far higher than for other utilities in Britain or for electricity anywhere else in the world. They also include regulating natural monopolies which, in the case of electricity distribution and supply, has had the effect of transferring 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. These benefits are a measure of what is meant by Ofgem's purpose of helping bring choice and value to all customers, where we can through competition, and where we cannot by regulation.



**Callum McCarthy**

**Chairman of the Gas and Electricity Markets Authority,**

**Chief Executive of Ofgem**

## Table of contents

<b>1. Introduction.....</b>	<b>1</b>
Background.....	1
Structure.....	1
Ofgem contacts .....	2
<b>2. A longer term perspective.....</b>	<b>3</b>
Themes and projects beyond 2001/2.....	3
The external environment .....	5
<b>3. Social and environmental action.....</b>	<b>7</b>
Background.....	7
The year ahead - April 2001 to March 2002 .....	9
Key deliverables and timing.....	12
Costs .....	13
<b>4. Regulation of monopoly businesses.....</b>	<b>14</b>
Background.....	14
The year ahead - April 2001 to March 2002 .....	15
Key deliverables and timing.....	16
Costs .....	17
<b>5. Efficient trading in the wholesale electricity and gas markets .....</b>	<b>18</b>
Background.....	18
The year ahead - April 2001 to March 2002 .....	21
Key deliverables and timing.....	25
Costs .....	26
<b>6. Managing the move to competitive supply markets.....</b>	<b>27</b>
Background.....	27
The year ahead - April 2001 to March 2002 .....	28
Key deliverables and timing.....	30

Costs .....	31
<b>7. Work on industrial structure and competitiveness .....</b>	<b>32</b>
Background.....	32
The year ahead - April 2001 to March 2002 .....	33
Key deliverables and timing.....	34
Costs .....	34
<b>8. Work to develop Ofgem as an efficient regulator .....</b>	<b>35</b>
Background.....	35
The year ahead - April 2001 to March 2002 .....	36
Key deliverables and timing.....	37
Costs .....	37
<b>9. Ofgem Costs - 2001/2 .....</b>	<b>38</b>
<b>Appendix 1 - Progress against 2000/1 deliverables.....</b>	<b>40</b>
<b>Appendix 2 - Summary of planned deliverables 2001/2.....</b>	<b>46</b>
<b>Appendix 3 - Ofgem organisation structure .....</b>	<b>48</b>
<b>Appendix 4 - Ofgem regulatory standards.....</b>	<b>49</b>
<b>Appendix 5 - Glossary of terms .....</b>	<b>51</b>

# 1. Introduction

## *Background*

- 1.1 This document is Ofgem's second Plan and Budget covering the period April 2001 to March 2002. It establishes the organisation's priorities and work plan for the coming year.
- 1.2 Ofgem consulted on its proposed Plan and Budget in December 2000. The document has been revised in the light of the consultation. Copies of all individual responses and Ofgem's response to the main points raised are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk))

## *Structure*

- 1.3 Chapter 2 of the document sets out the key themes and projects that will continue over the next three years.

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).

- 1.4 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 year), relevant timings and the direct costs associated with each priority area.

Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002



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

***Ofgem contacts***

- 1.7 All queries on the Plan and Budget for 2001/2 should be directed to Cath Martindale, Corporate Planning Manager on 020 7901 7169 or [cath.martindale@ofgem.gov.uk](mailto:cath.martindale@ofgem.gov.uk)

## 2. A longer term perspective

### *Themes and projects beyond 2001/2*

- 2.1 The Plan and Budget establishes the priorities and work plan that Ofgem will pursue in 2001/2 to meet its overall duties and functions. In future, Ofgem intends to produce a three-year plan. Even though this has not been done explicitly this year, there are a number of themes and projects in this year's Plan that will continue over the next three years and shape much of Ofgem's work over that period.

### **An emphasis on competition wherever possible**

- 2.2 Competition in gas and electricity supply is now established, delivering real benefits to customers in terms of greater choice and lower prices. Ofgem has succeeded in withdrawing from detailed price controls for gas, and expects to do the same for electricity from April 2002.
- 2.3 In addition, Ofgem has restricted the areas of natural monopoly which require price regulation. This has been achieved by helping companies to unbundle, for example through the demergers of British Gas and the separation of PESs' supply and distribution businesses, and by transferring businesses to the competitive sector. This transfer has already taken place in gas storage and gas connections and Ofgem expects to do more (for example, in metering), and to reduce the economic activities subject to detailed price regulation as distinct from general competition law.
- 2.4 A large part of Ofgem's work has been focused on creating the conditions for efficient trading and effective competition in wholesale gas and electricity markets.
- 2.5 Where competition is working effectively, market forces will drive customer prices and determine commercial success or failure. Ofgem therefore expects to restrict the areas of natural monopoly, to withdraw from direct price regulation in competitive markets and to concentrate on ensuring that these markets operate free from abuse.

## **Social and environmental issues**

- 2.6 Social and environmental issues will continue to be important. The Secretary of State is expected to issue guidance on these matters shortly. Ofgem will continue to work to ensure that competition benefits as many as possible in society, and to pay attention to its duty to have regard to particular categories of consumers, including those on low incomes.
- 2.7 Ofgem will have an important executive role in implementing Government policy on renewables and energy efficiency. We expect work on embedded generation to be a continuing task over at least the next three years. Ofgem will continue to consider how to balance economic, social and environmental obligations, which are sometimes complementary and sometimes conflicting.

## **Regulation of monopoly businesses**

- 2.8 Ofgem plans to develop the process of price regulation for those remaining monopoly businesses through a greater emphasis on their outputs. The Information and Incentives Project for the distribution companies and the combined work on the Transco price control review and the long-term investment signals for Transco are the best examples of this.

## **Efficient trading**

- 2.9 A continuing priority will be developing efficient trading and balancing mechanisms and practices, using the same principles for both gas and electricity. This will involve, in particular, a major project which will extend beyond 2001/2 to bring to Scotland the advantages of a competitive trading system for electricity now benefiting England and Wales (the BETTA project). From 2002, Ofgem expects to start an auction process to allocate longer-term capacity on the national gas transmission system. Work on European policy for gas and electricity transmission and trading, and on the new proposed directives, will be a continuing focus of work.

## **Safety**

- 2.10 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, as well as to ensure that the HSE properly understands the economic implications of its decisions. These are responsibilities which Ofgem takes very seriously.

### **Costs and efficiency**

- 2.11 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.
- 2.12 Subject to Ofgem receiving no new duties, continuing costs are expected to run at about the present level of £30 million, and staff numbers are expected to remain at or below present levels.

### ***The external environment***

- 2.13 In addition to the above themes and projects, there are a number of other factors to which Ofgem will need to continue to pay regard.

#### ◆ Market developments

- 2.14 The pace of convergence between gas and electricity and other utilities and products will quicken.
- 2.15 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.
- 2.16 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.

◆ Europe

2.17 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 seeking to ensure that these are soundly based.

◆ Technology

2.18 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.

◆ Legislation

2.19 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.

2.20 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.

### 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 per cent of their household income on energy to maintain a satisfactorily warm home. Low income, poor housing conditions and energy costs contribute to the causes of fuel poverty.
- 3.2 The Government has recently announced that it will seek an end to the blight of fuel poverty for vulnerable households by 2010. This target is understood to mean that programmes will be put in place so that no older householder, no family with children, and no householder who is disabled or has a long-term illness need risk ill health due to a cold home. The Government intends to tackle fuel poverty in other households once progress has been made on the priority vulnerable groups.
- 3.3 Ofgem has welcomed the Government's Fuel Poverty Strategy, and is committed to continuing to work in partnership with Government, industry and other agencies to tackle fuel poverty. Ofgem has a clear role to play in respect of energy costs. Low energy costs, 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. Ofgem also has a role in improving the energy efficiency of the housing stock.
- 3.4 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 in March 2000 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.

- 3.5 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 in March 2001.
- 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 The Environmental Action Plan, which Ofgem will be able to publish in early 2001/2 after the Government has published for consultation its revised draft of Ofgem's guidance on social and environmental matters, will establish the basis for Ofgem to take environmental considerations into account in its work. Ofgem will work to implement the commitments in the Plan during 2001/2. Ofgem is also working to implement the Government's new renewables regime and will play a leading role to ensure a fair and transparent regulatory regime for embedded generation. This will involve considering the recommendations from the Ofgem-chaired Government working group on embedded generation.
- 3.8 The Government has a legally binding target under the Kyoto Protocol process to reduce emissions of six greenhouse gases by 12.5 per cent over 1990 levels by 2008 – 2012. In addition, the Government has pledged itself to a 20 per

cent reduction in CO<sub>2</sub> emissions over 1990 levels by 2010. Ofgem recognises that the energy industry is an important contributor of CO<sub>2</sub> and other emissions.

### *The year ahead - April 2001 to March 2002*

#### **Social Action**

- 3.9 Work will continue in the four areas of activity under the Social Action Plan.
- ◆ Enhanced licence obligations
- 3.10 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.
- 3.11 Ofgem will continue to work towards changes to reduce suppliers' right to block for debt. These will require the agreement of licensees. Ofgem is participating in an industry-wide working group to consider possible ways forward.
- ◆ Further initiatives to enhance competition and improve regulation
- 3.12 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
- 3.13 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

- 3.14 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 will be published in March 2001.

**Environmental Action**

*Environmental Action Plan*

- 3.15 Once the Environmental Action Plan is agreed, 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*

- 3.16 Ofgem will continue to commit considerable time and effort to work on renewables over the coming year. From 1 April 2001 Ofgem will be responsible for administering the exemption from the Climate Change Levy for electricity generated from qualifying renewable sources. From 1 October Ofgem will also be responsible for administering the obligation on suppliers to supply a percentage of electricity generated from qualifying renewable sources. Ofgem is designing a new system to allow it to carry out these complex functions in the most effective manner, taking account of the similarities and differences between the two regimes.

### *Energy efficiency*

- 3.17 Ofgem will continue its important work on energy efficiency, making sure that the fuel poor are the principal beneficiaries. Ofgem will continue to administer the Energy Efficiency Standards of Performance (EESoPs) until the end of this scheme in March 2002. Under the scheme approximately £110 million is being invested in energy efficiency measures by energy suppliers over the two year life of the programme. The majority of these funds are being directed to disadvantaged customers. In addition Ofgem will contribute to the development of the next energy efficiency programme, to be known as Energy Efficiency Commitment (EEC), to be set by the Department of Environment, Transport and the Regions (DETR). This will be administered by Ofgem, from 1 April 2002, for a three year period.

### *Embedded generation*

- 3.18 During the year, Ofgem will start to consider the recommendations of the Embedded Generation Working Group. The Group's principal recommendation was that Ofgem should review the structure of regulatory initiatives on Distribution Network Operators (DNOs) in the light of the new statutory duty on DNOs to facilitate competition. Ofgem will be reviewing options for future network design, looking at the connection process, reviewing the security requirements on the network, looking at the charging structure and considering whether any short-term changes to the price control might be justified.

### *Combined Heat and Power*

- 3.19 Ofgem will continue to carry out its statutory duty to collect information about the generation of electricity using Combined Heat and Power (CHP). In consultation with other stakeholders, Ofgem intends to increase the visibility of this database, and to analyse the data contained in it more actively.
- 3.20 Through the EESoP programme, Ofgem will continue to encourage the development of domestic CHP schemes, and hopes that more of these will be presented for approval during the course of the year. Ofgem will also be carrying out a review of the initial impact of NETA on smaller generators (see paragraph 5.15).

3.21 The Government has set a revised target for 10,000 Mwe of CHP capacity to be installed by 2010. Ofgem's work to respond, as appropriate, to the recommendations of the embedded generation working group should encourage the development of CHP since the great majority of CHP plants are embedded in distribution systems.

***Key deliverables and timing***

<b>Activity</b>	<b>Key deliverables</b>
Social action	<p><u>Social Action Plan</u></p> <ul style="list-style-type: none"> <li>• Develop new Codes of Practice for electricity consumer issues (Q2)</li> <li>• Disseminate and act on the results of the seven research projects (Q3)</li> <li>• Publish proposals on reducing debt blocking (Q4)</li> <li>• Publish second annual report on Social Action Plan (Q4)</li> </ul>
Environmental action	<p><u>Environmental Action Plan</u></p> <ul style="list-style-type: none"> <li>• Implement Environmental Action Plan following publication (from Q1)</li> <li>• Agree concordat with the Environment Agency and Scottish Environment Protection Agency (Q2)</li> <li>• Publish first annual report under the Environmental Action Plan (Q4)</li> </ul> <p><u>Renewables</u></p> <ul style="list-style-type: none"> <li>• Accredit generators whose output qualifies for exemption from the CCL (Q1) and the renewables obligation (Q3)</li> <li>• Issue certificates for qualifying renewable electricity generated for CCL exemption (Q1) and renewables obligation (Q3)</li> </ul> <p><u>Energy Efficiency</u></p> <ul style="list-style-type: none"> <li>• Publish guidelines on best practice on energy efficiency advice (Q4)</li> <li>• Finalise procedures for implementing new Energy Efficiency Commitment programme (Q4)</li> </ul> <p><u>Embedded Generation</u></p> <ul style="list-style-type: none"> <li>• Respond to initial recommendations of the Government working group on embedded generation (Q1)</li> <li>• Put in place programme of work to respond, as appropriate, to the recommendations of working group (Q3)</li> </ul>

Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002

## *Costs*

This represents total direct costs for the priority area.

	Staff	Contractors	Other	Total
£ 000	695	484	101	1,280

This highlights the costs of key projects and processes within the priority area.

<b>Project</b>	<b>£ 000</b>
Social Action Plan	260
Environmental Action Plan*	170
Energy Efficiency	300
Embedded Generation*	110
Renewables	270

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\* Note that the total cost of these activities is higher. These figures relate to the co-ordination costs and do not take account of the involvement of other Ofgem staff in this work.

## 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 per cent) 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 40 per cent 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 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. The aim is to operate the new incentives regime on

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

Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002

## **Costs**

This represents total direct costs for the priority area.

	Staff	Contractors	Other	Total
£ 000	1,257	1,956	188	3,401

This highlights the costs of key projects and processes within the priority area.

<b>Project</b>	<b>£ 000</b>
Transco Price Control Review	970
IPGT Regulation	200
Transportation Pricing	130
Distribution Prices	180
Information and Incentives Project	850
Regulatory Accounts	260



## 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 per cent of their electricity bills and wholesale costs make up about 45 per cent 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 has been underway to test the systems and interfaces which will support the new trading arrangements. The date for implementation of 27 March 2001 has been set by the Secretary of State.
- 5.4 Once NETA is implemented Ofgem's role in the programme will change. ELEXON, the Balancing and Settlement Code company which manages the electricity trading arrangements in England and Wales, 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 role (and resources) to help bed down the new arrangements, and to ensure that NETA is working effectively. Ofgem will retain an enduring role in approving any modifications to the BSC. This change in Ofgem's role, as NETA beds down, 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 the early part of 2001/2 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 have been 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), to be implemented on 27 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 The project to create British Electricity Trading and Transmission Arrangements (BETTA) passed two key milestones this year. The first was to reach broad agreement on the kinds of reform required to implement BETTA. The second was to agree the interim arrangements 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, especially those in Scotland, as well as providing a broader competitive arena for all companies (including the Scottish companies). Ofgem hopes that the parties can agree to a way forward, and so make it unnecessary for regulatory actions to impose a solution.

- 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, the exit capacity arrangements and improving Transco's investment incentives on the NTS 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 was introduced and employed successfully to tackle market abuse in electricity generation (see paragraph 5.28 about the Competition Commission decision on this initiative and Ofgem's actions in the light of this), 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. The Energy Minister has asked Ofgem to carry out a review of the initial impact of NETA on smaller generators, after two months of operation. 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 IT system development by NGC. Implementation is expected in 2001/2.
- 5.17 In parallel, Ofgem will review the incentives that apply to NGC in its role as system operator to encourage efficient day-to-day operation of the transmission system. New incentives will need to be set to take effect from 1 April 2002 when the recently agreed NGC incentive scheme for NETA expires.

## *BETTA*

5.18 Progress on creating a single British market in electricity trading and transmission, which will depend on developing transmission access arrangements in England and Wales, 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.

### ◆ 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.

5.21 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, relating to both entry and exit capacity, more responsive to shippers' and customers' needs. These reforms should pave the way for the first release of long term entry capacity and revised exit arrangements from April 2002.

#### *Exit capacity*

5.22 In 2001/2 a project will be taken forward to reform 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.

#### *Gas balancing regime*

- 5.23 Initial proposals for the development of the regime to balance gas inputs and off-takes on the NTS will be published this year, following the recently published consultation document. These will be implemented in 2001/2. The objectives of the reforms are to enable effective arbitrage between gas and electricity markets and trade with Europe, 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.

#### *Offshore and interconnector issues*

- 5.24 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.

#### **Developing codes which underpin the operation of electricity and gas trading regimes**

- 5.25 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 is expected to 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**

- 5.26 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.
- 5.27 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.
- 5.28 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. Ofgem believes that it has been forced to remove an important regulatory measure which protected 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 has considered 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**

- 5.29 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*

<b>Activity</b>	<b>Key deliverables</b>
<i>Electricity</i>	
NETA	<ul style="list-style-type: none"> <li>• Complete review of effect of NETA on smaller generators (Q1)</li> <li>• Complete review of NETA (Q4)</li> </ul>
Transmission access and system operation	<ul style="list-style-type: none"> <li>• Set framework for new transmission access regime (Q3)</li> <li>• Implement new System Operator incentives (Q4)</li> </ul>
BETTA	<ul style="list-style-type: none"> <li>• Publish responses to BETTA proposals (Q1)</li> <li>• Consult on proposals for Anglo-Scottish interconnector auctions (Q1)</li> <li>• Publish final proposals on Anglo-Scottish interconnector auctions (Q2)</li> <li>• Publish interim proposals on reforms required to implement BETTA (Q4) [timing dependent on agreement of transmission access arrangements]</li> </ul>
<i>Gas</i>	
Entry capacity and long-term investment signals and incentives	<ul style="list-style-type: none"> <li>• Publish final proposals on long-term investment signals (Q1)</li> </ul>
Exit capacity	<ul style="list-style-type: none"> <li>• Publish initial proposals on exit and interruptibles capacity regime (Q1). Publish decision document (Q2). Implement (Q4)</li> </ul>
Gas balancing	<ul style="list-style-type: none"> <li>• Begin phased implementation of new gas balancing arrangements (Q4)</li> </ul>

Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002



## ***Costs***

This represents total direct costs for the priority area.

	Staff	Contractors	Other	Total
£ 000	3,221	4,260	705	8,186

This highlights the costs of key projects and processes within the priority area.

<b>Project</b>	<b>£ 000</b>
NETA Implementation	1,250
NETA Policy	570
BETTA	960
Electricity Systems Operations	1,000
Gas Trading Arrangements	1,000
Gas Network Codes	250
Balancing and Settlement Code	170
Connection and Use of System Code	150
Wholesale Market Monitoring	440
Europe	440

## 6. Managing the move to competitive supply markets

### *Background*

- 6.1 The National Audit Office estimates that, since the introduction of competition to the domestic gas and electricity markets, each year customers have received benefits of around £1 billion in gas and £750 million in electricity. 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, despite recently announced increases of around 5 per cent in its domestic prices, 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 113,000 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. In February 2001, Ofgem announced that it proposed to lift the remaining price controls on BGT from 1 April 2001. However, Ofgem proposed retaining a cap on the differentials between BGT's LatePay/Pre-Payment and its Prompt Pay and Direct Debit tariffs. In the coming year, Ofgem will review this and 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 2000 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, the new independent consumer watchdog, once it is in a position to take on the work involved.
- 6.7 In September 2000 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 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 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 or amend 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, although there will be a cap on the differentials between tariff types. This cap will be reviewed in 2001/2 and work will 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 A consultation on issues relating to supplier failures will be published in June 2001. A decision document will be issued in October 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. Effective management of this relationship is critical to ensure that customers' interests are represented effectively and that duplication is avoided. Ofgem will also keep contact with groups which represent industrial and commercial customers.
- 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***

<b>Activity</b>	<b>Key deliverables</b>
Competition and deregulation	<ul style="list-style-type: none"> <li>• Carry out survey of electricity and gas retail supply (Q1)</li> <li>• Review regulatory regime (Q2)</li> <li>• Publish recommendations for revising regulatory regime (Q3)</li> </ul>
Supply price control reviews	<ul style="list-style-type: none"> <li>• Publish initial proposals on price regulation of PES supply businesses (Q3) Publish final proposals (Q4)</li> </ul>
Access to/confidence in competitive market	<ul style="list-style-type: none"> <li>• Publish decision document on improving customer transfers (Q1)</li> <li>• Publish initial proposals for future regulation of marketing (Q3) Publish decision document (Q4)</li> </ul>
Dealing with supplier failures	<ul style="list-style-type: none"> <li>• Publish consultation document on supplier failures (Q1)</li> <li>• Publish decision document (Q3)</li> </ul>

Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002

## ***Costs***

This represents total direct costs for the priority area.

	Staff	Contractors	Other	Total
£ 000	1,757	645	349	2,751

This highlights the costs of key projects and processes within the priority area.

<b>Project</b>	<b>£ 000</b>
Competition and Deregulation	370
Supply Projects	1,090
Customer Contact and Compliance	450
Licensing	280

## **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 is expected to be completed early in 2001/2, but the implementation timetable will be set by the DTI.
- 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 be published in March 2001. 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 in March 2001, will be to achieve cheaper, higher quality metering and meter reading services and to improve energy measurement accuracy.

#### **Connections**

- 7.9 In 2001/2 Ofgem will publish a 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, is expected to be completed in early 2001/2, but the implementation timetable will be set by the DTI.



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

Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002

### *Costs*

This represents total direct costs for the priority area.

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

This highlights the costs of key projects and processes within the priority area.

Project	£ 000
Business Separation	190
Metering	590
Connections	330
Mergers and Acquisitions	280

## 8. Work to develop Ofgem as an efficient regulator

### *Background*

- 8.1 Developing Ofgem as an efficient and effective regulator is important in 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, wholly open plan 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 has been agreed.
- 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 its regional offices, 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 have now been published. 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 external providers can add greater value 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's staffing level has now stabilised 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 have been considered and will, where appropriate, be implemented. Work to review the provision of technical services will be completed, with the aim of securing 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"> <li>Implement, where appropriate, the recommendations of the Treasury's efficiency review of all regulators (from Q1)</li> <li>Complete review of Technical directorate (Q3). Implement conclusions (Q4).</li> </ul>
Developing Ofgem staff	<ul style="list-style-type: none"> <li>Implement learning and development and reward strategies (from Q1)</li> <li>Obtain Investors in People accreditation (Q4)</li> </ul>
Building corporate knowledge	<ul style="list-style-type: none"> <li>Implement strategy to build Ofgem's corporate knowledge (from Q1)</li> </ul>
Communications	<ul style="list-style-type: none"> <li>Implement corporate communications strategy to support priorities for 2001/2 (from Q1)</li> <li>Consult on Plan and Budget (Q3). Publish Plan and Budget (Q4)</li> </ul>

Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002

### *Costs*

This represents total direct costs for the priority area.

	Staff	Contractors	Other	Total
£ 000	415	105	445	965

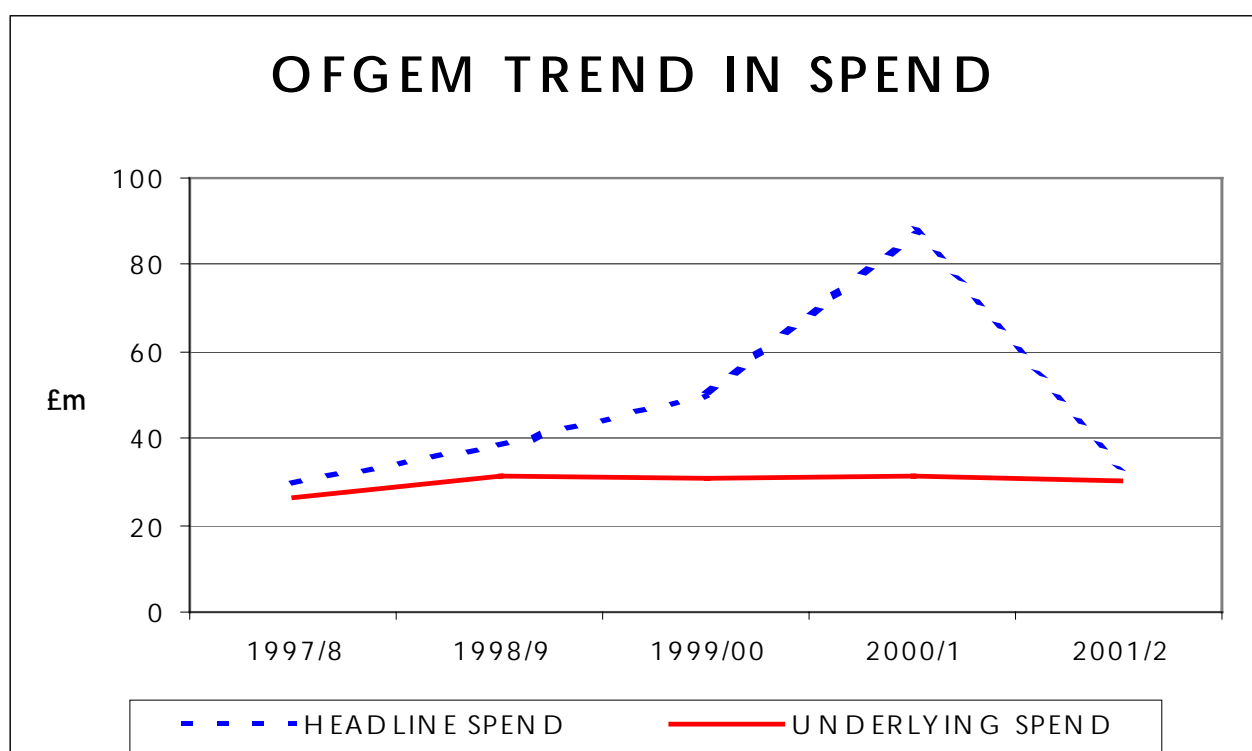
This highlights the costs of key projects and processes within the priority area.

Project	£ 000
Performance and Reward	330
Learning and Development	260
Building Corporate Knowledge	210

## 9. Ofgem Costs - 2001/2

- 9.1 Ofgem's underlying expenditure (excluding NETA, merger, and Regional Offices) for 2001/2 is projected to be £30.7 million. This level of expenditure has been maintained since 1998/9, even before taking account of inflation. These costs represent 0.09 per cent of the gas and electricity industry's turnover.
- 9.2 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 (£6.0 million), accommodation and running costs (£5.4 million) and the merger run down cost (£2.2 million).
- 9.3 Ofgem's headline total cash spend is forecast to fall from an estimate of £87.1 million this year to £34.1 million in 2001/2. Included in this are £3.4 million of residual costs associated with the merger and NETA.
- 9.4 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.
- 9.5 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.
- 9.6 Excluding NETA, the cost of policy contractors is forecast to fall by 15 per cent to £7.9 million. This will only be possible if Ofgem is given the means to attract good staff.
- 9.7 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	8,901
OTHER	12,706	16,905	22,344	33,008	11,748
<b>TOTAL SPEND</b>	<b>29,769</b>	<b>38,400</b>	<b>49,979</b>	<b>87,149</b>	<b>34,065</b>
LESS REGIONS	(3,349)	(4,321)	(5,086)	(5,512)	0
LESS NETA	0	(2,630)	(10,214)	(30,245)	(1,250)
LESS MERGER	0	0	(3,876)	(20,223)	(2,150)
<b>UNDERLYING TOTAL SPEND</b>	<b>26,420</b>	<b>31,449</b>	<b>30,803</b>	<b>31,169</b>	<b>30,665</b>



## 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 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
<b>Q U A R T E R  1</b>	<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; discussion of trial in Q4
	<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

	<b>Deliverables</b>	<b>Progress Report</b>
<b>Q U A R T E R  1</b>	<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 March 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)	Initial proposals on capacity regime to be published in March 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)	Achieved in 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



	<b>Deliverables</b>	<b>Progress Report</b>
<b>Q U A R T E R  2</b>	<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 2001/2, 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

	<b>Deliverable</b>	<b>Progress Report</b>
<b>Q U A R T E R  3</b>	<u>Social Action Plan</u> Publish initial company monitoring reports required under the Social Action Plan (Q3)	New monitoring procedures agreed in 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 2001/2, in accordance with DTI's implementation of the Utilities Act
	<u>Environment</u> Publish Environmental Action Plan (Q3) [dependent on Utilities Bill timetable]	Planned for Q1 in 2001/2 following publication by DTI for consultation of a further draft of social and environmental guidance
	<u>New Electricity Trading Arrangements</u> Go live with new trading arrangements (Q3)	The Secretary of State has set an implementation date of 27 March 2001
	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)	Published in December 2000
Review of NGC capacity regime - proposals (Q3)	Initial proposals on capacity regime to be published in March 2001	

	Deliverable	Progress Report
<b>Q U A R T E R  3</b>	<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 March 2001
	<u>Ofgem Premises</u> Complete move to new Ofgem head office (Q3)	Achieved by target date

	<b>Deliverable</b>	<b>Progress Report</b>
<b>Q U A R T E R  4</b>	<u>Social Action Plan</u> Publish a public report reviewing the implementation of the Social Action Plan (Q4)	Planned for March 2001
	<u>Customer Choice of Energy Supplier</u> Publish conclusions on transfer process review (Q4)	Planned for May 2001
	<u>Complaint Handling</u> Joint working with GECC in preparation for transition (Q1 onwards) [dependent on Utilities Bill timetable]	Achieved by target date
	Complete transfer of responsibilities to GECC (no later than Q4) [dependent on Utilities Bill timetable]	Achieved in November
	<u>Review of NGC Price Control Implementation (Q4)</u>	On schedule
	<u>Transco Price Control Review</u> Initial thoughts consultation document (Q4)	Achieved by target date
	<u>Assessing Competition in Supply</u> Report on joint regulatory group findings (Q4)	Discussion with other regulators in Q4
	<u>Assessing Competition in Connections</u> Report on developments in competition in gas and electricity connections (Q4)	On schedule
	<u>Ofgem Premises</u> Rationalise number of Ofgem premises (Q4)	On schedule

## Appendix 2 - Summary of planned deliverables 2001/2

	Key Deliverables
<b>Q U A R T E R  1</b>	<ul style="list-style-type: none"> <li>• Implement Environmental Action Plan following publication (from Q1)</li> <li>• Accredite generators whose output qualifies for exemption from the CCL</li> <li>• Issue certificates for qualifying renewable electricity generated for CCL exemption</li> <li>• Respond to initial recommendations of the government working group on embedded generation</li> <li>• Publish draft proposals under Transco price control review</li> <li>• Publish initial proposals on structure of electricity distribution charges</li> <li>• Publish initial proposals on incentive regimes under IIP project</li> <li>• Consult on revised regulatory accounting licence conditions, including regulatory accounting guidelines, for the electricity distribution businesses</li> <li>• Complete review of effect of NETA on smaller generators</li> <li>• Publish responses to BETTA proposals</li> <li>• Consult on proposals for Anglo-Scottish interconnector auctions</li> <li>• Publish final proposals on long-term investment signals</li> <li>• Publish initial proposals on exit and interruptibles capacity regime</li> <li>• Carry out survey of electricity and gas retail supply</li> <li>• Publish decision document on improving customer transfers</li> <li>• Publish consultation document on supplier failures</li> <li>• Complete preparation of statutory instruments and orders resulting from the introduction of the Utilities Act [subject to DTI timetable]</li> <li>• Modify standard licences for all licensees [subject to DTI timetable]</li> <li>• Implement, where appropriate, the recommendations of the Treasury's efficiency review of all regulators (from Q1)</li> <li>• Implement learning and development and reward strategies (from Q1)</li> <li>• Implement strategy to build Ofgem's corporate knowledge (from Q1)</li> <li>• Implement corporate communications strategy to support priorities for 2001/2 (from Q1)</li> </ul>

	Key Deliverables
<b>Q U A R T E R  2</b>	<ul style="list-style-type: none"> <li>• Develop new Codes of Practice for electricity consumer issues</li> <li>• Agree Concordat with the Environment Agency and the Scottish Environment Protection Agency</li> <li>• Publish final proposals under Transco price control review. Implementation planned for April 2002</li> <li>• Publish final proposals on structure of electricity distribution charges</li> <li>• Implement revised regulatory accounting licence conditions, including regulatory accounting guidelines, for the electricity distribution businesses</li> <li>• Consult on regulatory accounting guidelines for NGC and the Scottish transmission businesses</li> <li>• Publish final proposals on Anglo-Scottish interconnector auctions</li> <li>• Publish decision document on exit and interruptibles capacity regime</li> <li>• Review regulatory regime in retail supply</li> <li>• Publish second consultation paper on business separation licence changes</li> <li>• Publish metering policy proposals</li> </ul>

	<b>Key Deliverables</b>
<b>Q U A R T E R  3</b>	<ul style="list-style-type: none"> <li>• Disseminate and act on the results of the seven research projects under Social Action Plan</li> <li>• Accredit generators whose output qualifies for the renewables obligation</li> <li>• Issue certificates for qualifying renewable electricity generated for renewables obligation</li> <li>• Put in place programme of work to respond, as appropriate, to recommendations of government working group on embedded generation</li> <li>• Publish final proposals on incentive regimes under IIP project</li> <li>• Issue regulatory accounting guidelines for NGC and the Scottish transmission businesses</li> <li>• Set framework for new transmission access regime</li> <li>• Publish recommendations for revising regulatory regime in retail supply</li> <li>• Publish initial proposals on price regulation of PES supply businesses</li> <li>• Publish initial proposals for future regulation of marketing</li> <li>• Publish decision document on supplier failures</li> <li>• Publish final proposals on business separation licence changes</li> <li>• Publish metering decision document</li> <li>• Complete review of Technical Directorate</li> <li>• Consult on Plan and Budget</li> </ul>

	<b>Key Deliverables</b>
<b>Q U A R T E R  4</b>	<ul style="list-style-type: none"> <li>• Publish proposals on reducing debt blocking</li> <li>• Publish second annual report on the Social Action Plan</li> <li>• Publish first annual report under the Environmental Action Plan</li> <li>• Publish guidelines on best practice on energy efficiency advice</li> <li>• Finalise procedures for implementing the new Energy Efficiency Commitment programme</li> <li>• Carry out initial consultation and survey about IPGT regulation</li> <li>• Complete review of NETA</li> <li>• Implement new System Operator incentives</li> <li>• Publish interim proposals on reforms required to implement BETTA [timing dependent on agreement of transmission access arrangements]</li> <li>• Implement exit and interruptibles capacity regime</li> <li>• Begin phased implementation of new gas balancing arrangements</li> <li>• Publish final proposals on price regulation of PES supply businesses</li> <li>• Publish decision document on future regulation of marketing</li> <li>• Implement business separation licence conditions</li> <li>• Implement conclusions from review of Technical Directorate</li> <li>• Obtain Investors in People accreditation</li> <li>• Publish Plan and Budget</li> </ul>

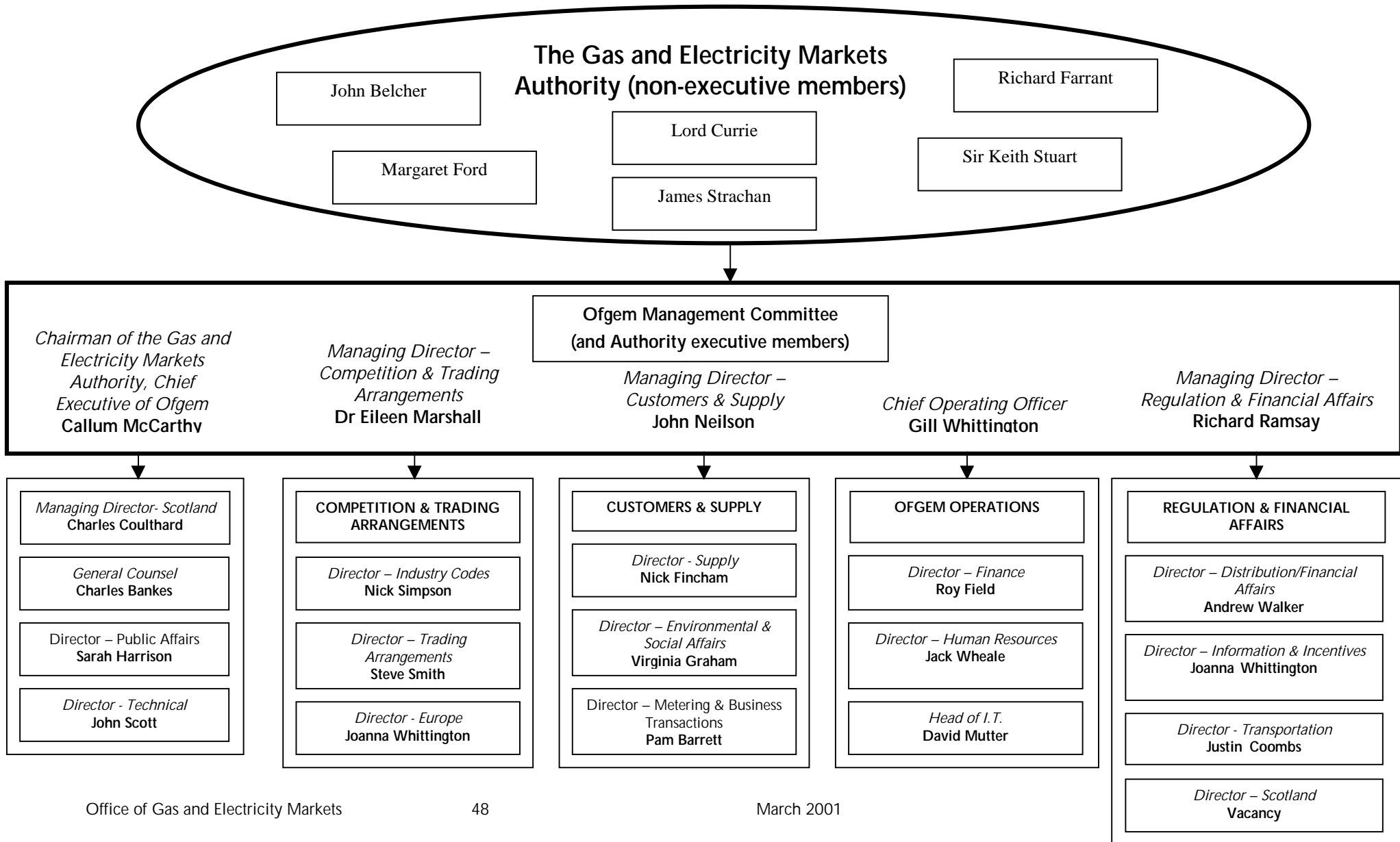
Q1 = April to June 2001

Q2 = July to September 2001

Q3 = October to December 2001

Q4 = January to March 2002

### Appendix 3 - Ofgem organisation structure



## 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
CHP	Combined Heat and Power
CMR	Competitive Market Review
CUSC	Connection and Use of System Code
DETR	Department of the Environment, Transport and the Regions
DNO	Distribution Network Operator
DTI	Department of Trade and Industry
EEC	Energy Efficiency Commitment
EESoP	Energy Efficiency Standards of Performance
EU	European Union
IIP	Information and Incentives Project
liP	Investors in People
IPGT	Independent Public Gas Transporters
LNG	Liquefied 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