

Foreword

Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority. All major decisions and all policy priorities are set by the Authority. This document, which sets out Ofgem's priorities and the resources needed to implement them over the next three years, is the Authority's statement of its aims and how it will achieve them.

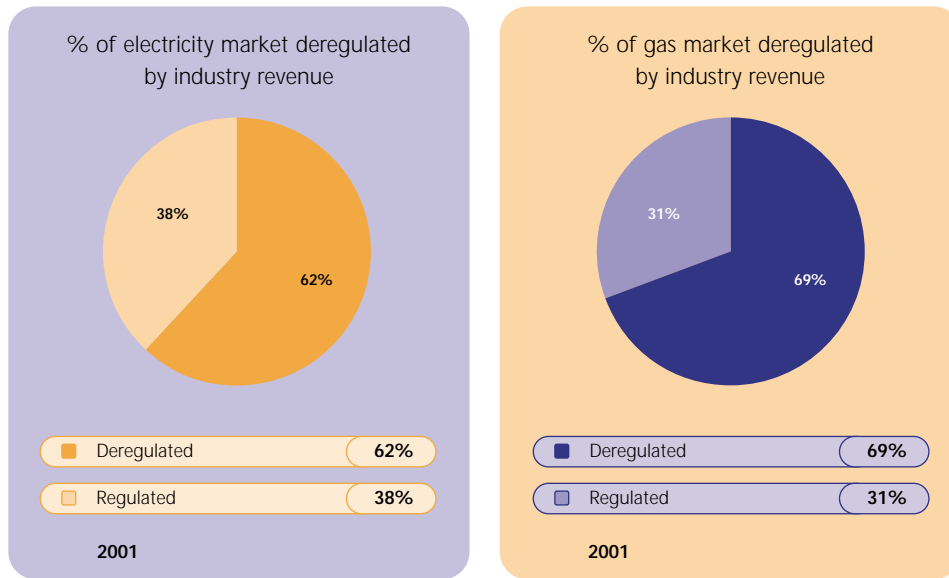
All Ofgem's actions are determined by its statutory duties, which are wide and varied. One purpose, however, predominates – everything Ofgem does is designed to protect and advance the interests of consumers, present and future.

Ofgem acts, wherever appropriate, through promoting competition, and regulates only where necessary.

It acts in circumstances of increasing integration of the gas and electricity industries, caused by the growing importance of dual fuel offerings in the domestic market, the increasing importance of gas supplies for electricity generation and of electricity generation as a demand for gas, as well as the daily interactions between operating gas and electricity transmission networks.

Applying these principles has produced great benefits for British consumers of gas and electricity:

- There is now genuine competition throughout the gas and electricity supply chains. All customers, including domestic customers, are able to choose suppliers – almost two in five domestic gas and electricity customers have switched suppliers.
- Domestic prices have fallen in real terms by around a third – 37 per cent for gas since 1986 and 28 per cent for electricity since 1990.
- Lower energy prices resulting from competition and effective regulation have lifted around one million households out of fuel poverty since 1996 – by far the biggest single contribution to tackling this scourge which affects four million households in the United Kingdom.
- Capacity margins for electricity generation stand at over 30 per cent and Britain enjoys more secure and diverse energy supplies today than it has in recent times.
- Competition has developed so far and so successfully that Ofgem has been able to withdraw from many areas where it previously regulated or controlled prices.



From April 2001, there have been no absolute price controls in any part of the gas supply market. Ofgem proposes to lift price controls on electricity supply in April 2002. If this proposal is confirmed, Ofgem will have withdrawn from nearly 70 per cent of the activities subject to regulation at the time of privatisation.

- Since Ofgem was formed in 1999, it has undertaken 32 price control reviews. All have been described by the companies as ‘tough’ or ‘challenging’. These reviews have resulted in customer savings of around £20 off the typical annual household energy bill. Over £30 billion has been invested in the national transmission and local distribution networks since 1990.

None of these price-regulated companies has experienced problems in raising capital, and corporate transactions have taken place at a premium to regulatory value.

- Efficiency gains in generation, transmission and distribution in the decade since privatisation have not only reduced costs but have also benefited the environment.

The Three Year Plan

This document sets out five themes which will drive Ofgem’s work over the next three years to meet its principal objective and other statutory duties. These are:

- Making markets work effectively
- Regulating monopoly businesses intelligently
- Securing Britain’s gas and electricity supplies
- Meeting Ofgem’s social and environmental responsibilities
- Developing Ofgem’s effectiveness and efficiency.

Within the context of these general themes, the Authority has also identified four key priorities for Ofgem:

1. Bringing more competitive prices and greater choice to electricity consumers in Scotland.

Electricity is traded in Scotland on the basis of administered arrangements which date from privatisation and which are time-limited. These arrangements prevent Scottish customers from benefiting from the competitive wholesale markets which are now established in England and Wales. They also do not provide a long-term basis for the Scottish electricity industry, in particular access to markets in England and Wales for Scottish electricity generation. Ofgem, therefore, proposes a major programme, which will require primary legislation and will extend over several years, to bring greater competition in the wholesale markets to Scotland in the interests of Scottish consumers and the electricity industry.

2. Ensuring that competition continues to benefit *all* gas and electricity customers.

With competition now established throughout the gas and electricity supply chain, Ofgem's work to protect customers' interests, and ensure competitive arrangements for market participants, will continue to focus on monitoring and enforcing compliance with licence requirements and competition law.

3. Fulfilling Ofgem's work programme on the environment set out in its Environmental Action Plan.

The executive duties in relation to the environment which the Government has given to Ofgem, namely the administration of the new Energy Efficiency Commitment, the Renewables Obligation and the renewables exemption to the Climate Change Levy, are expanding. Ofgem will need to devote more resource to fulfil these responsibilities effectively. Ofgem is also committed, in line with its statutory duties, to address other environmental issues including the establishment of a fair and transparent regime for distributed generation. Under the Environmental Action Plan, Ofgem will consider the environmental effects of all its activities and pursue actions which create synergy between its economic, social and environmental objectives.

4. Ensuring access to the monopoly electricity transmission system on fair and competitive terms.

Current arrangements for access to the national electricity transmission system require reform. They are inefficient and do not provide the right signals to enable the National Grid Company (NGC) to make long-term decisions about network investment. Ofgem will participate in the introduction of new transmission access arrangements to ensure that these are developed on terms which are fair and efficient, and which facilitate investment to secure long-term supply.

The plan also shows that Ofgem will continue to foster competition, and disengage from regulation wherever competition is sufficiently developed, instead relying on Ofgem's Competition Act powers. That is what would be expected of an organisation whose primary objective is to protect consumers' interests, wherever appropriate by promoting competition.

Costs

In line with this, Ofgem expects its expenditure to reduce over the three years, provided, of course, that the Government does not give it new responsibilities requiring further resources.

Developing this strategy

Ofgem's strategy is being developed against the background of the Government's review of energy policy, which is being undertaken by the Performance and Innovation Unit (PIU). The PIU report is due to be submitted to Government by the end of this year. Ofgem will review whether any changes to its strategy are appropriate in the light of the Government's response to the report's findings and recommendations.

The process of developing Ofgem's three year strategy began in July 2001 with an invitation to interested parties to give their views on its priorities going forward. Details of the submissions received are available on Ofgem's website at www.ofgem.gov.uk.

The themes which Ofgem has identified going forward take account of these early views. This document is designed to promote further discussion and comment, in the light of which Ofgem will publish a definitive plan and budget for 2002-2003 and a three year strategy in March next year.

Views are invited on this draft strategy and Plan. Responses are requested by 8 February 2002, and should be sent to:

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Ideally, responses should be sent electronically. Unless marked clearly as confidential, all responses will be published by placing them in Ofgem's library and on Ofgem's website.

If you have any questions on the draft strategy and Plan, please contact Chris Chapman (chris.chapman@ofgem.gov.uk or 020 7901 7456).

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1. Themes for Ofgem's work in 2002-2005

1.1 There are five themes which will drive work over the next three years in support of Ofgem's primary aim to protect consumers' interests, wherever possible by promoting effective competition and only where necessary through regulation. These are:

- making markets work effectively
- regulating monopoly networks intelligently
- securing Britain's gas and electricity supplies
- meeting Ofgem's social and environmental responsibilities, and
- developing Ofgem's efficiency and effectiveness.

Making markets work effectively

1.2 There is now genuine competition throughout Britain's gas and electricity supply chain. This has provided the stimulus for investment to secure gas and electricity supplies and to improve quality of service. It has also delivered lower prices to customers – among the lowest in Europe today.

1.3 A key theme for Ofgem's work over the next three years is to continue to make markets work effectively. This will be done by:

Developing, monitoring and enforcing rules for competitive markets

1.4 Ofgem has an important role to play in the wholesale trading of gas and electricity through considering changes to the market rules concerning:

- access to, and balancing of, the national transmission system for gas under the Network Code
- access to the national transmission system for electricity under NGC's Connection and Use of System Code (CUSC), and
- balancing of the competitive wholesale electricity market under the Balancing and Settlement Code (BSC), supervised by ELEXON – the independent company established to administer the BSC.

1.5 Rules themselves will not deliver efficient and effective markets. As much emphasis and resource needs to be given over the next three years to monitoring markets, conducting investigations and enforcing rules to ensure fair and open competition for the benefit of market participants and the customers they serve.

- 1.6** At the supply level, Ofgem's work will continue to be focused on ensuring that customers' experience of the competitive supply market is positive and that the benefits of competition are realised. Ofgem will work to ensure continued compliance with licence requirements and competition law. It will also work closely with the Gas and Electricity Consumers' Council, energywatch, to act on complaints and the issues which these raise.
- 1.7** Ofgem will not hesitate to use its powers under the Competition Act and the Gas and Electricity Acts, as amended by the Utilities Act 2000, where this is necessary and appropriate.

Extending competition where it is restricted

- 1.8** In addition to its work to develop and monitor competitive markets which already exist, Ofgem will wish to bring more competition to activities which are presently restricted. This means, in particular, work extending over several years to bring competitive arrangements for wholesale electricity in Scotland. It also means developing competitive markets in the provision, maintenance and use of meters and in the area of gas and electricity connections.

Withdrawing from regulation where competition is established

- 1.9** Ofgem will continue to withdraw from regulation where effective competition is established and delivering real benefits to consumers. Ofgem's track record (and that of its predecessors) on withdrawal from retail price regulation demonstrates this commitment:

2000 – Price controls on domestic customers paying by direct debit were removed.

2001 – Absolute price controls applying to British Gas Trading (BGT) domestic gas customers were removed.

2002 – Ofgem expects to remove the remaining price controls on gas and electricity supply businesses.

- 1.10** Following withdrawal from regulation where effective competition is established, Ofgem will rely instead on its powers under competition law to ensure that competition continues to benefit consumers.

Industrial restructuring

- 1.11** Many changes have occurred, and are likely to continue, in the structure of the gas and electricity industries. This requires Ofgem, often against tight timetables set by the Office of Fair Trading (OFT) or European Commission, to advise on mergers and any conditions governing mergers. This work, which is unpredictable, is likely to be a continuing call on Ofgem resources.

Regulating monopoly networks intelligently

1.12 Where competition is not possible, Ofgem protects consumers by regulating the prices for monopoly gas and electricity transmission and local distribution networks in England, Scotland and Wales.

Developing the traditional RPI-X form of price regulation

1.13 The traditional form of RPI-X price regulation has served Britain's gas and electricity customers well. It has delivered lower prices and improved standards of service, while securing significant network investment.

1.14 Ofgem plans, however, to continue to develop the regulatory regime. In recent price reviews, Ofgem has significantly reformed RPI-X price regulation. Today, there is a much greater emphasis on improving **quality** of service and network **investment**. Ofgem has worked to define new customer outputs and performance standards and to develop further incentives, both for investment in the national transmission networks and for improvements in the quality of supply on local distribution networks.

1.15 Over the next three years, Ofgem will continue to develop price regulation. Its work will centre on meeting three key objectives.

- Improving the signals for, and efficient investment in, national transmission and local distribution networks.

Demands on the national transmission networks for gas and electricity change during the five year period of a price control from those forecast at the time of setting the price control. The System Operator incentive schemes for NGC and Transco are designed to give them direct financial incentives to respond to these changes. Developing these schemes will be a continuing workstream. Consideration will also be given, as part of the review of the objectives of the next electricity distribution price control, to how distribution network investment and the ability to respond to change are best incentivised.

- Improving the quality of service on networks, particularly local distribution networks.

There is scope both for the Distribution Network Operators (DNOs) and for the Local Distribution Zones (LDZs) within Transco to develop better means of measuring and improving standards of service for customers. That is the purpose of the Information and Incentives Project (IIP) for electricity and the comparable project for gas.

- Encouraging best practice in asset risk management and improving medium-term performance reporting.

Work will continue in these two interrelated areas. In gas, there are specific measures for improving environmental performance and comparable measures for local electricity distribution networks will be developed in the future.

These measures combined are designed to ensure that appropriate investment continues to be made to improve standards of service for customers, environmental performance and security of supply.

Securing Britain's gas and electricity supplies

1.16 Ofgem has important statutory duties relating to security and diversity of supply. In all its proposals, Ofgem takes account of these duties and is concerned to promote secure supply arrangements. To date, this has been successful. Generating margins in electricity are over 30 per cent, interruptions of gas and electricity supply are even more rare today than at privatisation and investment in all parts of the gas and electricity supply chains has been high. Work to maintain high levels of security of supply cuts across all of Ofgem's work and will continue to be a priority. This will include:

- developing national transmission and local distribution network incentives to ensure systems operate efficiently
- maintaining and improving incentives for efficient investment in national transmission networks, and
- assisting the Department of Trade and Industry (DTI) in developing a European regime for liberalised gas and electricity markets. The rules governing the transmission of gas and electricity, whether within national networks or by interconnectors, will affect British supplies and prices. Developing these rules will be important.

Meeting Ofgem's social and environmental responsibilities

1.17 Reconciling Britain's environmental objectives with social objectives and other goals of industrial competitiveness is a major challenge for Government.

1.18 While not principally a social or environmental regulator, Ofgem's work as an economic regulator brings social and environmental benefits.

1.19 Ofgem has important social and environmental statutory responsibilities and, in the period of this plan, will also receive new social and environmental guidance from Ministers. Ofgem takes these duties seriously and is aware of the impact of its actions, and of those it regulates, on meeting wider social and environmental aims.

Social action

1.20 Over the next three years, Ofgem will continue its work to ensure that energy prices are as competitive as possible. Through the Social Action Plan, Ofgem will progress other contributions to tackling fuel poverty. Work will focus on:

- encouraging companies to continue to develop innovative services and tariffs for vulnerable customers
- enforcing licence obligations to improve services, information and advice to vulnerable customers, and
- working with Government and other parties to research the causes of fuel poverty and pursuing measures where appropriate to address these.

Environmental action

1.21 Over the next three years, Ofgem will fulfil its commitments under the Environmental Action Plan to tackle a range of environmental issues which span the gas and electricity supply chain.

- **In generation** – Ofgem will promote the efficient generation of electricity, and encourage emissions trading as an efficient means of complying with environmental standards.
- **In transmission and distribution** – Ofgem will work to reduce electricity losses and remove barriers so that the regulatory regime for distributed generation, i.e. smaller forms of generation embedded in the distribution networks, is fair and transparent.
- **In supply** – Ofgem will fulfil its executive responsibilities to administer aspects of the Government's Climate Change Programme, including the Energy Efficiency Commitment, the Renewables Obligation in England and Wales (and its equivalent in Scotland), the Fossil Fuel Levy and the exemption from the Climate Change Levy for renewables.

1.22 Ofgem will, however, look to Ministers and other government bodies with direct environmental responsibilities to take the lead where action would have significant financial implications for customers or for the companies Ofgem regulates.

1.23 Economic measures to promote the efficiency of Britain's gas and electricity industries can have environmental effects which Ofgem will take into account. Similarly, work to safeguard and improve the environment can have costs for consumers and for Britain's industrial competitiveness. These costs need to be identified, and the most economic means of achieving environmental goals pursued.

Developing Ofgem's efficiency and effectiveness

1.24 The costs of regulation need to be seen in the context of what Ofgem achieves. Ofgem costs less than 0.1 per cent of industry turnover. The benefits that it brings are significant and outweigh these costs by orders of magnitude.

1.25 Ofgem will work over the next three years to continue to improve the efficiency and effectiveness of its work. Key priorities will include:

- attracting and retaining high calibre staff
- setting out clearly the rationale for its proposals and involving others creatively and effectively in their development
- communicating plans and proposals in a user-friendly way
- controlling costs carefully, managing resources efficiently and delivering value for money, and
- continuing work to de-personalise regulation.

2. Making markets work effectively

Wholesale markets

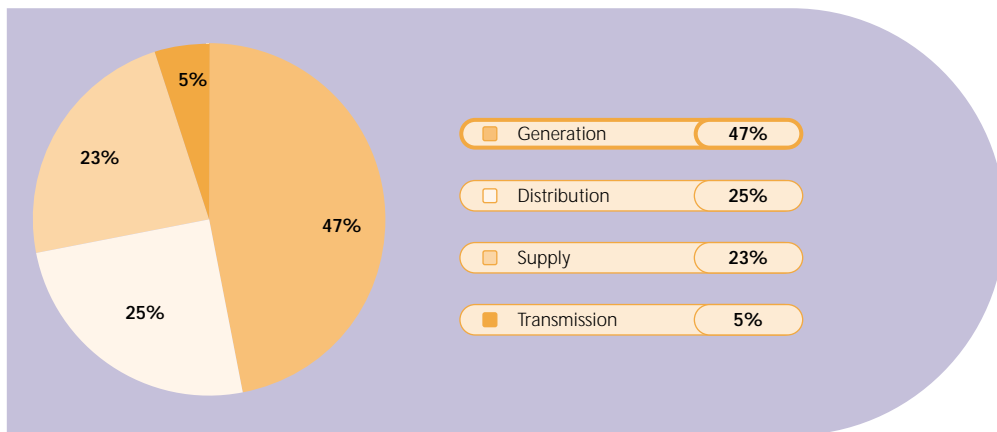
Objectives

- To improve the efficiency and competitiveness of the wholesale gas and electricity markets throughout Great Britain.
- To monitor the operation of wholesale gas and electricity markets and take appropriate enforcement action where there is evidence of market abuse.
- To support the Government to influence the development of competitive energy markets across Europe.

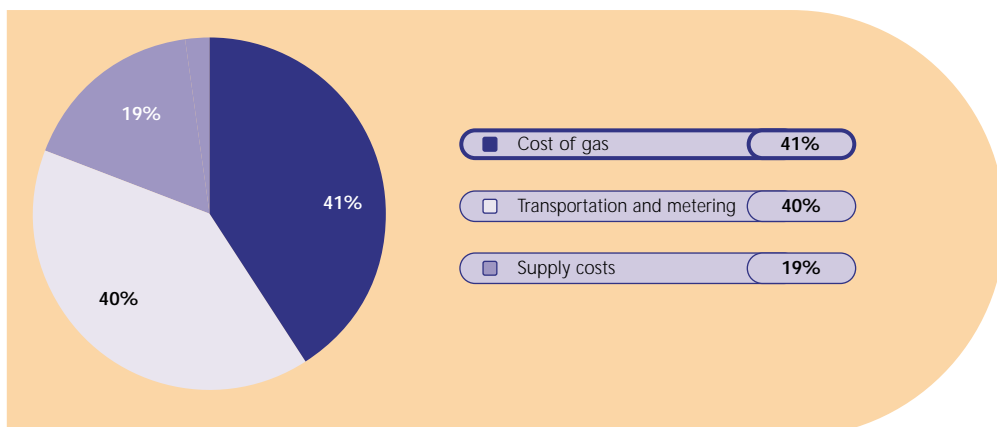
Background

2.1 The costs of wholesale gas and electricity account for almost half of domestic customers' bills. A great deal of Ofgem's work is, therefore, focused on ensuring that the wholesale gas and electricity markets operate efficiently and competitively.

Breakdown of domestic electricity bill



Breakdown of domestic gas bill



Electricity

- 2.2** The New Electricity Trading Arrangements (NETA) were successfully introduced in March 2001. Evidence of the first three months of NETA showed wholesale prices around 20-25 per cent below those under the former Electricity Pool. It also showed significant improvements in market liquidity and, for the first time since privatisation, forward price signals have emerged to help signal the need for future plant investment and ensure long-term security of supply.
- 2.3** Ofgem is now working to ensure that these reforms are bedded in and that the governance of the new balancing and settlement arrangements, supervised by ELEXON, is working effectively.
- 2.4** About two per cent of all electricity in England and Wales is lost (as heat) as it is transported on the high voltage transmission system run by NGC. A further seven per cent is lost in transportation on local distribution networks. This is neither efficient nor good for the environment. Similarly, the current arrangements for access to the electricity transmission network are flawed in a number of ways. For example, they do not provide signals for future network investment which is important for long-term security of supply. Furthermore, the costs of constraints caused by those who put greater demands on the system are not met by those who cause the constraint but are spread, inefficiently, across all users.
- 2.5** These long-identified weaknesses in the arrangements for transmission system access and losses have prompted Ofgem to continue work on a programme of reforms to tackle these flaws.
- 2.6** Ofgem has reorganised resources to place a greater emphasis on monitoring and compliance to ensure that new trading arrangements remain competitive and free from abuse. Ofgem has also worked to monitor the effects of NETA on smaller generators.
- 2.7** Market reform was not extended to Scotland. As a consequence, wholesale prices are not as competitive as those in England and Wales. Furthermore Scottish electricity does not have good access to markets in England and Wales. Ofgem has, therefore, begun work towards creating British-wide reforms to bring the benefits of NETA to the Scottish wholesale market, though legislation will be required to achieve this.

Gas

- 2.8** The main thrust of Ofgem's work has been to build on the reforms to gas trading arrangements which began in 1999. This work includes further improvements and reforms to the regimes for entry and exit capacity on the National Transmission System (NTS). These are designed to improve the existing signals and incentives on Transco to invest in a timely manner where

it is efficient to do so to meet the transportation needs of producers, shippers and customers.

- 2.9** Ofgem also highlighted the need for reforms in gas balancing arrangements. It believes that if they are not made, developments, including increasing price convergence between the gas and electricity markets, the growth of gas-fired generation, the introduction of NETA and increasing trade with other European countries, will lead to significantly higher direct balancing costs. They may also jeopardise the secure operation of the gas and electricity transmission systems.

Influencing activity

- 2.10** Ofgem has no regulatory, and limited information gathering, powers offshore. Within this limitation, it has continued to work with the DTI and other agencies to ensure offshore arrangements which encourage a competitive wholesale market in Britain.
- 2.11** Another of Ofgem's priorities has been to influence developments in Europe to ensure that they are pro-competitive and in the best interests of British customers. Working with DTI, the European Commission and other regulators, Ofgem has contributed to developing policy on European electricity and gas liberalisation and on gas and electricity interconnectors.

Overview – 2002-2005

- 2.12** among the main themes for the next three years is the need to continue to make wholesale markets work effectively
- 2.13** ofgem will continue its important work in the process to modify the BSC, Network Code and CUSC
- 2.14** ofgem will also increasingly dedicate resources to market surveillance to tackle anti-competitive behaviour and, where necessary, identify improvements to the gas and electricity trading regimes.

Electricity

- 2.15** In electricity, Ofgem will:
- ensure that NETA beds down and that balancing and settlement rules evolve to deliver further benefits to customers.
- This work will include further consideration of the impact of NETA on CHP and smaller generators.
- participate in the introduction of new transmission access and losses arrangements for NGC's transmission system.

While there is agreement that current access and losses arrangements have a number of drawbacks, Ofgem recognises that there are significant differences of opinion about how changes can be successfully achieved. Whatever reforms are eventually agreed, they must reduce transmission losses and enable accurate signals to be given about the costs of entry to the system at different locations which will help NGC maintain security of supply.

- work to create British-wide Electricity Trading and Transmission Access Arrangements (BETTA).

Many who contributed to the July consultation on the development of this strategy identified further work to bring more competitive arrangements to the wholesale market in Scotland as a priority for Ofgem.

Current advice is that primary legislation is required to achieve BETTA. This will be a decision for Government. Ofgem will work to prepare for legislation and to develop the necessary reforms.

Gas

2.16 In gas, Ofgem will:

- participate in the development and implementation of a new gas balancing regime.

This work is crucial to ensuring a competitive wholesale gas market, securing supplies, and preventing balancing costs being higher than they should be.

Ofgem recognises that there is concern and uncertainty about the implications of reform. Ofgem will work closely with all parties, Transco, shippers, producers and other customers, on the details of its proposals, the timetable and costs involved.

Influencing actions

In this area, Ofgem will:

- work with the DTI and other agencies to ensure offshore arrangements which encourage a competitive wholesale market in Great Britain
- encourage further liberalisation in Europe through liaison with other European Union regulators and institutions.

In this area, Ofgem will promote policies and ensure that, where possible, European proposals and decisions are in line with those policies. If successful, this will lead not only to increased competition in Europe but also to more competitive prices for customers in Great Britain.

Ofgem will also be involved in developing policy on the regulation of new interconnectors to ensure consistent regulation of all interconnectors and a more competitive market for building them.

Retail markets

Objectives

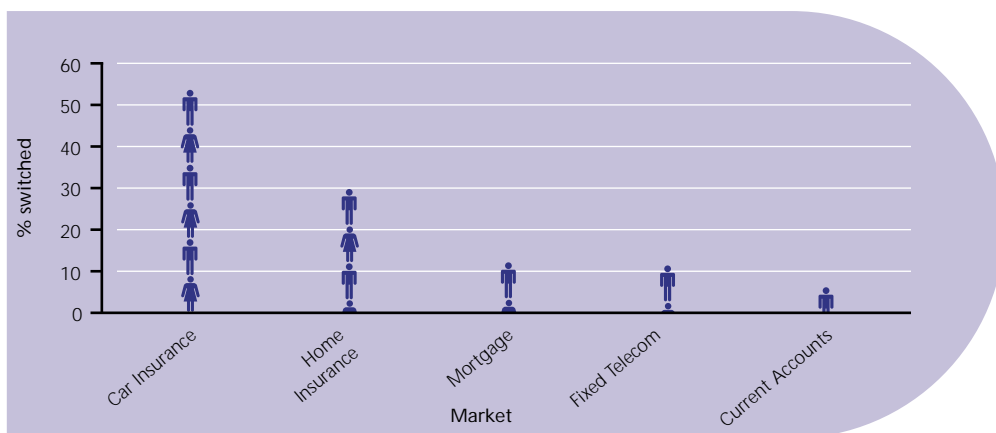
- To ensure choice, value and a secure supply for customers by monitoring and enforcing compliance with supply licences, standards of performance and competition law.
- To withdraw from regulation of retail markets where competition is well established.

Background

2.17 The gas and electricity retail markets have been fully open to competition since 1999. Since then, 37 per cent of domestic gas and 38 per cent of domestic electricity customers have exercised their choice to switch suppliers.

2.18 These switching figures are higher than in many other competitive markets in Britain. Domestic gas and electricity bills are also among the lowest in Europe.

Number of customers who have switched suppliers in different markets



Source: DTI Research on switching suppliers report, July 2000

2.19 Ofgem has continued its programme of competitive market reviews. In November 2001, Ofgem published initial proposals recommending removal of the remaining electricity supply price controls, as well as the cap on differentials between British Gas Trading's (BGT's) tariffs which was applied earlier in 2001.

2.20 As part of its aim to make it easier for customers to benefit from, and have confidence in, the competitive market, Ofgem has worked to improve the customer transfer process. In October 2001, Ofgem and energywatch introduced a voluntary charter, which all gas and electricity companies have signed up to. This charter is aimed at making it easier for customers to switch back to their original supplier if they have been transferred in error.

- 2.21** To help customers make informed choices in the competitive supply market, Ofgem has also developed pricing and information services. These services have now been transferred to energywatch to manage and develop.
- 2.22** Through ongoing research, co-ordinated with energywatch, Ofgem has reviewed trends in complaints and standards of performance to help gain more understanding of customer concerns and issues.
- 2.23** Ofgem also has an important role to play in monitoring complaint trends and taking action where necessary. Ofgem takes this role very seriously. For example, in 2001, it took action against npower on its doorstep selling practices and agreed a series of undertakings.

Overview – Years 2002-2005

- 2.24** Ofgem is committed to withdrawing from regulation where competition is established and delivering real benefits to customers. This was a priority highlighted by many who contributed to the July consultation on the development of this strategy.
- 2.25** Subject to consultation, Ofgem proposes to end price regulation of the gas and electricity retail markets at the end of March 2002.
- 2.26** Withdrawal from detailed regulation means that Ofgem will rely more on Competition Act powers, to ensure that effective competition continues to provide real customer benefits.
- 2.27** Against this background, it will be important for Ofgem to continue monitoring the domestic retail markets in both gas and electricity and to address complaints and tackle poor compliance which erode customer confidence.
- 2.28** To fulfil this, Ofgem will:
- implement a strategy to monitor suppliers' compliance with licence conditions and other arrangements, particularly on direct selling and customer transfers, as well as with general consumer law, and
 - work closely with energywatch to address the underlying causes of customer complaints, taking action where necessary.
- 2.29** Another priority will be to monitor the behaviour of dominant suppliers in the market. As part of this important work, Ofgem will continue regular reviews of market competitiveness, pursuing investigations and using powers under the Competition Act 1998 where appropriate.
- 2.30** As competition continues to intensify, it is possible that there may be supplier failures. Using the experience of customers, industry and other parties, Ofgem will continue to refine its procedures for dealing effectively with a supplier failure to protect customers' interests.

2.31 Ofgem will also continue to work closely with energywatch and other organisations representing domestic and industrial customers' interests to help meet the common goal of delivering a better deal for all gas and electricity customers.

Industrial structures

Objective

- To establish industrial structures which promote competition in energy supply and services.

Background

2.32 Ofgem plays an important role in encouraging appropriate industrial structures which provide the right environment for competition to flourish and deliver the best deal for customers.

2.33 To meet this objective, Ofgem has worked on a major programme to separate the supply and distribution businesses of the 14 former Public Electricity Suppliers (PESs). This work, which is aimed at enabling all suppliers to have equal access to the distribution network and removing the opportunity for cross-subsidies, is now far advanced.

2.34 Competition in metering services can deliver significant benefits to customers including lower prices through reductions in the £800 million annual cost of metering. More competitive arrangements can also bring improvements in the standards of service and can stimulate the development of new technologies which could help meet wider social and environmental objectives. 'Smart' meters could help customers to be more aware of, and better manage, their energy use, and provide alternatives to existing prepayment meters.

2.35 Ofgem has published a metering strategy with the objective of securing competition in gas and electricity metering services as well as encouraging innovation.

2.36 A key element in this strategy is the Review of Gas Metering Arrangements (RGMA). This industry-led initiative, which Ofgem facilitates, aims to ensure effective competition and remove barriers to customers who want to use metering service providers other than Transco.

- 2.37** Costs of new connections to gas and electricity supplies are about £400 million a year – £300 million for electricity and around £100 million for gas connections. These costs are borne by customers.
- 2.38** Competition in this area will benefit customers by putting pressure on prices, improving quality of service, and encouraging innovation. Ofgem has now completed a framework for competition in the connections market and is working with industry to develop this further.
- 2.39** A review of the connections market in May 2001 showed that competition is flourishing in certain areas, such as new housing developments and businesses, but barriers still exist for lower value and simple one-off domestic connections. This review has provided the basis for further work to promote competition.
- 2.40** Ofgem has continued important work in considering proposals for business transactions and new financial models, providing advice to the OFT and DTI and liaising with the European Commission on how to protect customers and meet their best interests. It has also worked, where possible, to develop and articulate its policy on corporate transactions to help companies understand the likely regulatory issues.

Overview – 2002-2003

- 2.41** There have been many changes to the structure of the gas and electricity industries and there are likely to be more.
- 2.42** Giving advice on mergers and acquisitions is by its nature difficult to predict in terms of volume and complexity. It is, however, likely to be a continuing call on Ofgem resources. This is important work because, by developing a policy on and advising the OFT and the European Commission about such transactions, Ofgem ensures that it can effectively regulate licensees following any merger activity.
- 2.43** Among Ofgem's priorities for the next three years, a key one is to enable shippers, suppliers and customers to have a choice of metering and meter reading services. Work to achieve this will continue to be progressed under Ofgem's metering strategy.
- 2.44** Ofgem will work to introduce increased competition in connections. Evidence suggests that customers could save up to 20 per cent on the current cost of connection work if competition is effective.

3. Regulating monopoly networks intelligently

Objectives

- To regulate monopoly businesses through price controls to ensure that customers receive a high quality and reliable service at a reasonable price.
- To ensure compliance with existing price controls.
- To review the price control framework to ensure a consistent approach in all future monopoly price control reviews.
- To develop the price control framework to ensure:
 - improvements in the signals for, and efficiency of, investment in national transmission and local distribution networks
 - improvements in the quality of service on networks, particularly local distribution networks, and
 - fair and transparent arrangements for distributed generation.

Background

- 3.1** Where competition is not possible or sufficiently developed, Ofgem continues to regulate through price controls to ensure that customers receive value for money and a secure and reliable service. This applies to the monopoly businesses running the pipes and wires which bring gas and electricity to homes and businesses.
- 3.2** While reviewing the price controls for monopoly distribution and transportation companies, Ofgem has significantly developed the traditional RPI-X form of price regulation, with new incentives for investment, quality of supply and guaranteed outputs for customers being introduced.

Overview – 2002-2003

- 3.3** The traditional form of RPI-X price regulation has resulted in lower prices, improved standards of service and significant network investment. Ofgem is committed to continuing the development of price regulation through a greater emphasis on customer outputs, defined performance standards and appropriate incentives for timely and efficient investment.
- 3.4** Contributors to the July consultation on the development of this strategy supported Ofgem's work to give emphasis to the long-term investment needs of network businesses. This work is also key to meeting Ofgem's duties to ensure security of supply.

- **At the national transmission level** – Ofgem will continue work to develop and apply the new incentives regimes for Transco and NGC to improve the efficiency with which they operate the national transmission systems, reduce the costs associated with these activities, and improve the incentives for efficient investment in transmission networks.
- **At the local distribution level** – Ofgem will be working with the Distribution Network Operators (DNOs) during 2002 to agree the objectives and structure for the next price control. Work will focus, among other things, on how investment at the local distribution level is best incentivised at a time when future investment requirements are uncertain and being shaped by new considerations such as distributed generation.
- **At national and local levels** – work will be undertaken to manage and encourage industry best practice in asset risk management. Work to develop the requirements for medium-term reporting will also be carried out.

3.5 Quality of supply to customers is important and is an area of increasing work, reflecting both the need to develop a scheme for gas and the need to monitor and implement the schemes that are already in, or coming into, existence for electricity.

- In electricity, Ofgem intends to complement the quality of service incentive scheme developed under IIP and introduce new incentives on DNOs to reduce the number of multiple interruptions suffered by customers.
- In gas, Ofgem will develop new arrangements to set customer standards to reduce the number and duration of customer interruptions and develop incentives to meet these.

3.6 New price control work will also begin during the next three years.

- Work will be undertaken on the separation of price controls for Transco LDZs which could result in more cost-reflective charges and then regional differences in prices. This review will raise important issues for customers which will require careful consideration.
- A general review of the price control framework will be undertaken to ensure that, going forward, the overall framework continues to encourage Ofgem's objectives in this area and, where relevant, the framework is consistent across the gas and electricity industries.

- Preparatory work for the next review of price controls which apply to monopoly DNOs will begin. This will address, among other issues, the incentives available to distribution companies to provide access to their networks for distributed generation. New price controls are due to take effect from 2005.
 - Work will also start on the Scottish transmission price controls, whose timetable is similar to that of the distribution companies. This work will reflect the outcome of the BETTA project.
 - Preparatory work for the next NGC price control will also begin at the end of the period of this strategy.
- 3.7** Work will continue on the review of the structure of charges for electricity distribution companies. This work will link closely with the work on distributed generation and will also cover issues concerning access to the electricity distribution networks.
- 3.8** Work will also continue to implement, NGC's and Transco's System Operator incentive schemes, subject to the consent of the respective companies. As part of the Transco System Operator proposals, Transco has requested that Ofgem conduct an annual review of its capital investment programme and the first such review is scheduled for 2002-2003.
- 3.9** The first year of the plan will also see a review being carried out into losses on distribution networks and how these might best be reduced.
- 3.10** Ofgem will also review the position on Independent Gas Transporters (IGTs) – local network monopolies which are not, at present, subject to price controls. It will be important to assess whether the present policy can be expected to continue to protect consumers' interests.

4. Meeting Ofgem's social and environmental responsibilities

Social action

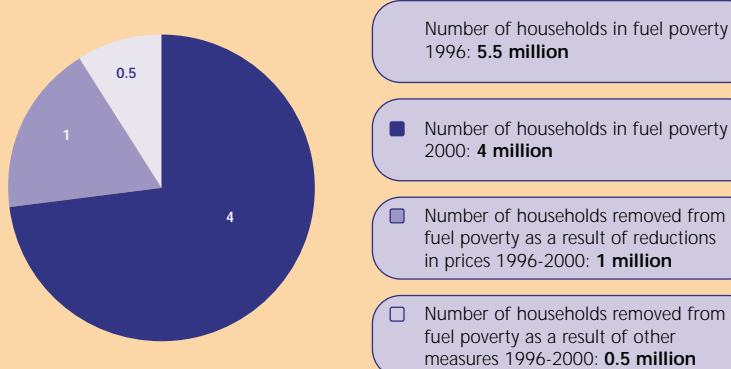
Objective

- To ensure that vulnerable customers share fully in the benefits of competition and regulation.

Background

- 4.1** Four million households in the United Kingdom are in fuel poverty which means they would need to spend more than 10 per cent of their household income on keeping themselves satisfactorily warm. Low incomes, poor housing conditions and energy costs contribute to fuel poverty.
- 4.2** The Government has set a target to end the blight of fuel poverty for vulnerable households by 2010 and has recently published a Fuel Poverty strategy to meet this target.
- 4.3** Ofgem has a clear role to play in respect of energy costs and has a further role to play, particularly through its work on energy efficiency, in helping to improve housing conditions.

Reduction in households in fuel poverty since 1996 (millions)



- 4.4** In parallel with its general work to ensure that energy prices are as competitive as possible, Ofgem published a Social Action Plan in March 2000. The Plan identifies areas of action to help the fuel poor. These are:

- to encourage industry initiatives designed to lower the cost of keeping warm
 - to identify barriers to disadvantaged customers taking part in the competitive market and to work to remove those barriers
 - to develop and approve gas and electricity suppliers' codes of practice, and to monitor performance against these, and
 - to promote and guide research into the causes of fuel poverty and take action, where appropriate, to address these.
- 4.5** The first annual review of the Plan was published in March 2001. It showed that significant progress had been made and highlighted new priorities.
- 4.6** One of the most important impacts of Ofgem's work has been the stimulus it has given to a number of energy companies to develop services and tariffs targeted at the fuel poor. Ofgem will continue to monitor the development of these initiatives closely and will work to encourage new ones.
- 4.7** Ofgem will also continue to work in partnership with the industry, Government and other agencies to tackle the scourge of fuel poverty.

Overview – years 1 to 3

- 4.8** The main objective of Ofgem's social action work over the next three years will be to ensure that vulnerable customers – those who are sick and disabled, pensioners and those on low incomes and who are living in rural areas – can benefit fully from the competitive gas and electricity markets.
- 4.9** In addition to its general work through competition and regulation to ensure that prices are as competitive as possible, Ofgem's work under the Social Action Plan will be its main contribution to tackling fuel poverty and meeting the Government's targets. This is an important priority for Ofgem and one which was highlighted by many of the organisations who contributed to the July consultation on the development of this strategy.
- 4.10** Looking ahead, a key strand of work will continue to be monitoring compliance with Codes of Practice which are aimed at ensuring companies pay proper regard to their social obligations and provide improved services to vulnerable customers. The information gathered through this monitoring is available on the Ofgem website and contributes to the Government's indicators which will be used to monitor the Fuel Poverty strategy.
- 4.11** In addition, Ofgem has also identified a number of specific projects. These include:
- working with energywatch to produce guidelines for companies on debt management and prevention, as well as working towards reducing the

practice of 'debt blocking' where energy suppliers refuse to transfer customers in debt – a practice which does not exist in any other market

- producing guidelines for companies on how to provide better energy efficiency advice to those in fuel poverty
- ensuring that the Fuel Direct scheme works effectively and working to develop an electronic interface between the Benefits Agency and suppliers, and
- making life easier for prepayment customers by ensuring that customers have full information on the relative costs of prepayment meters, by reviewing the infrastructure which underpins their provision, by promoting alternative payment methods and, in line with the metering strategy, facilitating the development of 'smarter' meters.

4.12 Other outstanding issues which will be addressed by Ofgem during the next three years include tackling the problems of fuel poverty in rural areas and addressing the particular needs of ethnic minorities.

Environmental action

Objectives

- To administer the executive responsibilities in relation to the environment given to Ofgem by Government.
- To fulfil the work programme set out in Ofgem's Environmental Action Plan.

Background

4.13 While Ofgem is primarily an economic regulator, it also needs to think about what effects its work – and the work of the gas and electricity industries – has on the environment.

4.14 Ofgem was given revised environmental duties under the Utilities Act 2000 and will, in due course, also be given Ministerial guidance on social and environmental issues. In August 2001, Ofgem published an Environmental Action Plan which set out how it will meet statutory duties and have regard to the environmental impact of its work across the gas and electricity supply chain.

4.15 The Environmental Action Plan highlighted the principles on which Ofgem bases its actions. These are:

- to be sensitive to the effects of its actions on the environment

- to be consistent in the way it addresses environmental issues in all that it does
- to look to Ministers and other bodies with direct environmental responsibilities to lead on policies which have significant financial implications, and
- to identify imperfections in the gas and electricity markets which harm the environment and work to reduce or remove them.

4.16 Based on these principles, the Plan identified work on a number of priorities which span the gas and electricity supply chain.

- **In generation** – to continue to assess the effects of the New Electricity Trading Arrangements (NETA) on renewables and Combined Heat and Power (CHP) generation. Ofgem will also promote the efficient generation of electricity and encourage emissions trading.
- **In transmission and distribution** – to improve incentives to reduce losses on the electricity networks, as well as looking at ways to remove barriers to the development of distributed generation, including issues associated with gaining access to the distribution networks.
- **In supply** – to administer a number of Government schemes including the Energy Efficiency Commitment, the Renewables Obligation, the Fossil Fuel Levy and the exemptions from the Climate Change Levy for renewables.

Overview – Years 1 to 3

4.17 During the next three years the scale of Ofgem's work in relation to its executive duties will increase. In addition, a significant work programme to develop a fair and transparent regulatory regime for distributed generation will be undertaken by Ofgem, in co-operation with other organisations with responsibilities for these issues. This will mean that Ofgem increases the resources provided for its environmental work. Ofgem will also continue its work to consider the environmental effects of all its activities and pursue opportunities to create synergies between its economic, social and environmental objectives.

4.18 This increase in Ofgem's environmental work and, in particular, related work on distributed generation is consistent with the views expressed by many who contributed to the July consultation on the development of this strategy.

4.19 Where environmental action would have significant financial implications, Ofgem will look to Ministers and other Government bodies with direct environmental responsibilities to take the lead.

- 4.20** About nine per cent of electricity is lost (as heat) as it is transported on the national transmission system and local distribution networks. This is neither efficient nor good for the environment. Ofgem will be taking forward important work to reduce these losses by improving the efficiency of transmission and distribution systems, and developing signals and incentives to encourage supply and demand to be located closer together.
- 4.21** An important strand of work will be to remove the regulatory barriers which may prevent the development of distributed electricity generation, while at all times safeguarding the operation of competitive markets and the distribution system to ensure a secure supply. Ofgem is co-chairing with the DTI the newly formed Distributed Generation Co-ordinating Group, which contains a wide range of industry and other interests, in order to follow up the work of the Embedded Generation Working Group which reported early in 2001. Ofgem will need to work with other parts of Government, and industry, to put in place a fair and transparent regulatory regime for distributed generation and a sizeable work programme to achieve this is now being put in place by Ofgem. To assist with this, Ofgem will be advised by the new Co-ordinating Group. Interim proposals may be implemented by April 2002. Further work will then be undertaken to consider the extent to which it will be in the interests of customers to alter the incentives on distribution companies at the time of their next price control (April 2005).
- 4.22** Another important area of work will be on energy efficiency. Ofgem will administer the Government's Energy Efficiency Commitment which represents a threefold increase on previous energy efficiency programmes. Gas and electricity suppliers will contribute around £150 million each year (for three years) towards delivering energy efficiency measures to households. Half of the energy benefits resulting from this must be targeted at the fuel poor. This work is an important contribution to the Government's Fuel Poverty Strategy and Climate Change Programme. In addition, Ofgem will promote the provision of energy efficiency advice to all customers by ensuring that suppliers introduce and comply with a new Code of Practice.
- 4.23** Ofgem will continue to carry out important executive functions in relation to renewables. It will continue to administer the exemption for renewables from the Climate Change Levy, issuing Levy Exemption Certificates (LECs) for output from qualifying generators on a monthly basis. It will administer the Renewables Obligation, and its equivalent in Scotland when these are introduced in 2002. This will also involve issuing Renewables Obligation Certificates (ROCs) for output from qualifying generators on a monthly basis and maintaining a register of all transfers of ROCs. Ofgem will continue to administer the Fossil Fuel Levy, setting the rate annually and collecting funds on a monthly basis. Finally, Ofgem will continue to maintain the database of installed CHP.

5. Developing Ofgem's efficiency and effectiveness

Objectives

- Attracting and retaining high calibre people.
- Setting out clearly the rationale for its proposals and involving others creatively and effectively in their development.
- Communicating plans and proposals in a user-friendly way.
- Controlling costs carefully, managing resources efficiently and delivering value for money.
- Continuing work to de-personalise regulation.

Background

- 5.1** Ofgem is governed by the Gas and Electricity Markets Authority and its powers are provided under the Gas Act 1986 and the Electricity Act 1989, as amended by the Utilities Act 2000. The Authority determines strategy and decides on major policy issues. It is made up of non-executive and executive members, with a majority of non-executive members.
- 5.2** Much has been achieved in the two years since Offer and Ofgas were merged to establish Ofgem. A new governance structure has been introduced and some staff and functions have been transferred to energywatch.
- 5.3** Ofgem has continued work in a number of areas to attract, develop and retain the calibre of people it needs to deliver the organisation's objectives. Recent work has included new reward and learning and development strategies. Staff numbers, which were 380 at the time of merger (excluding staff transferred to energywatch), are now at around 330 and Ofgem expects that number to reduce further. Ofgem has also worked to strike a better balance between the use of internal resources and external contractors.
- 5.4** Ofgem has improved the way in which the organisation is structured and has reviewed a number of key work processes. It has invested in the retention of corporate knowledge and continues to improve the way in which it communicates and presents its work.
- 5.5** Ofgem continues to ensure that costs are controlled carefully and resources are managed efficiently. Recommendations from an efficiency review of regulators commissioned by HM Treasury (in 1999-2000) have,

where appropriate, been implemented. Work has also begun to outsource Ofgem's technical services, based at Leicester.

The way forward

- 5.6** Developing Ofgem as an efficient and effective regulator is important in building the confidence of those on whom its work has an impact. Ofgem will continue to improve the way it works, building on the progress which has been made since it was created in 1999. This was a priority for many who contributed to the July consultation on the development of this strategy.

Justifying, consulting on and communicating our work

- 5.7** Ofgem will work to improve, and better explain, the rationale which underpins everything that it does, including identifying more clearly the costs and benefits associated with proposals where this is practical.
- 5.8** It will review the way in which it consults and involves people in its work and will ensure that this is organised in as creative and effective a way as possible.
- 5.9** Ofgem will build on the work begun this year to communicate plans and proposals in a more user-friendly way – in policy documents, through factsheets, the website and other communications vehicles. Ofgem will continue to report its progress against the corporate strategy, and report changes to priorities and timetables.

De-personalising regulation

- 5.10** The Gas and Electricity Markets Authority has now fully settled into its role. The skills and experience of the five executive and six non-executive members who form the Authority are bringing real value to Ofgem's work.
- 5.11** The Authority continues to represent a welcome step towards de-personalising the regulatory process – a priority which will continue throughout the next three years.
- 5.12** While Ofgem continues to recruit, and works to retain, good staff, it, in turn, expects that total staff numbers will reduce year-on-year with a continuing emphasis on quality rather than quantity.

Costs

Background

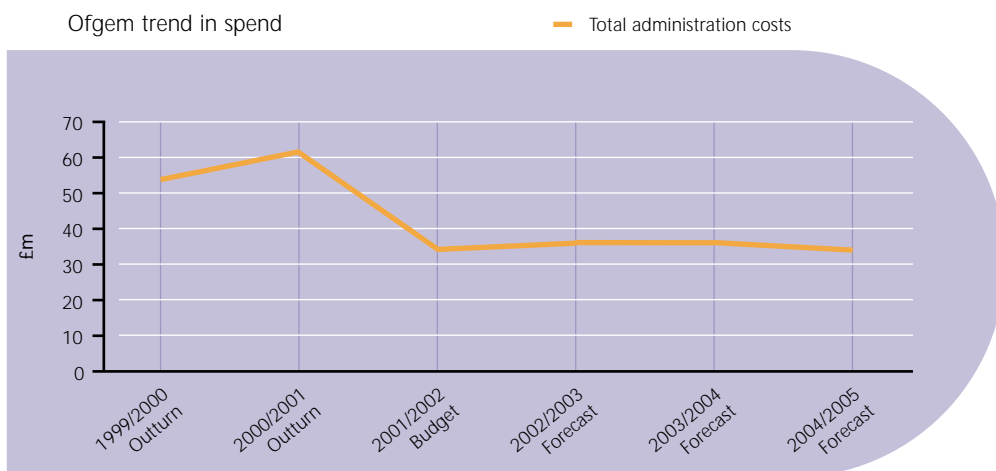
5.13 The costs of regulation should be seen in the context of the benefits it brings. Ofgem costs less than 0.1 per cent of industry revenue. However, the benefits that it brings are significant and far outweigh these costs.

5.14 Ofgem has made preliminary budget projections to 2004-2005, in order to increase transparency.

5.15 The indicative budgets are as follows:

£m		
2002-2003	2003-2004	2004-2005
36.0	36.0	34.0

5.16 Budgets for all three years are based on 2002 prices. The figures make assumptions about the likely future volume of work, some of which will of course be determined by factors outside Ofgem's control.



5.17 The projected budget for 2002-2003 shows an increase of 5.7 per cent over approved expenditure for 2001-2002. Apart from inflation, other drivers for this increase include work on the priority projects: BETTA, monitoring and enforcing competition, work under the Environmental Action Plan and reforms to Transmission access arrangements, as well as the cost of implementing Ofgem's new reward strategy. These increases are offset by reductions in other areas that have been made to achieve efficiency savings, as well as the completion of major projects such as the Transco price control work and the proposed ending of supply price controls.

5.18 In addition to the costs attributed to the work set out in Chapters 2-5 and, more specifically, in Appendix 1, Ofgem also incurs costs associated with its Technical directorate (£2.3m in 2002-2003), its Leicester laboratories (£1.6m in 2002-2003) and its Glasgow office (£1.0m in 2002-2003).

5.19 Indirect costs associated with support functions within Ofgem are apportioned to individual projects and activities (see Appendix 1).

Support costs in 2002-2003 are planned to be as follows:

— Human resources	£1.5m
— Finance	£0.7m
— Accommodation & running costs	£7.0m
— Legal	£1.3m
— Communications	£1.2m
— IT	£1.4m

5.20 Ofgem's three main areas of spend over the period of this strategy continue to be related to staff, contractors and accommodation costs:

Pay

5.21 Ofgem's new reward strategy is beginning to take effect with the organisation attracting high quality staff.

Overall, staff numbers are projected to fall from 334 in 2001-2002 to 300 in 2004-2005.

Contractors

5.22 The cost of contractors has reduced. It currently stands at £8.9m in 2001-2002 and is forecast to fall by a further 27 per cent to £6.5m by 2004-2005. This is in line with Ofgem's stated desire to reduce dependency on contractors.

Accommodation

5.23 The cost of accommodation and general running costs remains fairly constant over the corporate strategy period at around £7.0m. Apart from its headquarters at Millbank, Ofgem also operates a site at Leicester which incorporates a laboratory and archive, an office in Glasgow and the previous Offer headquarters at Birmingham which Ofgem is seeking to dispose of.

5.24 In addition, a contingency of £3.0m has been included in the budget for each year of the strategy. Part of this will be utilised in respect of the annual Ofgem pay award.

Appendix 1 Detailed deliverables and indicative costs for 2002-2003

Making markets work more effectively

Activity	Action	Delivery period
1. Wholesale market		
Electricity trading	Publish a review of NETA following the first 12 months of operation including the development of consolidation services	Q1
	Contribute to development of DTI drafting instructions to Parliamentary Counsel for BETTA legislation	Q2
	Produce detailed descriptions of System Operator and Transmission Access Operator arrangement under BETTA	Q2
	Produce draft BETTA documentation	Q4
Electricity transmission	Continue to develop new transmission access and losses arrangements for implementation in 2003-2004	ongoing
Gas balancing	Continue to develop a new gas balancing regime that includes shorter balancing periods and a linepack service for implementation in 2003-2004	ongoing
Market governance	Take part in the process for modifications to the BSC, CUSC and Network Code, and take decisions on code modifications	ongoing
Market surveillance	Monitor wholesale energy markets and take appropriate enforcement action when there is evidence of licence or competition law infringements	ongoing

Activity	Action	Delivery period
Support the development of competitive energy markets across Europe	Liaise with other EU regulators to promote Ofgem policies in relation to liberalisation	ongoing
	Monitor proposed interconnector projects	ongoing
	Provide advice to the DTI on proposals with a negative impact on the UK	ongoing
Metering	Update papers on progress under the Metering Strategy	Q2 & Q4
	Support for industry reforms to gas metering arrangements	Q3
Connections	Undertake dispute resolutions and determinations	ongoing
Corporate transactions	Publish consultation documents on proposed mergers and acquisitions and submit reports to Office of Fair Trading as required	ongoing
	Implement the decisions of the Secretary of State in relation to mergers and acquisitions	ongoing
2. Retail markets		
Monitoring domestic retail	Report on competition in domestic retail supply markets	Q3
	Report on implications for supply competition of entry of new electricity distribution businesses	Q4
Improve access to competitive markets for consumers	Implement improvements to the customer transfer process	Q4
	Implement customer contact plan	ongoing

Activity	Action	Delivery period
Withdraw from detailed regulation of supply markets	Consult on further work to deregulate supply markets	Q3-Q4
Supplier failure	Develop Ofgem's and the industry's arrangements to manage supplier failure	Q1

3. Industrial structures

Metering	Update papers on progress under the Metering Strategy	Q2 & Q4
	Support for industry reforms to gas metering arrangements	Q3
Connections	Undertake dispute resolutions and determinations	ongoing
Corporate transactions	Publish consultation documents on proposed mergers and acquisitions and submit reports to Office of Fair Trading as required	ongoing
	Implement the decisions of the Secretary of State in relation to mergers and acquisitions	ongoing

Indicative costs

This table identifies the direct costs associated with an area of work together with an appropriate allocation of indirect costs associated with support functions.

Wholesale markets	2002-2003		
	£'000s		
	Direct	Indirect	Total
BETTA	2,350	1,020	3,370
Gas Trading Arrangements	600	480	1,080
Electricity Trading Arrangements	810	550	1,360
Market Surveillance	539	760	1,290
Connection & Use of System Code	190	310	500
Balancing & Settlement Code	200	310	510
Gas Network Codes	330	440	770
Europe	340	280	620
Total	5,350	4,150	9,500
Staff Total			59

Retail markets	2002-2003		
	£'000s		
	Direct	Indirect	Total
Competition & Deregulation	460	630	1,090
Supply Projects	300	510	810
Customer Contact & Compliance	440	790	1,230
Licensing & Supplier Failure	500	690	1,190
Total	1,700	2,620	4,320
Staff Total			35

Industrial structures	2002-2003		
	£'000s		
	Direct	Indirect	Total
Metering	660	650	1,310
Coordination & Corporate Transactions	530	590	1,120
Connections	200	390	590
Total	1,390	1,630	3,020
Staff Total			23

Regulating monopoly networks intelligently

Activity	Action	Delivery period
Development of price regulation generally	Consult on general price control issues to assist in the development of the price control framework and the distribution price control	Q1
Transmission – Electricity	Implement the NGC System Operator incentives scheme, subject to NGC consent	Q1
Transmission – Gas	Implement the Transco System Operator incentives scheme, subject to Transco consent	Q1
	Complete an annual review of Transco's capital investment programme	Q2
Distribution – Gas	Further consultation on the separation of LDZ price controls	Q3
	Consult on development of the quality of supply incentive scheme for LDZs	Q4
	Decision document on IGT charging	Q2
Distribution – Electricity	Develop objectives and structure for next price control	Q3
	Report on quality of supply output measures and medium-term performance information	Q2

	Consult on structure of electricity distribution charges	Q2 & Q4
	Consult on distribution losses	Q2 & Q4
Asset Risk Management	Conduct surveys and publish anonymous results of best practice	Q3
	Consult on need for a licence condition	Q3
Price control compliance – all industries	Ensure compliance with price controls through monitoring of performance	ongoing

Indicative costs

This table identifies the direct costs associated with an area of work together with an appropriate allocation of indirect costs associated with support functions.

Regulating Monopolies	2002-2003		
	£'000s		
	Direct	Indirect	Total
Transco's LDZ quality of supply review and IGT review	290	440	730
Separation of LDZ Price Controls	300	190	490
NGC Price Control Review	340	250	590
Transco Price Control Review	320	280	600
Distribution Issues	620	500	1,120
Scottish Transmission Price Control	250	210	460
Distribution price Control Review	410	260	670
Regulatory Accounts	570	490	1,060
Quality of Service	530	200	730
Total	3,630	2,820	6,450
Staff Total			30

Meeting Ofgem's social and environmental responsibilities

Activity	Action	Delivery period
1. Social Action		
Debt management and prevention	Publish with energywatch guidance on debt management and prevention best practice	Q1
	Publish proposals on reducing debt blocking depending on the outcome of the current industry trial	Q2
Energy efficiency	Publish guidelines on energy efficiency advice for the fuel poor	Q2
Reporting progress	Publish annual report on progress and priorities under the Social Action Plan	Q4
2. Environmental action		
Generation	Continue to support the Environment Agency in work to develop emissions trading	ongoing
Transmission and distribution	Transmission and distribution losses Develop new transmission access and losses arrangements for implementation in 2003-2004 and consult on arrangements to manage distribution losses	ongoing
	Distributed generation Review options for domestic and micro-CHP	Q4
	Implement interim changes to connection charging regime	Q1
Supply	Renewables Produce guidance on green supply	Q1
	Issue first Renewables Obligations Certificates	Q1
	Implement ROCs transfer registry	Q2

Energy Efficiency	Issue procedures manual on administering Energy Efficiency Commitment	Q1
	Prepare model code of practice on energy efficiency advice on I&C customers	Q1
Reporting progress	Publish report on evaluation of EESoP 3 Programme	Q4
	Report on schedule 9 guidance	Q1
	Publish annual report on progress and priorities under the Environmental Action Plan	Q4

Indicative costs

This table identifies the direct costs associated with an area of work together with an appropriate allocation of indirect costs associated with support functions.

Social and Environmental action	2002-2003		
	£'000s		
	Direct	Indirect	Total
Social Action Plan	310	390	700
Environmental Action Levy	200	50	250
Energy Efficiency	450	280	730
Renewables	410	340	750
Environmental Action Plan*	240	250	490
Distributed Generation*	320	170	490
Total	1,930	1,480	3,410
Staff Total			19

* The resources shown here represent what will be needed to co-ordinate Ofgem's work programme on the Environmental Action Plan and on distributed generation. Many other staff across Ofgem will be involved and their resources are shown in other parts of this document.

Developing Ofgem's efficiency and effectiveness

Attract and retain high calibre staff	Implement Ofgem recruitment and retention strategies	ongoing
	Implement learning and development strategy, to secure Investors in People accreditation	ongoing
Improved rationale for Ofgem's proposals	Incorporate improved rationale section in external documents	Q1
Improved consultation	Implement revised Ofgem consultation best practice guidance	Q1

Appendix 2 Indicative costs for 2002-2005

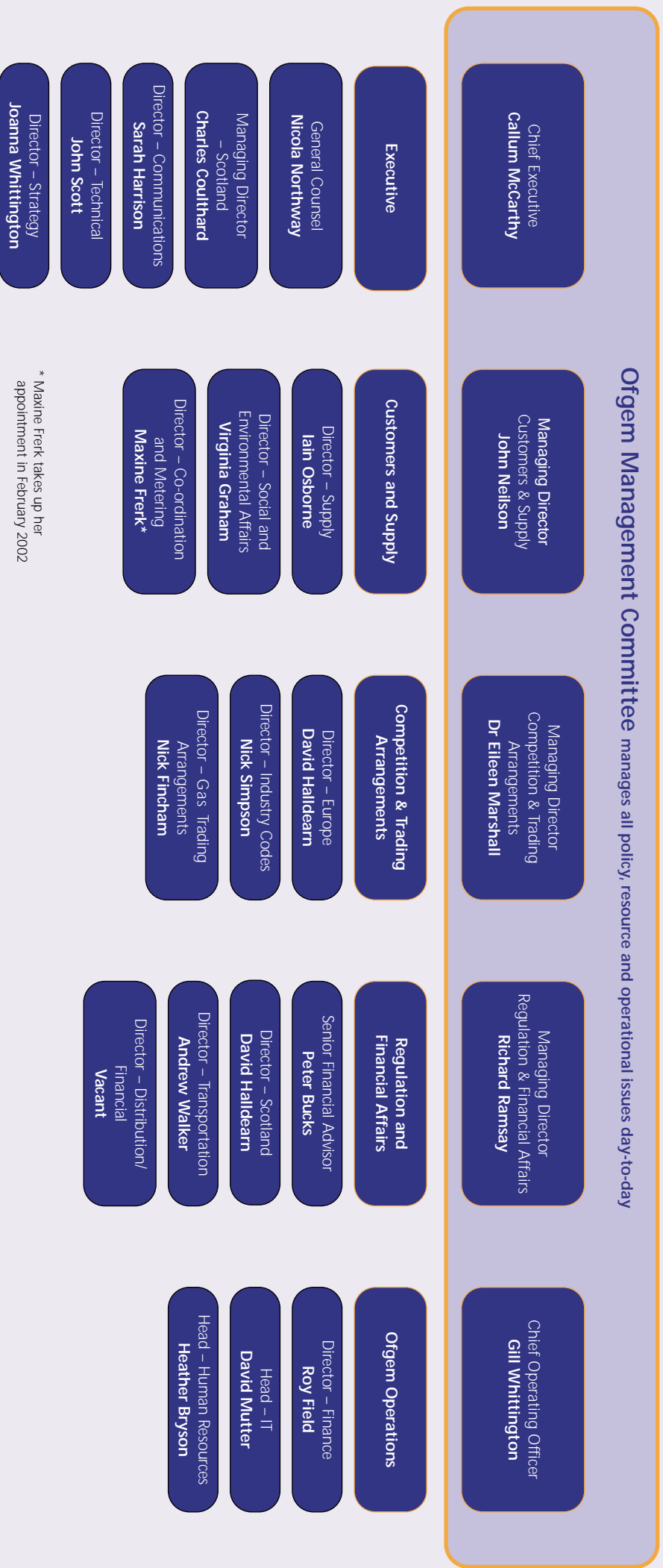
	£'000s				
	2002-2003			2003-2004	2004-2005
	Direct	Indirect	Total	Total	Total
Making markets work	8,440	8,400	16,840	15,800	12,100
Wholesale Markets	5,350	4,150	9,500	9,200	5,700
BETTA	2,350	1,020	3,370	4,400	1,500
Gas Trading Arrangements	600	480	1,080	600	300
Electricity Trading Arrangements	810	550	1,360	700	300
Market Surveillance	530	760	1,290	1,200	1,200
Connection & Use of System Code	190	310	500	500	500
Balancing & Settlement Code	200	310	510	500	600
Gas Network Codes	330	440	770	700	700
Europe	340	280	620	600	600
Retail Markets	1,700	2,620	4,320	3,700	3,800
Competition & Deregulation	460	630	1,090	900	800
Supply Projects	300	510	810	800	900
Customer Contact & Compliance	440	790	1,230	1,000	1,100
Licensing & Supplier Failure	500	690	1,190	1,000	1,000
Industrial Structures	1,390	1,630	3,020	2,900	2,600
Metering	660	650	1,310	1,200	1,000
Coordination & Corporate Transactions	530	590	1,120	1,100	1,200
Connections	200	390	590	600	400

	'000s				
	2002-2003			2003-2004	2004-2005
	Direct	Indirect	Total	Total	Total
Regulating monopolies	3,630	2,820	6,450	7,800	9,200
Transco's LGZ and IGT's	290	440	730	700	400
Separation of LDZ Price Controls	300	190	490	900	0
NGC Price Controls (Incl TO & SO)	340	250	590	800	2,200
Transco Price Controls (Incl TO & SO)	320	280	600	600	900
Distribution Issues	620	500	1,120	1,200	800
Scottish Transmission Price Control	250	210	460	400	300
Distribution Price Control Review	410	260	670	1,400	2,500
Regulatory Accounts	570	490	1,060	1,000	1,200
Quality of Service	530	200	730	800	900
Social & environmental action	1,930	1,480	3,410	3,200	3,200
Social Action Plan	310	390	700	700	700
Levy	200	50	250	200	200
Energy Efficiency	450	280	730	600	600
Renewables	410	340	750	700	700
Environmental Action Plan	240	250	490	500	500
Distributed Generation	320	170	490	500	500
Other	1,560	1,680	9,300	9,200	9,500
Scottish Office	400	620	1,020	1,000	1,000
Technical	1,160	1,060	2,220	2,200	2,700
Laboratories (Leicester)			1,650	1,800	1,800
Depreciation			1,410	1,200	1,000
Contingency			3,000	3,000	3,000
Total	15,560	14,380	36,000	36,000	34,000

Trends in Staff numbers and contractor costs

	2001-2002 Plan	2002-2003 Forecast	2003-2004 Forecast	2004-2005 Forecast
Staff numbers	334	320	315	300
Staff costs	13,416	13,400	13,400	12,800
Contractors	8,901	7,200	7,700	6,500

Appendix 3 Ofgem corporate structure



* Maxine Freck takes up her appointment in February 2002