

## **Gas and Electricity Markets Authority**

### **Public Session : 23 February, 2006**

1. The Authority held its first Public Session at Ofgem, 9 Millbank on Thursday 23 February at 2.00 pm. The meeting had been advertised on the Ofgem website and a list of those registering to attend is attached.

2. The Chairman of the Authority, Sir John Mogg, introduced the Non-Executives serving on the Board and attending, and the Chief Executive and two of his three Managing Directors. Sir John noted that this would be the first of a number of regular public sessions of the Authority, allowing interested parties to hear something of the work of the Authority, to meet its Members and to have the opportunity of putting questions to Members on topics of interest or concern.

3. The session began with a presentation from the Chairman who outlined the principal objective of Ofgem in protecting customers through promoting competition and effective regulation. He outlined Ofgem's role in helping to secure energy supplies, in the achievement of environmental improvements and in meeting the needs of vulnerable customers. Ofgem was also a leading voice in Europe at a time when there was much activity to promote competition, to liberalise markets and to tackle security of supply issues. The Chairman outlined the key dates and events on the European energy agenda, leading up to the European Council in late March, and the role being played by the Council of European Energy Regulators and the European Regulators' Group of which he was President and Chair, respectively.

4. The Chief Executive, Alistair Buchanan, concentrated on the main activities and achievements of Ofgem over the past year, and the work in progress to develop Ofgem's Corporate Strategy and Plan on which public consultations were under way. This touched on the billing supercomplaint; the sales of the gas distribution networks in 2005 and Ofgem's investigations into potential distortions in the gas market. This work had been welcomed by many interests including energywatch, the NAO and the CBI. Ofgem was also contributing to the Better regulation agenda and had a good record in dealing with freedom of information requests.

5. Ofgem's incentive and price control measures had seen a substantial encouragement to investment with a 50% (or £5 billion) rise in capital investment. Here, the aim was to strike the right balance between costs and consumer benefit. Ofgem was also consciously seeking to build on its role as a facilitator in advising and analysing a wide range of energy matters such as the state of winter supplies, aspects of fuel poverty, metering and more. It had imposed tough disciplines on its own operations through the second year of its

RPI-X controls. "Project Paperless" was now transforming the style, content and readability of all its many consultation documents.

6. Looking to the future, it was evident that substantial challenges and uncertainties lay ahead. These included the results of the Government's Energy Review, the planned Climate Change Review and the Stern Review. The Authority had clear and contributory roles to play in promoting its work on investment needs, assisting innovation in meeting consumer interests, and in ensuring orderly markets. Ofgem was valued contributor on the social and environmental aspects of energy supply and use. The year 2006/2007 would be very important for network investment and innovation.

7. The "smart metering" debate had been launched following detailed Ofgem analysis and surveys, and discussions at the Authority. Ofgem was collaborating closely with the DTI on the offshore renewables project. European issues, security of supply concerns, the low carbon agenda, and environmental sustainability all added to the challenges and where Ofgem was working hard to be a centre of energy excellence. Above all, consumers were Ofgem's first priority.

8. Steve Smith, Managing Director/Markets, explained the continuing success of GB energy markets in delivering investment, security of supply and supply diversity since privatisation. In electricity £14 billion had been invested in over 31 GW of new gas plant since 1990 and significant investment in Flue Gas Desulphurisation either installed or planned for 60% of coal plant. Over 11GW of renewables generation plant was planned for operation by 2010. On gas, supply and diversity improvements would follow from the upgrade in the Anglo-Belgian interconnector, the new pipelines under construction to the Netherlands and Norway and the building of five new LNG terminals. Gas storage capacity was set to double by 2010. Competition in GB markets was still vigorous with significant price differences at the domestic retail level despite recent price rises and continuing customer switching. The work of Ofgem in effective competition was explained, involving market surveillance, market rules, advice and seminars on the winter outlook and in the provision of information and analysis. Ofgem was committed to policy development for the European market place for energy, pressing for improved competition, and greater transparency. The environment and sustainability duties for Ofgem were central to all its work in assessing the impact of policies and proposed rule changes

8. Sarah Harrison, Managing Director /Corporate Affairs, gave a presentation on Ofgem's activities on fuel poverty and better regulation. Social issues were considered in all that Ofgem does and its work through competition and regulation were important in keeping downward pressure on energy prices. Ofgem also sought to encourage best practice and here attention was drawn to the £110 million of supplier initiatives (special tariffs, benefits health checks, debt and energy efficiency advice), spawned by competition. Ofgem's role in facilitating and influencing the wider debate was noted, including on financial inclusion, improved targeting and the development of the Energy Efficiency

Commitment. Protecting consumers' interests through Better Regulation involved Ofgem's proactivity with industry on schemes to deal with consumer debt and the threat of disconnection, and new plans for a Billing Ombudsman. The supply licence review would help to simplify regulations for industry while maintaining consumer protection. Internally, Ofgem continued to focus on improving its performance from budgetary controls, to regulatory impact assessments, environmental improvements and more transparent governance.

9. In a wide-ranging question and answer session, a number of points were debated between the audience and Members of the Authority. These included:

- Ofgem's role in promoting value for consumers and the value of transparency of information
- information on energy efficiency, and the savings available through switching suppliers
- competition in the generation market and the impact of recent wholesale price increases on coal vs. gas fired generation
- potential barriers to entry into the supply markets, the effectiveness of competition for business customers of all sizes and policies to address concerns in this area
- the Ofgem role in the Energy Review
- Ofgem's work in promoting liberalisation in continental EU energy markets
- the role of new forms of performance indicators in assessing Ofgem's progress in meeting its ambitions
- the particular problems of those in fuel poverty, without bank accounts, and the way in which these matters were being examined by the Social Action Review
- the planned Ofgem strategy and its seven major themes
- the issues posed by vertical integration in the industry
- the challenges of the European agenda, the perceived need for radical action and views on the political will to bring it about
- the work of the Ofgem market surveillance team
- the issues arising in translating the benefits of capital expenditure improvements into consumer value
- reliance on European and other supplies of energy and the move to diversify supplies, in particular the growing global LNG market

10. The meeting closed at about 4.00 pm