

Gas and Electricity Markets Authority

Public Session

Thursday 23 February 2006

OFGEM'S CORPORATE PRIORITIES – 2006-2011

Non-executive directors

- **Sir John Mogg, Chairman**
- **Dr Robin Bidwell**
- **Miriam Greenwood**
- **Judith Hanratty**
- **Jayne Scott**
- **Sir Keith Stuart**
- **Professor Len Waverman**

Executive members

- **Alistair Buchanan**, Chief Executive
- **David Gray**, Managing Director, Networks
- **Sarah Harrison**, Managing Director, Corporate Affairs
- **Steve Smith**, Managing Director, Markets

Agenda

- **Introduction - Sir John Mogg** **14.00**
- **Corporate and Networks – Alistair Buchanan** **14.10**
- **Markets and Environment – Steve Smith** **14.30**
- **Fuel Poverty
and Better Regulation – Sarah Harrison** **14.45**
- **Questions and discussion** **14.55**
- **Close – Sir John Mogg** **15.45**

Refreshments

Principal objective

- Protecting customers is our first priority. We do this by:
 - **promoting competition** wherever appropriate, and
 - **regulating effectively** the monopoly companies which run the gas pipes and electricity wires

Other duties

- We have other priorities too. We:
 - help secure **Britain's energy supplies**
 - help energy markets and industry achieve **environmental improvements**, and
 - take account of the needs of **vulnerable customers**

A leading voice in Europe

Ofgem is a leading regulatory voice in Europe

- We are developing policies for an energy market which will bring:
 - **competitive prices, and**
 - **improved security of supply**

for business and domestic customers

- President of the **Council of European Energy Regulators** (CEER)
- Chairman of the **European Regulators' Group for Electricity and Gas** (ERGEG)
- **'Verheugen'** group - a high-level body looking at competitiveness, energy and the environment
- **Secondments** to EU Competition Directorate

Key dates

- Energy sector inquiry, **first findings** report – 16 February 2006
- **'Verheugen'** Group meeting – 28 February 2006
- **Energy Strategy** Green Paper – 9 March 2006
- Meeting of the **Energy Council** – 14 March 2006
- **Ecofin** – 16 March 2006
- **European Council** – 27-28 March 2006

Alistair Buchanan

Corporate and Networks

Build on 2005-2006 achievements

- **Billing Supercomplaint**
 - “A few points for debate, but overall an elegant and strategic response,” **Allan Asher**, energywatch

- **Gas distribution network sales**
 - “In meeting its commitments, Ofgem displayed a sound understanding of the complexities of the sales ... Ofgem has done well so far,” **Sir John Bourn**, NAO

- **Gas inquiries**
 - “We welcome the continued pressure that Ofgem is putting on the Commission to investigate distortions in the market,” **Sir Digby Jones**, CBI

More recognition of our work:

- **Treasury** report placed Ofgem's financial function "**Best in Class**" across Government
- **Better Regulation Task Force** praised Ofgem for improvements in appeals process, corporate governance and self-regulation
- Regulators are probably undertaking **Regulatory Impact Assessments** in a more exemplary way than most Government departments, according to Cranfield Professor
- Ofgem top of **Financial Times** survey of **Freedom of Information** handling, with 94 per cent of requests met on time

Working towards long-term goals

- Understanding the balance between **network investment** and the **consumer**, for example:
 - First year of DPCR4 saw **48 per cent increase** (£5 billion) in capex – builds on **£16 billion** invested during 1990s
 - Cost of capital struck **right balance** between long-term rates, promoting investment and consumer bills
 - **Service** levels are **up**, **standards** are **up**
 - Early release of **£560 million** for Scottish renewables

- **Facilitating** network development and **understanding** network issues, for example:
 - Link to '**comfort letters**' approach previously used for Scottish companies
 - Encouraging **gas infill** through modification of gas transportation licence
 - **New issues**, among others, are 'queuing' and offshore development

Remember: in 1990s network development handled 27GW **off the system**, and 25GW **on to the system**

Increasing focus on how we work

Policy:

- Looking to build on our role as a **FACILITATOR**:
 - winter supplies
 - fuel poor, and
 - ‘Powering the energy debate’

Operations:

- **RPI-X** in its second year
- ‘**Project Paperless**’ has transformed our product
- Ofgem staff work where it **benefits GB consumers**, eg DG Comp, DTI

- **BUT:** we are not perfect!
- That is why we **welcome your views** on how to get the best deal for consumers

Looking to the future

There is a lot of uncertainty:

- Energy Review, Climate Change Review, Stern Review and the National Allocation Plan

Ofgem can help:

- understand **investment** needs: importance of consistency, stability, clarity and appropriate return
- promote **innovation** in consumers' interests
- ensure **orderly markets**
- facilitate on **social** and **environmental** issues

Networks and investment

2006-2007 is a **key year** for investment:

- **£24 billion** has been invested in networks between 1990-2004 – standards are high
- Networks are ageing so need to build on **48 per cent** capex increase for local networks
- **£6 billion** already requested on top of **£6 billion** asset base for electricity transmission networks

Investment in the future

- Ofgem has done extensive research on **smart metering** and is involved fully in the debate
- Also, involved fully with DTI's **offshore renewables** project
- Working with companies on new **network innovations**

Prepared for the unexpected

- Ofgem remains flexible. We:
 - have listened to **critics** and will **reprioritise** to meet key challenges
 - are **prepared** to handle **corporate activity**
 - are involved **actively** in emergency preparedness
 - continue to **monitor** and **facilitate** during critical time ahead of winter 2006-2007
 - seek to **respond effectively** to new duties and roles

Awareness of the bigger picture

- Ofgem seeks to be a **centre of energy excellence**. We:
 - have **real awareness** of the bigger energy picture: carbon, global LNG, European issues, UK Energy Review
 - **seek further information** and advice that can help us do our job better
 - continue to **challenge ourselves** on social and environmental issues

Markets where appropriate

- DG Comp inquiry and UK Energy review **back markets approach**
- Ofgem will continue its **monitoring** and **policy** role and where necessary:
 - carry out **market reviews**
 - take **enforcement** action
 - make market **rule changes**
 - **administer schemes** effectively to give market confidence

The consumer is our first priority

- Ofgem's **main duty** continues to be to the **consumer**. We work to:
 - **enable** high-quality network infrastructure
 - give confidence that markets are **not abused**
 - strike right **value for money** balance at time of rising prices globally
 - understand the consumer's interest in **sustainability**
- Ofgem is **debating actively** how we stay engaged with the consumer

Steve Smith

Markets

Electricity

Providing **capacity** and **diversity**:

- £14 billion spent on 31GW of **new plant** built since 1990
- **Margins** averaged 20 per cent (E&W only)
- 11GW out of 29GW coal-fired **power stations** fitted with FGD (with a further 7GW announced)
- 7.5GW gas projects with **Section 36** consents
- **Renewables** – over 11GW planned for 2010

Gas

Providing **supply** and **diversity**:

- **Two upgrades** to Bacton-Zeebrugge interconnector
- New pipeline to **the Netherlands**
- New Langeled pipeline to **Norwegian continental shelf** and Ormen Lange
- 5 new **LNG terminals** (*Grain, South Hook, Dragon, Canvey, Teesside*)
- **Planned doubling** of UK **gas storage** by 2010
- **£6 billion** being spent to secure future gas supplies from: Norway, Qatar, Algeria, Russia, Netherlands, Trinidad and Tobago, Oman and Egypt

Retail

Competition still vigorous:

- Significant **price differences** between big 6 despite rising prices
- **Switching** still active
- Incumbents continue to **lose market share**
- **Customers** offered greater choice
- More than **80 per cent** of customers are **satisfied** with their energy company
- **Business customers** offered new products to deal with market volatility

Keeping competition effective in Britain

- 20-strong **market surveillance** team
- Dealing with changes to **market rules**
- Preparing for **corporate merger** activity
- **Seminars** to help **business customers** to prepare for this winter and next
- Providing **information and analysis**

Making competition effective in Europe

- CEER launching **regional markets** initiative
- Supporting **DG Comp** in sectoral inquiries
- Advising **DG Tren** on Energy Green Paper
- Major push to **increase transparency**

Environment and sustainability

Meeting the challenge of our sustainability duty, we:

- consider the environment in **all that we do**
- **develop** incentives, eg DPCR/TPCR 4
- **influence** wider debate
- **implement** and **report** on strategy

Sarah Harrison

**Fuel poverty and
better regulation**

Meeting the 2010 target

- **Incomes**
- **Housing**
- **Prices**
 - Fuel
 - Carbon

Helping to tackle fuel poverty

- We consider social issues **in all that we do**:
 - **Competition** and **regulation**: social tariffs, price controls, smart metering (PPMs)
- **Regulatory obligations** to protect vulnerable customers
 - Supply Licence Review

We also:

- **Encourage best practice**
 - £110 million of **social initiatives**: tariffs, benefits health checks, debt and energy efficiency advice, trust funds
 - Electricity distribution **reward scheme**
 - **Reporting** and **research**

- **Facilitate/influence wider debate**
 - Financial inclusion, targeting, Energy Efficiency Commitment

- **Work to get the message across**
 - Energy Smart

Better regulation

To better protect consumers' interests

- **Self regulation**
 - debt and disconnection 'safety net'
 - Billing Ombudsman
- **Simplification**
 - Supply Licence Review
 - New Distribution Connection and Use of System Agreement
 - Price control information
- **Facilitation**
 - Demand-side participation
 - Social and environmental
- **Ofgem simplification plan – 2006-2007**

We also practice what we preach:

- **RPI-X** - £5.3m over five years
- **Regulatory Impact Assessments**
- Taking account of consumer interests – **Consumer Voice**
- Project Paperless – **Phase 2**
- **Performance targets** – licensing, industry codes
- New **Better Regulation** unit
- **Greening** Ofgem
- **Corporate Governance**

A large, central version of the ofgem logo is positioned in the middle of the slide. It features the word "ofgem" in white, lowercase letters on a red, rounded rectangular background. The background of the slide is a light blue, semi-transparent image of electrical components, including a three-pin plug and a power outlet, which are slightly out of focus.

Promoting choice and value for all
gas and electricity customers