

# Ofgem's Corporate Strategy 2009-2014

## Foreword

We are entering a year like no other in terms of the magnitude and nature of the challenges faced by the energy sector and its stakeholders. The worldwide financial crisis has few precedents in living memory. At the same time the need to tackle climate change brings major reductions in carbon emissions - demands matched only by expectations of secure supplies and affordable prices.

Ofgem is committed to taking action to protect the interests of energy consumers, including vulnerable consumers. We have announced new measures to address the unjustified pricing identified by our probe into the energy retail sector, along with a wide-ranging package of remedies to improve the transparency of the market and thereby enable consumers to engage effectively in the competitive market. In the current economic situation we will maintain our strategy to scrutinise suppliers' approaches to debt and disconnection to ensure vulnerable customers are protected.

We have also embarked upon a series of major projects that address the longer term interests of consumers and will contribute to achieving a sustainable energy sector. *Project Discovery* is analysing the energy market's ability to deliver secure energy supplies in the next decade and beyond. Its focus is on the impact of the credit crisis coupled with the planned closure, under European environmental legislation, of many of Britain's coal- and oil-fired power stations. We are making good progress with our *RPI-X@20* review of how we regulate the pipes and wires businesses and we have also published a report on long-term electricity network scenarios (LENS) that highlights the major challenges in developing renewable generation out to 2050.

Our work on the arrangements for connecting renewable generation to the national grid and on the new regulatory regime for offshore electricity transmission give us a great opportunity to begin the transformation of our energy infrastructure to meet the very different needs of the future. Meanwhile, we are undertaking an overhaul of the industry governance rules to cut red tape and accelerate vital reforms.

The EU is expected to adopt the 'Third Package' of energy legislation in the spring. This will be a significant development that could have profound implications for British energy consumers in the future. We are considering how we can shape and contribute to the European energy scene after the legislation is agreed.

Parliament has enacted changes to our duties to increase the focus on sustainability and future consumers. We believe that the programme of work set out in our strategy demonstrates that Ofgem is working hard to protect existing and future consumers and to contribute to the achievement of a sustainable energy sector.

Ofgem is being asked to do more, including taking on greater responsibilities to administer the Government's environmental programme. We are coming to the end of our self-imposed five-year cap on expenditure and it is already clear that we will need greater financial support to enable us to fulfil our increased responsibilities.

**The Lord Mogg, KCMG**  
**Chairman, Gas and Electricity Markets Authority**

**Alistair Buchanan, CBE**  
**Chief Executive, Ofgem**

## **Ofgem's Corporate Strategy 2009-2014: A Summary**

### ***Creating and sustaining competition***

#### **Chapter Summary**

Our energy supply probe identified a number of areas where the transition to fully effective competition needs to be accelerated. We are seeking agreement with suppliers on the proposed reforms. If they do not agree, we can refer the matter to the Competition Commission. We will continue to monitor the energy markets to make sure that they are operating in the interests of all energy consumers. We will periodically publish information and analysis to inform the debate on issues such as wholesale market transparency, liquidity and the role of large customers in the market. We will continue to seek to reduce barriers to smart metering and microgeneration.

### ***Regulating networks effectively***

#### **Chapter Summary**

Ofgem considers that incentive-based regulation is the best framework for regulating the energy network companies. However, the *RPI-X at 20* review will objectively evaluate the strengths and weaknesses of our approach to network price controls. The team will report in 2010 on whether that approach remains the best means of incentivising the companies to invest in their networks, maintain security of our energy supplies and tackle climate change.

Ofgem will work with the industry to facilitate the connection of new, lower carbon generation to the transmission and distribution networks. We will develop price controls that encourage the electricity distribution companies to play their full part in tackling climate change. We will promote cost-reflective network charges and take decisions consistent across sectors wherever appropriate.

### ***Helping to achieve sustainable development***

#### **Chapter summary**

Ofgem will play a full part in facilitating the transition to a low carbon energy sector. We will take full account of environmental impacts and use an appropriate cost of carbon across the range of our decision-making. We will strengthen the incentives on the network businesses to connect renewable and other plant, including low carbon generation. We will also continue to contribute to the debate on how to reduce carbon emissions from the energy sector in the most cost-effective manner, which is especially important in a period of persistently high energy prices.

We will continue to administer Government environmental programmes efficiently and effectively. This work forms a major part of our contribution to the achievement of sustainable development. It is also increasing in scale. As well as administering the existing environmental schemes, we will be running tenders for offshore transmission licences. We might also in the future have an administrative role in relation to heat, feed-in tariffs and smart meters. We will advise the Government on the development of these schemes based on our practical experience.

## ***Helping to protect the security of Britain's energy supplies***

### **Chapter summary**

A combination of competitive markets and effectively regulated networks has to date delivered secure energy supplies for Britain. Looking ahead, a number of factors, such as the credit crisis and new environmental targets (including new requirements that may be imposed by the forthcoming Industrial Emissions Directive) mean the framework for delivering security of supply will be tested more severely than it has been in recent years. We will continue to assess all policies in terms of their impact on security of supply.

## ***A leading voice in Europe***

### **Chapter summary**

We will continue to support the European Commission in its drive to achieve competitive and sustainable energy markets that operate in the interests of British energy consumers. We will work with fellow EU energy regulators and the UK Government on the detailed implementation of the new energy legislation and on the gas and electricity regional market initiatives.

## ***Helping to tackle fuel poverty***

### **Chapter summary**

With increasing numbers of households struggling to pay their fuel bills, we will continue to facilitate efforts by the Government and industry to target fuel poverty measures on those most in need. The package of remedies being developed as a result of our probe will help ensure that vulnerable consumers receive more benefit from the competitive market. We will also continue our broader programme of work as part of our Social Action Strategy to protect the interests of vulnerable customers. We will look at suppliers' measures to protect vulnerable customers, including their approach to debt and disconnection in the current economic climate. This work is a major part of our contribution to the achievement of sustainable development.

## ***Better regulation***

### **Chapter summary**

We remain committed to policies and processes that are consistent with better regulation principles. We will continue to seek opportunities to remove unnecessary burdens on businesses. We will seek continuous improvement to our operational efficiency and effectiveness and thereby keep our costs under tight control. We will continue to develop our approach to consumer engagement so that consumers' views are properly reflected in our decision-making. We will draw on best practice from Government Departments and regulators as appropriate.