

Proposed Corporate Strategy and Plan 2010 - 2015



Document Type: Consultation

Ref: 3/10

Date of Publication: 15 January 2010

Deadline for Response: 26 February 2010

Target Audience: All Stakeholders

Overview:

This proposed strategy and plan sets out how Ofgem will look to meet its principal objective to protect the interests of current and future consumers.

We also set out our plans for Ofgem E-Serve to deliver Government programmes.

Contact name and details: Andy MacFaul, Head of Better Regulation

Tel: 020 7901 7083

Email: andrew.macfaul@ofgem.gov.uk

Team: Sustainable Development

Context

- Each year Ofgem consults on and publishes its Corporate Strategy and Plan. This proposed Strategy takes account of responses received to the open letter we published last summer seeking views on the main issues and priorities for the coming five years. Following this consultation we will publish the final version of our Strategy and plan by the end of March.

Associated Documents

- Corporate Strategy initial consultation letter, July 2009 (Ref: 87/09)
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=353&refer=About%20us/CorpPlan>

Table of Contents

Foreword	1
1. Introduction	3
2. Corporate Plan 2010-11 - What we will do in the first year of the strategy	7
3. Theme 1 - Contributing to the achievement of a low carbon energy sector	9
4. Theme 2 - Helping to maintain the security of Britain's energy supplies	11
5. Theme 3 - Promoting consumer choice and value and protecting vulnerable consumers	12
6. Theme 4 – Ensuring the timely and efficient delivery of Government programmes for a sustainable energy sector	14
Appendices	15
Appendix 1: Proposed Deliverables and Performance Indicators.....	16
Appendix 2 – Budgets and Spend	20
Appendix 3: Draft Simplification Plan 2010-11	23
Appendix 4 - Consultation Response and Questions	26
Appendix 5 – The Authority’s Powers and Duties	27
Appendix 6 - Feedback Questionnaire	29

Foreword

Ofgem's principal objective is to protect the interests of present and future energy consumers. As the proposed Energy Bill change to our duties makes clear, protecting the consumer interest involves working to help maintain secure and affordable energy supplies while, within our statutory powers, doing all that we can to reduce greenhouse gas emissions from the supply and use of gas and electricity. With affordability remaining a key concern for consumers we will do all we can to regulate the sector to deliver these goals as cost effectively as possible.

Our core role is to regulate network monopolies and make sure that the competitive energy markets work effectively for all consumers. Ofgem is also now assuming an increasing role in administering, on behalf of the Government, key elements of Britain's shift to a low carbon economy. Responding to this significant extension to our remit, we have radically restructured by creating Ofgem E-Serve, which will be responsible for managing an expanding range of environmental projects such as the provision of an effective offshore transmission regime and the roll-out of smart meters across Britain. This plan reflects the costs required to deliver these programmes in the most efficient manner possible.

Over the coming years our focus will be on four vital areas in support of our overarching principal objective to protect the interests of existing and future consumers. Specifically we will:

- **contribute to the achievement of a low carbon energy sector;**
- **help to maintain the security of Britain's energy supplies;**
- **promote consumer choice and value and protect vulnerable customers;**
and
- **via Ofgem E-Serve, ensure the timely and efficient delivery of Government programmes for a sustainable energy sector.**

Our Strategy is set against a backdrop of the need for major change in the energy industry. Demanding targets for carbon reduction have been set at European Union and national level. Britain is firmly committed to an ambitious timetable for carbon reduction and for the amount of energy to be generated from renewable sources. Britain will need to replace not only the existing fleet of ageing nuclear power stations but also the coal- and oil-fired generation that will close to meet important environmental objectives enshrined in EU legislation.

As well as the challenge presented by Britain's carbon reduction targets, we will need to maintain our focus on the security of Britain's gas and electricity supplies. Imports are necessarily increasing as gas output from the North Sea declines. Energy suppliers in the UK will have to compete increasingly on global markets for supplies. This has potential consequences for prices and supply security – either as a result of the competing demands for gas and electricity, or if supplies are interrupted at times of geo-political tensions.

The first phase of our Project Discovery last year set out a series of scenarios for energy markets through to 2020. This work highlighted a range of risks and issues,

notably the heavy investment (up to £200 billion) required over the next 10 to 15 years. Decisions on this investment spend will be required in the short term and certainly within the period covered by this Corporate Strategy. The risk to security of supply becomes particularly acute towards the end of this five year plan period. The next phase of our work will be to explore potential policy options for meeting these challenges.

This ambitious investment programme for new low and zero carbon sources of energy supply will be delivered against a background of much tougher capital market conditions. Financial markets have re-priced risk following the credit crisis; there will be much stronger competition for scarcer capital across the EU and globally as governments seek to fund large deficits and build lower carbon energy systems. These conditions may remain for some time and are compounded by ongoing uncertainty over key policy instruments – including notably the price of carbon – that impact on the risk of investment in energy supplies. Setting an effective carbon price depends on the development of arrangements internationally, including the European Union's Emissions Trading Scheme and other "cap and trade" schemes elsewhere in the world. While December 2009's Copenhagen climate change conference fell short of expectations it has begun an important chapter in establishing new international agreements which, if successful, will bring more certainty vital for future investment.

This combination of factors may require significant change to the current market arrangements and policy framework to meet existing and future consumers' needs, deliver our carbon targets and maintain security of supply. Ofgem is acutely aware that the required scale of investment, together with continued high wholesale energy prices reflecting global supply and demand, will have a significant impact on customers' bills which many customers are already struggling to afford. Balancing the need for this investment with the ability and willingness of customers to pay for these outcomes will be a key concern for us.

We are committed to working to meet these challenges and to take the opportunity to put existing and future consumers' interests at the heart of the transition to a low carbon energy sector, often in partnership with others. Formulating Britain's energy policy is a matter for Government: by providing objective advice Ofgem will seek to influence Government policy in the interests of consumers. It is for energy companies to deliver on infrastructure investment programmes in an efficient and timely way. We will help create strong incentives for them to do so. As the regulatory framework becomes internationalised, notably with the establishment of the new Agency for Co-operation of Energy Regulators, we will continue to influence at a European level.

While the challenges for the energy sector are unprecedented, we are confident that by using our energy expertise and powers and working with others, we can help take forward the changes required.

We welcome your views on this proposed Corporate Strategy which sets out the direction for our work over the next five years under our four themes and the resources required to deliver on this, together with the specific initiatives we will take forward in the first year of the plan.

1. Introduction

Contributing to the achievement of a low carbon energy sector and helping to maintain the security of Britain's energy supplies

1.1. Ofgem will continue to use its expertise and knowledge of energy markets to help shape the development of Britain's energy industry. We have already set in train a series of important initiatives to help meet the challenges ahead.

1.2. Project Discovery has stimulated timely debate about the best ways of meeting Britain's energy needs and climate change targets across a range of plausible scenarios. We shall continue to examine and propose solutions to the issues highlighted so that we can play our part in helping Britain meet its environmental targets while maintaining secure and affordable energy supplies.

1.3. There will be a need for significant investment in new infrastructure. Ofgem can and will help to create the policy framework and market rules against which energy companies will feel able to invest and earn a reasonable return on that investment. Britain is far from alone in requiring substantial investment in energy infrastructure over the coming years and for the corporate sector there will be increasing emphasis on the need for transparency, longevity and certainty in terms of energy policy and the regulatory framework. With that in mind we have already worked closely with Government to introduce the new regulatory framework for offshore electricity transmission and have approved interim funding for offshore transmission investments in the short term. We shall continue to discuss with industry those issues which will determine whether or not vital investments are made.

1.4. Some areas of investment are within Ofgem's direct remit. Britain's transmission and distribution networks are the subject of Ofgem price controls which gives us a role in shaping the decisions that network companies make about how to deliver desired outputs and as part of this to decide what to invest in and when. It is clear that substantial investment in networks will be required in the coming years - not only to replace ageing infrastructure but to support the connection of new generation, including low carbon generation, and to create new networks that adapt over time to enable take up of electric vehicles or to make greater use of the demand side response opportunities that might arise from smart meters.

1.5. The transmission companies envisage a substantial programme of investment to support the delivery of the UK's climate change targets and we are working with them to agree the funding arrangements for critical onshore investments. We have proposed funding of up to £1 billion over the next two years for electricity transmission projects that are vital in Britain's bid to combat climate change. In parallel the reform of transmission access arrangements also provides an opportunity to facilitate the connection of low carbon generation plant.

1.6. In future networks will be required to distribute power from a local generation base which is more diverse in terms of type and geographical location. Networks will also be increasingly able to take power back from customers generating their own electricity which, from time to time, will be in excess of their own needs. To pave the way for smart grids and other new technology required in a low carbon economy the distribution companies have accepted new price controls to run from 2010-15 that will enable a 40% increase in investment in the local electricity networks. The £7.2 billion of allowances includes a ground-breaking £500 million low carbon fund to stimulate innovation.

1.7. In 2008 Ofgem instigated a two year review of the future of network regulation (the RPI-X@20 review). We are looking at whether any significant changes to the regulatory arrangements are needed to strengthen further the incentives on the companies to run the energy networks in the interests of existing and future consumers, particularly in relation to decarbonising the sector. The Authority will formally consult on policy recommendations later this year. To ensure that the conclusions of the RPI-X@20 review can be reflected in the next transmission price controls, the current price controls will be extended so that they run to the end of March 2013.

1.8. Ofgem will also continue to engage closely in the debate over the liberalisation of energy markets in Europe. Britain is increasingly dependent on gas imports and there is a correlation between gas prices in continental Europe and global oil prices. Well-functioning European markets are therefore vital to securing our energy supplies. With new interconnectors coming on line and others in development, the European agenda is equally of growing importance for electricity. New binding codes will be established under the oversight of ACER. Ofgem will continue to take a leading role in the development of European regulatory policy.

1.9. In its pursuit of measures to help Britain meet its climate change commitments and maintain security of supply, Ofgem will continue to work to reduce demand for electricity, both through existing programmes (such as the removal of the volume driver as part of the distribution price control settlement) and through new initiatives such as the Carbon Emissions Reduction Targets and the substantial programme to roll-out smart meters to every household by the end of 2020. Smart meters can empower customers to increase their energy efficiency by providing them with better information about how they use energy. Ofgem will work with DECC and industry to deliver the Government's mandate thereby helping to reduce both household energy costs and carbon emissions. We will also pursue proposed reform of industry codes governance arrangements to facilitate major policy reforms that contribute to low carbon and security of supply objectives.

1.10. The development of renewable heat technology will be vital in enabling Britain to meet its carbon and renewable targets. Consistent with our duties to consumers, we will work with Government and others to consider issues presented by the development of new markets, such as a heat market, and new product and service propositions, such as the development of new tariffs and energy service company models.

Promoting consumer choice and value and protecting vulnerable customers

1.11. Central to our Strategy will be continuing action to make the competitive energy market work effectively in the interests of all consumers. Ofgem has used and will continue to use its powers and expertise to achieve this.

1.12. Our retail markets Probe which we completed last year delivered direct benefits for some consumers in terms of reduced bills. The Probe also introduced new rules on market practices such as door-step selling; demanded that companies provide important information on bills; implemented measures to help prevent consumers switching to worse deals; and put in place new protection for small business consumers. We will monitor suppliers' behaviour closely to be sure that the remedies do enable energy consumers to engage more confidently and effectively with the market.

1.13. One of the findings from the Probe was that the lack of liquidity in the wholesale market represented a major barrier to entry for new and small suppliers. With our latest quarterly report highlighting the need to maintain pressure on the Big Six suppliers' margins, we will continue to look at how to encourage new entry. Building on Project Discovery we will examine how to address the liquidity problems facing new entrants over the coming year.

1.14. Increasing investment in the Government's low carbon policies will mean an increase in the overall percentage of the consumers' final bills - up to two fifths - used to fund climate change incentives and investments. Increasing global energy prices and the costs of additional measures to tackle fuel poverty also put upward pressure on energy prices. Ofgem will seek to ensure that any price increases introduced by suppliers are fully justified and in the best interests of present and future consumers.

1.15. Ofgem will encourage suppliers and network companies to pay due regard to the difficulties facing customers, and in particular vulnerable customers, in what for many will be a challenging economic environment. We will continue to address issues such as debt prevention, debt management and measures needed to ameliorate the impact of fuel poverty – an issue which is likely to become of increasingly pressing importance as rising wholesale prices and the need to meet investment costs have their impact on domestic fuel bills.

1.16. Smart metering presents new opportunities and choices for consumers but also new consumer protection issues. In developing the regulatory framework it will be important to ensure that consumers are able to engage confidently in the energy market and benefit fully from the changes.

1.17. We will also monitor newly introduced standards on connections performance, network reliability and rewards based on network customer satisfaction. More generally, Ofgem will continue to press companies to deal with consumers fairly and respond to their complaints quickly, courteously and effectively.

1.18. We will maintain and develop work, through our Consumer First programme and directly with consumer groups, to strengthen our insight into consumer priorities and concerns. Some key areas of work will be to understand consumer priorities in relation to sustainable development and to encourage greater consumer engagement in key policy decisions.

Ensuring the timely and efficient delivery of Government programmes for a sustainable energy sector (Ofgem E-Serve)

1.19. The Government is already influencing market behaviour towards its goal of building a low carbon economy through a combination of requirements and incentives. Ofgem E-Serve has been given the responsibility for ensuring the efficient development and delivery of such schemes. Our remit is expected to grow sharply during the coming years, with a step change in 2010-11 as we takes on responsibility for smart metering, feed-in tariffs and the development of the RHI. Ofgem E-Serve already runs the £15 billion offshore transmission tendering regime and administers environmental programmes and services worth some £3billion per annum. This figure is expected to more than double in the next decade.

1.20. Ofgem E-Serve expects to assume additional responsibilities to encourage low carbon generation and to promote more efficient use of energy. Its role is not to make policy but to help Government develop and subsequently to operate the new regulatory regimes. Building on Ofgem's reputation for achieving high levels of operational efficiency and effectiveness, Ofgem E-Serve will seek to ensure that the rapidly expanding range of policies and incentives is delivered in the most efficient and economic way, using the most appropriate means of ensuring compliance.

1.21. It will also seek a strong two-way relationship with its customers in Government and build public and industry confidence that initiatives are implemented in ways that deliver the targets and also provide value for money.

2. Corporate Plan 2010-11 - What we will do in the first year of the strategy

Context

2.1. Laying the ground for delivery of our Strategy is a key action for us. In the coming year we will be responding to legislative reform and embedding change following our 2009 internal restructuring.

2.2. Legislative change is occurring at European and national level. We shall continue to advise DECC on the effective implementation of all aspects of the EU's 3rd package of energy legislation and contribute to the establishment of ACER. At the same time we will consider the effective implementation of changes to Ofgem's principal objective, duties and powers made by the Energy Bill now passing through Parliament. We will also have regard to the revised statutory Social and Environmental Guidance that is expected to take effect in this month.

2.3. Revising and reducing the number of corporate themes allows us to give greater prominence to reducing carbon emissions and ensuring the security of our energy supplies, and is a first step in response to Parliament's proposed clarification of our statutory duties. Our recent corporate restructuring is an additional important response to these changes. Over the coming year we shall ensure that we have the resources in place to deliver the range of initiatives set out in this plan.

2.4. We will complete our internal Sustainable Development review and incorporate recommendations that further embed sustainability into our policy development and decision making. This will include appointing a new Sustainable Development challenge group. We will restructure our local grids division to promote the implementation of the policies set under the 2010-2015 electricity price control such as the Low Carbon Networks Fund and prepare for implementation of the recommendations of our review of the regulatory regime in subsequent price control reviews.

2.5. To help inform our policy thinking we will develop a new research facility to build our understanding of carbon capture and storage, new renewable and new nuclear build. We will maintain and develop our investment in our Consumer First programme where the focus will be on building stronger insight into consumer priorities and concerns as they bear on the development of sustainable energy solutions.

2.6. We recently restructured the organisation and created a new Directorate for Scotland, Wales and the Regions to strengthen our links with stakeholders in the devolved nations. We hope to hold one Authority meeting each year in Scotland and Wales.

2.7. Finally, we will continue to align our corporate governance arrangements with best practice. We have already established a separate Management Committee to oversee Ofgem E-Serve and are now making increased use of Authority sub-Committees to enable effective non-executive oversight on key policy projects. In accordance with Government guidelines, we have appointed a Group Finance Director at Board level.

2.8. This work plan for 2010-11 follows the four new corporate themes and summarises the new initiatives we shall undertake to achieve them. As set out above, these themes are:

- contributing to the achievement of a low carbon energy sector;
- helping to maintain the security of Britain's energy supplies;
- promoting consumer choice and value and protecting vulnerable consumers; and
- ensuring the timely and efficient delivery of Government programmes for a sustainable energy sector.

2.9. In a series of appendices greater detail is provided on the following:

- the specific deliverables that we intend to meet;
- the budget that we believe will be necessary to carry out the activities mentioned in the plan;
- Ofgem's revised internal cost control; and
- our latest Simplification Plan, which lists the main projects that we propose to undertake in support of the better regulation agenda.

2.10. We welcome your views on the revised themes and on our proposed work programme for 2010-11.

3. Theme 1 - Contributing to the achievement of a low carbon energy sector

3.1. Tackling climate change is essential and the energy sector has a central role to play. National and EU targets for greenhouse gas emissions and renewables provide the framework for Ofgem to take more detailed decisions to help deliver a sustainable energy system.

3.2. We will strengthen the incentives on companies to decarbonise the gas and electricity sectors and so help to meet the UK's climate change targets. We will also stimulate debate and seek to influence decisions on Government environmental programmes so that the decarbonisation can be achieved as efficiently as possible.

3.3. In 2010-11 we propose to contribute to the achievement of a low carbon energy sector by:

Energy networks

- completing our review of the future of network regulation and implementing its conclusions in the next transmission and gas distribution price controls
- ensuring that transmission networks can support the necessary growth in renewable and other low carbon generation by providing funding arrangements for critical investments
- working with DECC to bring to a successful conclusion work on the reform of transmission access arrangements
- taking steps to ensure that the charging methodologies applied by the distribution companies are cost-reflective and assist network users to make appropriate location decisions
- establishing governance arrangements and administering the new Low Carbon Networks Fund
- reviewing regulatory arrangements as they apply to the transportation of biogas

Energy markets

- completing Project Discovery and presenting our recommendations
- developing a commercial and regulatory framework for smart metering that can facilitate the delivery of the carbon benefits identified in the Government's programme to deliver the 2020 environmental targets
- working, including with DECC and others, to consider the issues raised by new markets (such as heat) and new tariff options and commercial models with a view to shaping policy and consumer protection and enabling market development
- helping consumers engage and make informed choices by implementing the new green tariff certification scheme

Governance and enforcement

- introducing changes to industry codes governance that will facilitate major policy reforms to help contribute to low carbon priorities

Influencing and reporting

- contributing to important European debates about climate change policy for example via our leadership of the Council of European Energy Regulators' Sustainable Development Taskforce
- reviewing the purpose and structure of our Sustainable Development report
- putting our energy sector expertise to use in advising Government on climate change issues as they bear on consumers, for example in designing programmes such as the Renewable Heat Incentive, the Renewables Obligation and Feed In Tariffs, to deliver Government targets at a cost that is fair to current and future consumers
- producing discussion papers to help shape policy thinking including on the development of demand side response and on renewable financial incentives.

4. Theme 2 - Helping to maintain the security of Britain's energy supplies

4.1. Maintaining secure supplies while Britain shifts to a lower carbon energy system and greater gas import dependency is a vitally important and urgent task. Existing regulatory and market arrangements may well be seriously tested.

4.2. In 2010-11 we propose to help ensure the security of Britain's energy supplies by:

Energy networks

- concluding our review of the arrangements for managing the risk that a network company could suffer financial distress and aim to ensure that, as far as possible, consumers are protected from adverse impacts and do not pick up the bill if the network companies' management have failed to carry out their activities efficiently
- developing a package of enduring system operator incentives
- developing further, as part of our review of the future regulatory regime for the networks, the investment output measures for electricity distribution companies and applying our new approach to transmission and gas distribution as appropriate
- in relation to interconnectors, developing our approach to regulated interconnection and new capacity allocation models such as price coupling, considering exemption applications and compliance with legal requirements
- deciding on the transmission system operator certification under the new EU electricity and gas market Directives (the Third Package)

Energy markets

- concluding our review of whether the current market arrangements are capable of maintaining supply security and as necessary identifying policy responses and testing them against our scenarios and stress tests
- taking forward with DECC the arrangements for consulting on and implementing new market power licence conditions (as anticipated in the Energy Bill) and subsequently monitoring their impact
- taking forward our analysis of the options for improving wholesale market liquidity and consulting on their introduction
- consulting on the terms of negotiated third party access for gas storage facilities
- contributing to the drafting of framework guidelines for European gas balancing and capacity allocation

Monitoring, transparency and enforcement

- stepping up our immediate and long-range monitoring of international energy markets given greater interconnectedness and the consequent risks to British consumers
- continuing to contribute to the development of DECC's Energy Market Outlook
- continuing to press for greater transparency in European gas markets, building on progress in gas storage and gas transmission in North West Europe

5. Theme 3 - Promoting consumer choice and value and protecting vulnerable consumers

5.1. We will take strong action to protect the interests of existing and future consumers, including vulnerable consumers. We will do this by promoting competitive markets where appropriate, intervening as necessary to protect consumers, and by regulating networks effectively. The aim will be to promote informed consumer choice, a good quality of service and affordable energy supplies. This work is more important than ever given the growing pressure on consumers' energy bills and rising fuel poverty.

5.2. We propose to drive forward these aspects of the consumer interest in 2010-11 by:

Energy networks

- developing a future regulatory framework that encourages energy networks to facilitate delivery of a low carbon energy sector and value for money for existing and future consumers
- taking forward work on the next transmission price control review
- exploring the scope for a competitive approach to the delivery of transmission investments
- developing a broad measure of customer satisfaction of users of the electricity distribution networks and extending this to other networks
- reviewing and updating our cost assessment techniques in advance of the next network price control review, building on our developing thinking in our review of the future regulatory framework
- continuing to encourage competition in network connections and ensure that arrangements relating to IDNOs and IGTs work in consumers' interests

Energy markets

- monitoring retail markets at an enhanced level to identify progress since the 2008-9 energy supply Probe
- advising DECC on the transposition of EU third package requirements relating to consumer protection
- facilitating a review of industry processes relating to switching supplier, settlements, licences and metering
- developing a commercial and regulatory framework for smart meters that enables effective protection of consumers' interests, for example by defining requirements in relation to data security, the protection of personal information, the use of remote disconnection and other consumer priorities
- responding to industry initiatives and considering whether further action is required regarding theft of energy

Monitoring, transparency and enforcement

- publishing quarterly wholesale/retail reports to provide greater transparency about the operation of the energy supply market
- reviewing and reporting on performance and customer experience with energy companies' complaint handling and on the operation of the energy services ombudsman
- ensuring compliance with the retail probe licence conditions, as noted above, including on undue price discrimination
- monitoring and enforcing the guaranteed standards and licence conditions relating to customer service that will be established under the electricity distribution price controls
- reporting in a user friendly way on the key performance indicators of electricity network companies and considering in our review of future regulation how to develop performance indicators for other networks
- monitoring the gas network extension scheme and reviewing incentives on the gas distribution companies to improve customer service

Protecting vulnerable consumers

- monitoring the final year of the suppliers' voluntary social obligation
- advising DECC on the development and design of the proposed new social price support mechanism
- working with and advising the Government on fair ways to tackle climate change including advising on how to ensure that vulnerable customers get their fair share of the benefits and do not bear an undue cost in relation to energy efficiency programmes, feed in tariffs and the renewable heat incentive
- undertaking consumer research on vulnerable customer switching post-energy supply probe
- implementing recommendations from the debt and disconnection reviews and continuing to monitor and report on supplier progress and practices in managing household consumer debt
- administering the Discretionary Reward Schemes that are used to promote good practice among network companies when serving vulnerable customers

6. Theme 4 – Ensuring the timely and efficient delivery of Government programmes for a sustainable energy sector

6.1. Ofgem has radically restructured so it can further increase its role in helping to meet Britain's targets for cutting carbon emissions. Our new business unit, Ofgem E-Serve, was set-up to respond to the rapid growth of climate change programmes and offshore transmission already worth £3.9 billion annually.

6.2. Ofgem E-Serve's aim is to use our energy expertise to influence how Government environmental programmes are implemented. We will then ensure that those programmes are efficiently administered. We will focus on administering environmental programmes and the delivery of sustainability projects like offshore wind and smart metering. We will keep the costs of the programmes under tight control, drawing on our experience over the last five years of saving £10 million by controlling our own costs while delivering reliable outcomes.

6.3. During 2010-11 Ofgem E-Serve proposes to:

- take a key role in the introduction of smart meters to Britain's 26 million homes by managing the work needed to prepare a prospectus that defines functional requirements for the smart metering system and proposes changes to the regulatory framework that will deliver a nationwide roll-out;
- administer feed-in tariffs from 1 April 2010;
- administer the Community Energy Saving Programme efficiently and work with DECC on its appraisal of the first year of the scheme
- continue to administer the Renewables Obligation efficiently and oversee the interaction with the new feed-in tariffs scheme
- continue to administer the Carbon Emission Reduction Target efficiently and work with DECC on the extension to the programme.
- continue to administer the Climate Change Levy exemption for renewables and CHP efficiently
- continue administering the regulatory regime for offshore electricity transmission, including publishing the enduring regime regulations before Go-Live, evaluating tender submissions and awarding licences;
- prepare for the introduction of the proposed social price support scheme (on the basis that we are likely to be asked to administer it);
- prepare for the introduction of the proposed carbon capture and storage levy by designing and setting up the systems to operate it;
- prepare for the introduction of the proposed renewable heat incentive (on the basis that we are likely to be named as administrators of the scheme); and
- continue to provide highly efficient and effective operational support processes to Ofgem and other regulators.

Appendices**Index**

Appendix	Name of Appendix	Page Number
1	Proposed Deliverables and Performance Indicators	16
2	Budgets and Spend	20
3	Draft Simplification Plan 2010-11	23
4	Consultation questions and how to respond	26
5	The Authority's Powers and Duties	27
6	Feedback Questionnaire	29

Appendix 1: Proposed Deliverables and Performance Indicators

Proposed 2010–11 Corporate Deliverables

Theme 1 - Contributing to the achievement of a low carbon energy sector

Activity	Action	Period
Local Grids	Consultation on governance arrangements for the tier - Low Carbon Network Fund	Q1
Transmission	Funding for further transmission investments	Q2
Transmission	Decision on the disposal of assets to facilitate the transportation of CO2 for Carbon Capture and Storage	Q2
RPI-X@20	Consultation on Conclusions and recommendations from the RPI-X@20 review	Q2
Sustainable Development	Publish Sustainable Development Report	Q3

Theme 2 - Helping to maintain the security of Britain's energy supplies

Activity	Action	Period
Energy Economics	Winter to date seminar	Q1
Energy Economics	Global and European gas markets seminar	Q2
Transmission	Consultation on the effects of gas entry substitution	Q2
Energy Economics	Winter outlook seminar	Q3
Energy Economics	Publish 2010 Energy Markets Outlook report	Q4
Transmission	Decision on gas exit substitution methodology	Q4

Theme 3 – Promoting choice and value and protecting vulnerable consumers

Activity	Action	Period
Consumer Affairs	Publish research on Complaint handling research	Q1
Retail Markets	Publish consultation on (non-smart) metering issues	Q1
European Strategy	Approve access rules for Britned	Q1
Transmission	Consultation on the scope of the price control roll-over	Q1
RPI-X@20	Publish consultation on our approach to mergers between energy network companies	Q1
Code Governance	Licence consultation and modifications to implement the conclusions of the Code Governance review (if agreed by the Authority)	Q1
Retail Markets	Publish final report on (non-smart) metering issues	Q2
European Strategy	Submit National Report to European Commission	Q2
European Strategy	Finalise draft Framework Guidelines on gas balancing	Q2
Transmission / RPI-	Consultation on the implications of RPI-X@20 for	Q2

X@20	the next transmission price control review	
RPI-X@20	Publish conclusions on our approach to mergers between energy network companies	Q2
RPI-X@20	Publish consultation on Olympics issues	Q2
Code Governance	Consult on potential MPR initiatives (if agreed by the Authority)	Q2
Energy Economics	Big 6 financial reports (generation and supply accounts)	Q3
Local Grids	Consultation on the DNO proposals for the common charging methodology for EHV customers	Q3
Local Grids	Consultation on gas distribution licence review	Q3
Energy Economics	Publish quarterly wholesale/retail price report	Q4
European Strategy	Decide on transmission system operator certification under 3rd package	Q4
Consumer Affairs	Probe follow-up: vulnerable customer switching	Q4
Consumer Affairs	Review of consumer protection issues in context of potential licence changes for smart metering	Q4
Local Grids	Gas and electricity distribution annual cost report	Q4
Local Grids	Initial consultation on the review of Relative Price Control arrangements for iDNO and iGTs	Q4

Theme 4 – Ensuring the timely and efficient delivery of Government programmes for a sustainable energy sector

Activity	Action	Period
Environmental Programmes	Feed-in Tariffs scheme launched	Q1
Environmental Programmes	Publish annual report on the Community Energy Saving Programme	Q1
Offshore transmission	Announcement of Preferred Bidders for Transitional Round 1 projects	Q1
Offshore transmission	Appointment of Preferred Bidders for Transitional Round 1 projects	Q2
Offshore Transmission	Commencement of second offshore transmission tender round	Q2
Environmental Programmes	Publish annual report on the Carbon Emissions Reduction Target	Q2
Smart meters	Publish, with DECC, smart meters scoping document (Phase 1 of the programme)	Q2
Environmental Programmes	First Feed In Tariffs levelisation process completed	Q3
Finance	Set the Fossil Fuel Levy Rate for 2011-2012	Q3
Carbon capture and storage	Publish guidance on CCS levy	Q4
Renewable Heat Incentive	Publish guidance on the RHI application	Q4
Environmental Programmes	Publish annual report on Renewables Obligation	Q4

Proposed 2010–11 Corporate Performance indicators

Ofgem performance indicators

Activity	Measure	Target	Timing
Trading Arrangements	Consult on and carry out consultations about applications made for exemption from Third Party Access arrangements under Article 22 by prospective storage and interconnector operators	100%	
Trading Arrangements	Submit decisions on Article 22 exemptions to the European Commission within the prescribed timescales if adequate information has been provided	100%	
Trading Arrangements	Assess and make decisions in relation to any Income Adjusting Event within three months of it being raised if adequate information has been provided	100%	
Consumer Affairs	Respond substantively to customer contacts	93%	10 working days
Consumer Affairs	Respond to complaints on enforcement matters confirming whether we will investigate	90%	4 weeks
Licensing & Industry Codes	70% of industry codes decisions made with 25 working days	70%	Annual
Licensing & Industry Codes	Grant competitive licence applications within 45 working day of receipt	100%	Annual

Ofgem E-Serve performance indicators

Activity	Measure	Target	Timing
Feed In Tariff	Levelisation process to be completely in a timely manner after receipt of data from suppliers	100%	Within 10 working days
Environmental Programmes	Respond to suppliers who have submitted CESP schemes for approval	100%	Within 10 days of submission deadline
Environmental Programmes	Respond to suppliers who have submitted CERT schemes for approval	100%	Within 10 days of submission deadline
Environmental Programmes	Follow up with generators outstanding issues in their applications for accreditation	100%	Within 10 working days
Environmental Programmes	Recycle the Renewables Obligation buy out funds	100%	Within one month
Environmental Programmes	Complete reconciliation of CHP Levy Exemption Certificates after receipt of	100%	Within 20 working

	accurate data from DEFRA		days
Finance & Risk Management	Pay undisputed bills	98%	10 days
Research and Information Centre	Respond to inquiries under the Freedom of Information Act	90%	Within 20 days of receipt

Appendix 2 – Budgets and Spend

Existing RPI-3 cost control regime

1.1. 2009-10 is the last year of Ofgem's existing cost control regime. The expectation is that for the fifth and final year of the regime we will again exceed our RPI-3% target. In addition to the expected £5.3 million savings from the regime, additional savings of £2.9 million (2005-06); £0.6 million (2006-07); £0.9 million (2007-08); £0.8 (2008-09) and an estimated £2.0 million (2009-10) have been achieved in our operating costs.

Funding

1.2. Ofgem's budget is funded by fees collected from licensed energy companies. Ofgem E-Serve's costs are met from a variety of sources, predominantly direct from DECC's budget which, for example, will fund the smart metering work and work to develop administration of the new environmental programmes to support Feed-in Tariffs and the Renewable Heat Incentive. Other sources of funding for Ofgem E-Serve's work include the offshore wind programme, DEFRA's contribution to running our headquarters building and funding direct from the environmental programmes that it administers on Government's behalf.

New cost control regime

1.3. The Authority has determined that Ofgem should be subjected to a further 5 year cost control regime running from 2010-11 to 2014-15. The Authority has also determined that the regime should continue on the basis of RPI-3% with a maximum year-end carryover of £5 million. We anticipate savings of £11.8 million.

1.4. Given the advent of Ofgem E-Serve and the increasing number of environmental projects that Ofgem is being asked by Government to administer, the Authority has determined that these costs should also be subjected to the efficiency regime. This means that, in future, all Ofgem's additional costs will be covered by the cost control.

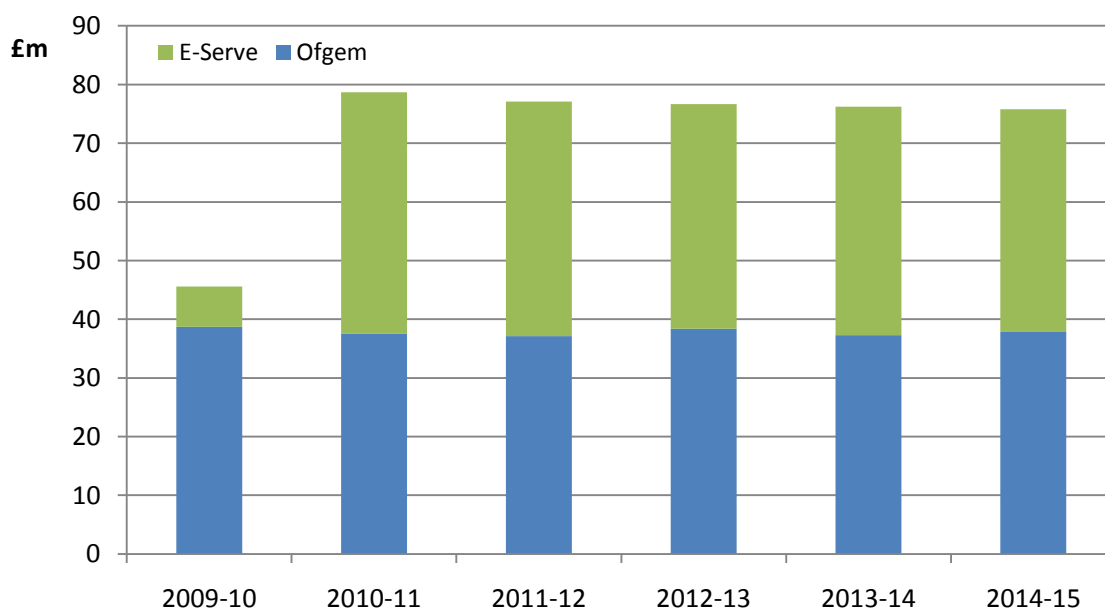
Five year plan

1.5. Ofgem's gross costs for the next five year period are estimated to be:

£m	2009-10* (Corp Plan)	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15
Transmission & Governance	£7.7	£7.8	£7.6	£7.4	£6.8	£6.9
Markets	£13.1	£13.4	£13.2	£13.7	£13.8	£14.0
Local Grids	£11.1	£8.4	£8.2	£9.1	£8.2	£8.3
Sustainable Development	£6.8	£6.5	£6.5	£6.6	£6.9	£7.0
Scotland, Wales & the Regions	£0	£1.4	£1.7	£1.6	£1.6	£1.6
OFGEM	£38.7	£37.5	£37.2	£38.4	£37.3	£37.8
OFGEM E-SERVE						
Administration of environmental programmes	£6.9	£41.2	£39.9	£38.3	£38.9	£38.0
GROSS TOTAL	£45.6*	£78.7	£77.1	£76.7	£76.2	£75.8

*2009/10 has been restated as a gross budget, including the costs to deliver environmental programmes, to provide a like-for-like position.

1.6. Ofgem's 2010-11 gross budget of £78.7 million is significantly higher than 2009-10. This is because Ofgem E-Serve has taken responsibility for additional projects to deliver a number of new Government programmes. These include the introduction of smart meters, the renewable heat incentive and feed-in tariffs for microgeneration. Scheme administration costs consequently increase from £6.9 million in 2009-10 to £41.2 million in 2010-11 and will primarily be funded from DECC or the environmental programmes themselves.

Figure 1: Ofgem's expenditure

1.7. The Ofgem E-Serve projected spend relates only to those programmes that we have already been asked to deliver. It is likely that there will be further programmes that we will be asked to deliver in future years covered by this plan.

Figure 2: Ofgem's RPI-3% Calculation

£m	2010-11	2011-12	2012-13	2013-14	2014-15
Total Cost	£81.5	£78.7	£77.1	£76.7	£76.2
RPI	(£0.4)	£0.8	£1.9	£1.9	£1.9
Baseline +RPI	£81.1	£79.5	£79.0	£78.6	£78.1
Less X (3%)	(£2.4)	(£2.4)	(£2.3)	(£2.4)	(£2.3)
Budget Ceiling	£78.7	£77.1	£76.7	£76.2	£75.8

Appendix 3: Draft Simplification Plan 2010-11

1.1. Ofgem is committed to the principles of better regulation and we are continually seeking to improve our efficiency and effectiveness. As a part of this, and in response to the Government's drive to reduce regulatory burdens while ensuring consumer protection, we published our first Simplification Plan in March 2006. Our new business unit, Ofgem E-Serve, is equally committed to the better regulation agenda and will seek to administer environmental programmes in a flexible and responsive manner.

1.2. We set out below a draft Simplification Plan outlining the better regulation activities that Ofgem and Ofgem E-Serve propose to undertake in 2010-11. Consistent with the Authority's duty under the Regulatory Enforcement and Sanctions Act 2008, we have considered whether there are any regulations that impose burdens that could, in the context of our duties generally, be considered unnecessary.

1.3. We would welcome views on whether the activities that we have identified are appropriate and would be likely to reduce or remove unnecessary burdens. We would also welcome views on whether there are other activities that we should undertake during the next financial year. We will consider any suggestion carefully and publish a finalised version of the Simplification Plan in March. We will subsequently set out the progress that make on these projects in our Annual Report.

Ofgem process initiatives

Initiative	Outcome	Current status
Ofgem's new RPI-3 per cent cost control for 2010-15 Commits Ofgem to save at least £11 million in 5 years.	The previous internal cost control stimulated greater internal efficiency and licensees benefited from reduced fees. We expect that the new cost control will continue to deliver efficiencies and a strong cost control discipline.	We are approaching the end of the existing cost control period. In each of the first four years of the control we beat our cost reduction target. We returned an extra £5.2 million of savings to licence fee payers in 2006-09.

<p>Codes governance review</p> <p>The review has been considering whether existing code governance regime can be improved, for example by introducing:</p> <ul style="list-style-type: none"> ▪ a framework enabling Ofgem to lead major policy reform via the codes; and ▪ self-governance where code modification proposals have little impact on consumers, competition or our other statutory duties. 	<ul style="list-style-type: none"> ▪ A reformed governance regime should: ▪ deliver change resulting in a proportionate regulatory burden; ▪ promote inclusive, accessible and effective consultation; ▪ be transparent and easily understood; ▪ be administered in an independent and objective fashion; ▪ provide rigorous and high quality analysis of proposed changes; ▪ be cost-effective; and ▪ be sufficiently flexible that it will always allow for efficient change management. 	<p>We set out the scope of the review in June 2008 and consulted on initial proposals in July 2009.</p> <p>We will shortly publish final proposals. Subject to responses, we expect to launch statutory 28-day consultations on licence modifications in Q1 of 2010-11.</p>
<p><i>Consumer First</i> project to improve our understanding of the priorities of domestic consumers, for example on sustainability issues</p>	<p>Improved decision-making that takes proper account of consumers' views. We will publish research and other data to facilitate debate.</p>	<p>Consumer First will continue to play a key role embedding consumer insight into a range of Ofgem projects. The Consumer Panel will contribute views on a range of issues including Discovery, network quality of service and fuel mix disclosure.</p>

Ofgem policy initiatives

Initiative	Outcome	Current status
<p>Probe follow-up work</p>	<p>Better informed switching decisions by consumers</p>	<p>We will monitor the impact of the new licence conditions on price discrimination</p>
<p><i>RPI-X@20</i> review</p> <p>This is a root and branch review of the future of energy network regulation. As part of it, we will, as far as practicable, seek to develop a framework that is transparent, streamlined, and</p>	<p>The review team will report to the Authority in the summer of 2010. We will subsequently consult on the recommendations.</p> <p>The eventual conclusions will inform our approach to new price control reviews after 2010.</p>	<p>We will shortly publish an <i>RPI-X@20</i> paper setting out ideas on what a simplified regulatory framework might look like. This will present some initial ideas on issues and options that we will consider as we develop the detail of the future regulatory framework for</p>

accessible to stakeholders		our final recommendations
Distribution licence reviews	<p>Ensure that the licences remain fit for purpose and that they do not impose unnecessary burdens on licensees.</p> <p>Simplify the text to make them more accessible to those using them.</p>	The revised electricity distribution licence that we published in May 2008 improved the style, format and ease of use of the licences. Noting stakeholders' views about the desirability of doing so promptly, we will take forward a review of gas distribution licences.
Gas transmission licence review	Consider the scope for simplifying the licence held by National Grid Gas	There may be scope to simplify this comparatively complex licence

Ofgem E-Serve initiatives

Initiative	Outcome	Current status
Modifications to existing environmental programmes including Renewables Obligation and Carbon Emissions Reduction Target schemes	More effective application and efficient administration. Effective use of business process design techniques and compliance powers	Process reviews and changes under way to take account of revised Government requirements
<i>Introduction of new environmental programmes including Feed-in Tariffs, Renewable Heat Incentive and Carbon Capture and Storage</i>	Effective and efficient administration using experience and facilities for existing programmes. Effective use of business process design techniques and compliance powers	Process reviews and changes under way to take account of new Government requirements
Smart meters – design of regulatory regime	Develop a regime that is fit for purpose, recognising effective processes and especially consumer requirements	Scoping exercise underway, liaising with stakeholders
Offshore transmission – implementation and further development of regime	Less onerous regulatory burden at start and during life of projects	First tenders underway. Preparations for second tender round and enduring regime have started

Appendix 4 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

Question box

Question 1 : Are the proposed themes suitable?

Question 2 : Have we identified all the relevant issues within each theme?

Question 3 : Is Ofgem's approach to the challenges ahead the right one?

Question 4 : Should Ofgem include any other activities in its Simplification Plan?

Question 5 : Should we review any other aspects of our regulation to ensure that our approach is proportionate to the risk posed to consumers by non-compliance?

Question 6 : Are there any areas of regulation that constitute an unnecessary burden that should be removed?

1.2. Responses should be received by 26 February 2010 and should be sent to:

Andy MacFaul
Head of Better Regulation
Ofgem
9 Millbank
London SW1P 3GE

Email: andrew.macfaul@ofgem.gov.uk

1.3. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.5. Having considered the responses to this consultation, the Authority will publish its Corporate Strategy and Plan by the end of March 2010. Any questions on this document should, in the first instance, be directed to Andy MacFaul using the contact details set out above or by phoning him on 020 7901 7083.

Appendix 5 – The Authority’s Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute (such as the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Acts of 2004 and 2008) as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.¹

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly².

1.4. The Authority’s principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of existing and future consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- the need to secure that all reasonable demands for electricity are met;
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them³;
- the need to contribute to the achievement of sustainable development; and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.⁴

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

¹ Entitled “Gas Supply” and “Electricity Supply” respectively.

² However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

³ Under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

⁴ The Authority may have regard to other descriptions of consumers.

- promote efficiency and economy on the part of those licensed⁵ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity; and
- secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation⁶ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

⁵ Or persons authorised by exemptions to carry on any activity.

⁶ Council Regulation (EC) 1/2003.

Appendix 6 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

- Does the report adequately reflect your views? If not, why not?
- Does the report offer a clear explanation as to why not all the views offered had been taken forward?
- Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk