

Corporate Strategy and Plan 2010-2015

Document Type: Decision Document

Ref: 46/10

Date of Publication: 31 March 2010

Target Audience: All stakeholders

Overview:

This 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.

In the next few weeks there will be a General Election and the formation of a new Government. We will review our strategy later this year in the light of the new Government's priorities.

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Context

Each year Ofgem consults on and publishes its Corporate Strategy and Plan. This Strategy takes account of responses received to the open letter we published in July 2009 and to our consultation on the Proposed Corporate Strategy published in January 2010. Responses to the consultation indicated substantial support for the four priority themes identified. The forthcoming General Election will lead to the formation of a new Government. We will review this strategy later this year in the light of the new Government's emerging priorities for energy.

Associated Documents

Proposed Corporate Strategy and Plan 2010-2015, January 2010 (Ref: 3/10)
<http://www.ofgem.gov.uk/About%20us/CorpPlan/Documents1/Proposed%20Corporate%20Strategy%202010%20to%202015.pdf>

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

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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 the price of gas and electricity remaining a key concern for consumers we will do all we can to promote competition and 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 taking an increasing role in administering, at the request of the Government, key programmes designed by the Government as 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 Government environmental projects and schemes such as the provision of an effective offshore transmission regime and the roll-out of smart meters across Britain. This plan reflects the expected costs required to deliver these programmes. Ofgem E-Serve will refine and develop its approach, systems, processes and organisation and the way it works with third parties, to ensure that arrangements continue to provide the most cost-effective, robust and responsive use of taxpayer and consumer money in the delivery of Government programmes.

Over the coming years the general focus of the whole organisation will be on four vital areas in support of our over-arching 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 (EU) and national level. Britain is committed to an ambitious timetable for carbon reduction and for the amount of energy to be generated from renewable sources. Britain needs to replace its existing fleet of ageing nuclear power stations and the coal- and oil-fired generation that will close to meet important environmental objectives enshrined in EU and UK legislation. The scale of the transformation is great and it needs to happen speedily if Britain is to meet these objectives.

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. In February we published a consultation document setting out our concerns about the ability of the current arrangements to maintain secure supplies. We put forward a wide range of possible policy measures and remain keen to work with consumers, industry and government to find the best way forward. Prompt action is needed to reduce the risk to energy supplies and to our environmental objectives.

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 and post-Copenhagen, including the European Union's Emissions Trading Scheme and other "cap and trade" schemes elsewhere in the world.

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 the impact of wholesale energy prices reflecting global supply and demand, will have a significant effect 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, as it has done in Project Discovery, 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 (ACER), 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 are grateful to those who have expressed views on, and thereby contributed to, the formulation of this Corporate Strategy, which we are statutorily required to publish at this time. The Strategy sets out the direction for our work over the next five years under our four themes, the resources required to deliver it and the specific initiatives that we will take forward in the first year of the plan. However, we recognise that after the General Election and the formation of a new Government, we will need to review the strategy in the light of the new Government's emerging priorities for energy.

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 smarter 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 accept power from customers generating their own electricity when it exceeds their own needs. Electricity 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 low carbon fund of up to £500 million for trials and projects that will help the industry to understand what arrangements they need to support the move to a low carbon economy. These trials should inform the companies' business plans for the next price control period and we would expect them to pave the way for the introduction of smart grids and other new technology as well as innovation in commercial and network operations.

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 recommendations later this year with a view to clarifying policy in relation to future network price controls. 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.

1.10. Ofgem will work with the Department of Energy and Climate Change (DECC) and industry to deliver the Government's mandate thereby helping to reduce both household energy costs and carbon emissions. We will also pursue the reform of industry codes governance arrangements to facilitate significant code reforms that contribute to low carbon and security of supply objectives while introducing a measure of industry self-governance for minor changes to the codes.

1.11. 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

1.12. 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.

1.13. 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 continue to monitor suppliers' behaviour closely to be sure that the remedies do enable energy consumers to engage more confidently and effectively with the market. If, at any time, we feel that the new arrangements are insufficient to protect consumers, we will not hesitate to consider further action.

1.14. 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 energy market 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. We hope that current market initiatives, notably those on the power exchanges, will deliver improved liquidity but as with the retail market we will not hesitate to consider further action if necessary.

1.15. 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. We will also seek to ensure that the costs of moving to a low carbon energy sector are not borne disproportionately by those consumers least able to pay.

1.16. 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 is 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 of increasingly pressing importance as rising

wholesale prices and the need to meet investment costs have their impact on domestic fuel bills.

1.17. Smart metering presents new opportunities and choices for consumers, as well as potentially eroding cost differentials between prepayment meter and other payment types. However, it also raises 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.

1.18. We will monitor and report on performance against newly introduced standards on connections performance, network reliability, output measures relating to network investment and rewards based on network customer satisfaction. We will not hesitate to consider further action if necessary. More generally, Ofgem will continue to press companies to deal with consumers fairly and respond to complaints quickly, courteously and effectively. Through our new Consumer and Demand Side Insight team, our ongoing Consumer First programme and work with consumer groups, we will continue to strengthen our understanding of consumer priorities and concerns, for example in relation to sustainable development. A key area of work will be to encourage greater consumer engagement.

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 some of these schemes. Our remit is expected to grow sharply during the coming years, with a step change in 2010-11 as we take on responsibility for smart metering, feed-in tariffs and the development of the renewable heat incentive. Ofgem E-Serve already runs the £15 billion offshore transmission tendering regime and administers environmental programmes and services worth some £3billion per annum at a cost that is less than 1% of the scheme values. The value of the schemes 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 to help develop processes to implement, and subsequently to operate, the policies, regulatory regimes and schemes set by Government. 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. Ofgem E-Serve will review and develop its approach and infrastructure for delivering these schemes. We will identify the most robust, consumer-focused, responsive and cost-effective systems, processes and resources (both internal and third party) to minimise administrative costs and burdens.

1.21. The formation of Ofgem E-Serve as a separate business unit is designed to ensure that the necessary differences in operating style between regulatory and delivery activities can be achieved and that distinct activities do not detract from one another whilst securing efficiencies from sharing of systems, data and back office facilities.

1.22. Ofgem E-Serve will 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 - What we will do in the first year

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 Third Package of energy legislation and contribute to the establishment of ACER. At the same time we will consider the effective implementation of the changes to Ofgem's principal objective, duties and powers that are contained in the Energy Bill now passing through Parliament. We will also have regard to the revised statutory Social and Environmental Guidance that took effect in January.

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 embed changes further to our internal sustainable development review. This includes restructuring the sustainable development division to develop further expertise in environmental and social policy analysis, and consumer and demand side insight. We will also develop our approach to engagement with experts and interest groups concerned with sustainable development.

2.5. 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 RPI-X@20 review in subsequent price control reviews.

2.6. To help inform our policy thinking we will develop a new research facility in our markets division to build our understanding of carbon capture and storage, new renewable and new nuclear build. Our new Directorate for Scotland, Wales and the Regions to strengthen our links with stakeholders in the devolved nations. We plan 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 and performance indicators that we intend to meet;
- the budget we believe will be necessary to carry out the activities in the plan;
- Ofgem's revised internal cost control; and
- our latest Simplification Plan, which lists the main projects that we intend to undertake in support of the better regulation agenda.

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 with the costs not being borne disproportionately by those least able to pay.

3.3. In 2010-11 we intend 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 appropriately reward distributed generation and demand side management where it reduces costs on the networks;
- establishing governance arrangements and administering the new Low Carbon Networks Fund. This work will include identifying any work we need to do (for example on smart grids) to create a regulatory framework that encourages the distributors to play a full role in tackling climate change;
- implementing other environmental measures introduced as part of the electricity distribution price control, such as the requirement on distribution businesses to report on their business carbon footprint, provide guaranteed connection services to distributed generators and provide the information that investors in distributed generation need about the network; and
- 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 energy efficiency and carbon reduction goals identified by Government's in its programme to rollout domestic smart meters by 2020;

- 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; and
- helping consumers engage and make informed choices through the implementation of the new green tariff certification scheme.

Governance and enforcement

- introducing changes to industry codes governance that will facilitate significant code reforms to help contribute to low carbon priorities while introducing industry self-governance for minor code changes.

Influencing and reporting

- contributing to debates on climate change, sustainability and energy policy at European and international levels, for example via relevant workstreams under the auspices of the European Regulators' Group - Gas and Electricity (ERGEG), its successor ACER and the newly formed International Confederation of Energy Regulators (ICER);
- developing the role and structure of Ofgem's Sustainable Development report;
- drawing on our energy sector expertise and duties to existing and future consumers, contribute to Government's development of measures to promote renewables and carbon reduction, for example the design of the Renewable Heat Incentive and energy efficiency obligation that will succeed CERT;
- producing discussion papers to help shape policy thinking including on the development of demand side response and on renewable financial incentives; and
- reporting on the electricity distribution companies' performance against new environmental measures, including the projects awarded funding in the first year of the Low Carbon Network Fund.

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 intend 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 have failed to carry out their activities efficiently;
- developing a package of enduring system operator incentives;
- developing further 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; and
- 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; and
- 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; and

- reporting annually on the expenditure of network companies against price control allowances and on performance against agreed outputs, incentives and performance standards where appropriate.

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. In 2010-11 we intend to drive forward these aspects of the consumer interest 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 and gas distribution 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; and
- continuing to encourage competition in network connections and ensure that arrangements relating to IDNOs and IGTs work in consumers' interests.

Energy markets

- reviewing the implications of Project Discovery for different types of consumers, including the relative affordability of the policy options for those consumers;
- monitoring retail markets at an enhanced level to identify progress since the 2008-9 energy supply Probe (including monitoring the non-domestic market), and where necessary considering further action, including enforcement action, to protect consumers' interests;
- 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 consumer protection, for example by defining requirements in relation to data security, the protection of personal information, the use of remote disconnection and other consumer priorities such as the potential to reduce prepayment meter cost differentials relative to other payment types;

responding to industry initiatives and considering whether further action is required regarding theft of energy.

Monitoring, transparency and enforcement

- publishing quarterly energy supply market reports to provide greater transparency about the operation of the energy supply market;
- ensuring that the Big Six publish reports on the financial performance of their generation and supply businesses;
- reviewing the obligations on energy suppliers to notify customers of price changes;
- 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 and are in place for the gas distribution price control;
- 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; and
- 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 following the energy supply probe;
- implementing recommendations from the debt and disconnection reviews;
- continuing to monitor and report on supplier progress and practices in managing household consumer debt, encouraging best practice and using enforcement powers when necessary; and
- 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);
- continue to provide highly efficient and effective operational support processes to Ofgem and other regulators; and
- review and develop our approach and infrastructure for delivering environmental programmes and functional corporate services in demonstrably the most robust, responsive and cost-effective fashion.

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Appendix 1 - Deliverables and Performance Indicators

Corporate Deliverables 2010–2011

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

Activity	Action	Period
European Strategy	Publish the Council of European Energy Regulators' conclusions on the integration of wind generation	Q2
Transmission	Agree funding for further transmission investments	Q2
Transmission	Publish decision on the disposal of assets to facilitate the transportation of CO2 for Carbon Capture and Storage	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	Host 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	Host Winter outlook seminar	Q3
Energy Economics	Publish 2010 Energy Markets Outlook report	Q4
Transmission	Decision on gas exit substitution methodology	Q4
Local Grids	Publish gas and electricity distribution cost reports for 2008-09 and 2009-10	Q4

Theme 3 – Promoting choice and value and protecting vulnerable consumers

Activity	Action	Period
Consumers & demand side insight	Publish research on complaint handling	Q1
Retail markets	Publish consultation on the current obligations on suppliers to notify price changes	Q1
Retail Markets	Publish consultation on (non-smart) metering issues	Q1
European Strategy	Approve access rules for Britned	Q1
Sustainable development	Publish review of Energy Ombudsman arrangements	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	Consult on licence modifications to implement the conclusions of the Code Governance Review	Q1
Retail Markets	Publish final report on (non-smart) metering issues	Q2
European Strategy	Submit National Report to European Commission	Q2

Transmission/Gas distribution/RPI-X@20	Consultation on the implications of RPI-X@20 for the next transmission price control review	Q2
RPI-X@20	Consultation on conclusions and recommendations from the RPI-X@20 review	Q2
RPI-X@20	Publish conclusions on our approach to mergers between energy network companies	Q2
RPI-X@20	Publish consultation on Olympics issues	Q2
Industry Codes and Licensing	Consult on potential Significant Code Review initiatives (if agreed by the Authority)	Q2
Local Grids	Consultation on the DNO proposals for the common charging methodology for EHV customers	Q3
Local Grids	Publish initial consultation on gas distribution licence review	Q4
European Strategy	Decide on transmission system operator certification under 3rd package	Q4
Sustainable development	Probe follow-up: vulnerable customer switching	Q4
Consumers & demand side insight	Review of consumer protection issues in context of potential licence changes for smart metering	Q4
Local Grids	Publish initial consultation on the regulatory arrangements for IDNOs and IGTs	Q4
Energy Economics	Publish energy supply markets report	Quarterly

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	Q2
Finance & Risk Management	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

Corporate Performance Indicators 2010–11

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%	
Consumers & demand side insight	Protect consumers by responding substantively to customer contacts	93%	10 working days
Enforcement	Respond to complaints on enforcement matters confirming whether we will investigate	90%	4 weeks
Industry Codes and Licensing	70% of industry codes decisions made with 25 working days	70%	Annual
Industry Codes and Licensing	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 completed in a timely manner after receipt of data from suppliers	100%	Within 20 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	Complete reconciliation of CHP Levy Exemption Certificates after receipt of accurate data from DEFRA	100%	Within 20 working days
Environmental Programmes	Recycle the Renewables Obligation buy out funds	100%	Within one month
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 was the last year of Ofgem's cost control regime. The expectation is that for the fifth and final year of the regime we will have exceeded 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 and funding direct from the other environmental programmes that it administers on Government's behalf. Ofgem E-Serve also receives a contribution from DEFRA to cover DEFRA's share of the costs of running the headquarters building shared by Ofgem and DEFRA.

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 £12.5 million resulting from this regime.

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:

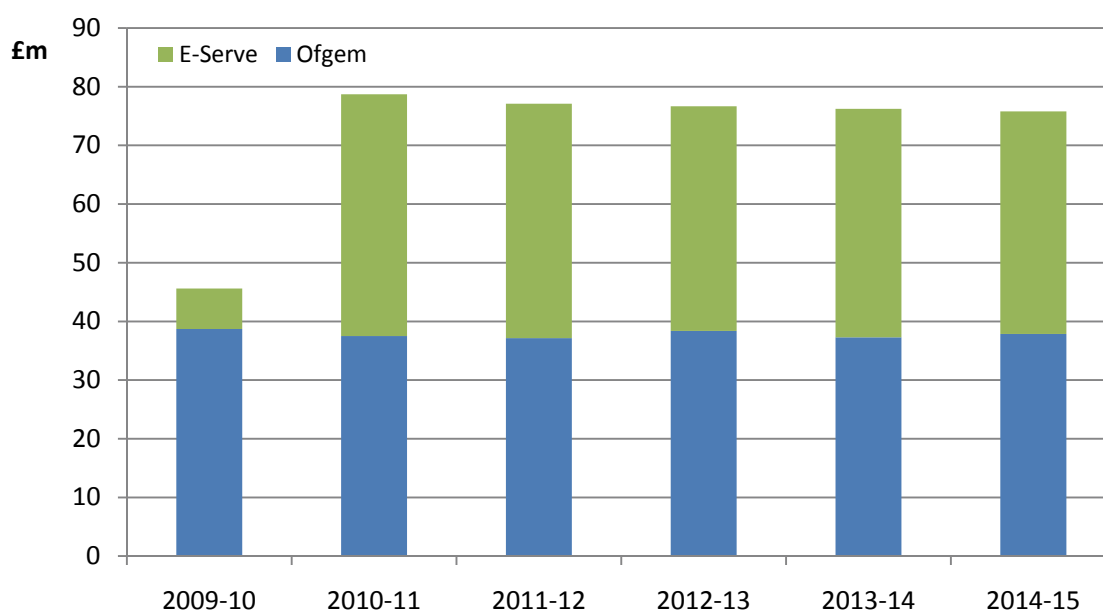
£m	2009-10* (Corp Plan)	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15
Transmission & Governance	£7.7	£7.8	£7.6	£7.4	£6.8	£6.9
Markets	£13.1	£13.4	£13.2	£13.7	£13.8	£14.0
Local Grids	£11.1	£8.4	£8.2	£9.1	£8.2	£8.3
Sustainable Development	£6.8	£6.5	£6.5	£6.6	£6.9	£7.0
Scotland, Wales & the Regions	£0	£1.4	£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, at the request of the Government, Ofgem E-Serve has taken responsibility for additional projects to deliver a number of new programmes designed by the Government as elements of Britain's shift to a low carbon economy. These include the administration of the offshore transmission regulatory regime, the introduction of smart meters, the renewable heat incentive and feed-in tariffs for microgeneration.

1.7. 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. The figure of £41.2 million represents our best estimate of the costs likely to be incurred in administering these programmes on behalf of the Government.

Figure 1: Ofgem's expenditure



1.8. The Ofgem E-Serve projected spend relates to Government environmental programmes that we have been asked to deliver. It is possible that there may be changes to the programmes that we will be asked to deliver in future years covered by this plan.

Figure 2: Ofgem's RPI-3% Calculation

£m Rate Applied	2010-11 2.4%	2011-12 2.5%	2012-13 2.5%	2013-14 2.5%	2014-15 2.5%
Baseline	£81.5	£81.0	£80.5	£80.1	£79.6
RPI	£2.0	£2.0	£2.1	£2.0	£2.0
Baseline +RPI	£83.5	£83.0	£82.6	£82.1	£81.6
Less X (3%)	(£2.5)	(£2.5)	(£2.5)	(£2.5)	(£2.5)
Budget Ceiling	£81.0	£80.5	£80.1	£79.6	£79.1

1.9. RPI was projected in December 2009 as 2.4% for 2010-11. For the years 2011-12 onwards the rate has been estimated at 2.5% and will be adjusted to the prevailing rate.

Appendix 3 - 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 our Simplification Plan outlining the better regulation activities that Ofgem and Ofgem E-Serve intend 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. We have carefully considered the comments that we received in response to our consultation in January 2010. We will set out the progress that make on these projects in our Annual Report later this year.

Ofgem process initiatives

Initiative	Outcome	Current status
Ofgem's new RPI-3% cost control for 2010-15 Commits Ofgem to save at least £12.5 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.
<i>Consumer First</i> project to improve our understanding of the priorities of domestic consumers, for example on sustainability issues	Improved decision-making that takes proper account of consumers' views. We will publish research and other data to facilitate debate.	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>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. 	<p>A reformed governance regime should:</p> <ul style="list-style-type: none"> ▪ 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 have now published final proposals. Subject to responses to our draft licence modifications necessary to implement our final proposals, we expect to launch statutory 28-day consultations on licence modifications in Q1 of 2010-11.</p>
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Ofgem policy initiatives

Initiative	Outcome	Current status
Probe follow-up work	Better informed switching decisions by consumers	We will monitor the impact of the licence conditions on price discrimination. If, at any time, we feel that the arrangements are insufficient to protect consumers, we will not hesitate to consider further action.
<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 accessible to stakeholders</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. As part of this we will consider the processes in place for collecting, analysing and reporting on data relating to network performance and compliance with price control arrangements</p>	<p>In January we published a consultation document on our emerging thinking for a new regulatory framework. We held a stakeholder workshop in March to discuss our ideas. After considering responses to the consultation we will develop the detail of the future regulatory framework for our final recommendations to the Authority</p>

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
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.

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
Introduction of new environmental programmes including Feed-in Tariffs, Renewable Heat Incentive and Carbon Capture and Storage will build on our existing expertise	Effective and efficient administration using experience, facilities and teams 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 - 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 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.

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- 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 these functions 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.

Energy Bill 2010

1.9. Ofgem currently has a principal objective to protect the interests of existing and future consumers. Wherever appropriate, we must fulfil that principal objective by promoting effective competition. However, Parliament is proposing, through the Energy Bill, to make changes to our principal objective. The proposed changes would make it clear that reducing greenhouse gas emissions to mitigate climate change and ensuring secure energy supplies are in the interests of existing and future consumers and should be considered as such by Ofgem when we carry out our functions. The Bill also proposes to make clear that, where competitive solutions would take time to deliver, we should consider using alternative types of solution to address consumer detriments instead of, or alongside, measures to promote competition.

1.10. At the time of publishing this Strategy the Energy Bill had not received Royal Assent. The Bill provides that the changes to our duties would take effect two months after the granting of Royal Assent.

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

⁶ Council Regulation (EC) 1/2003.

Appendix 5 - Consultation Questions

1.1. In the consultation on the Proposed Corporate Strategy and Plan 2010-2015 we sought the views of respondents on the following questions:

- Are the proposed themes suitable?
- Have we identified all the relevant issues within each theme?
- Is Ofgem's approach to the challenges ahead the right one?
- Should Ofgem include any other activities in its Simplification Plan?
- 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?
- Are there any areas of regulation that constitute an unnecessary burden that should be removed?

List of Respondents

List	Name
1	AlertMe
2	Campaign for National Parks
3	CE Electric
4	Consumer Focus
5	Nigel Cornwall
6	EDF Energy
7	Electricity North West
8	Elexon
9	E. ON UK
10	Energy Retail Association
11	Gas Forum
12	Institution of Engineering and Technology
13	National Grid
14	Northern Gas Networks
15	RWE

Summary of Responses

1.2. We received 15 responses to the consultation on our proposed strategy. These have been published at www.ofgem.gov.uk and are also available from our library. The responses are summarised below according to our new corporate themes.

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

1.3. As in previous years, responses highlighted the great challenge of facilitating a low carbon electricity system and new sources of gas supply while maintaining secure supplies. Most respondents welcomed our new corporate themes as an indication that we appreciate the extent of the challenge, though one respondent felt we should be clearer about the scale of new technology required and the speed with which it would need to be deployed to meet the UK's environmental obligations.

1.4. Many respondents stated that regulatory stability and predictability was vital, especially on network charging and access, to encourage the massive investment needed. Respondents noted the need for RPI-X@20 to bring clarity to future policy in relation to network price controls and that they should allow network operators to respond flexibly to changing patterns of supply and demand. Respondents agreed that Discovery was a serious exercise and that Ofgem should have an important role in this area, especially in seeking to ensure that costs to consumers were reasonable. Several respondents said that Ofgem should work closely with others such as DECC, the Climate Change Committee and the Energy Networks Strategy Group. One respondent also noted that any significant code reviews that we conduct should have outcomes that are consistent with Government policy.

Ofgem's position

1.5. We confirm that the new corporate themes will form the basis of our strategy for 2010-2015. This will be a period during which Ofgem will seek, within our remit, to reform regulatory arrangements in ways that will facilitate the decarbonisation of the energy sector while maintaining secure supplies at reasonable cost to consumers. A key part of this will be advising the Government in relation to Project Discovery and implementing the conclusions of our RPI-X@20 review across future network price controls. We will work closely with stakeholders and seek to ensure that future arrangements are in the interests of existing and future consumers.

Promote consumer choice and value and protect vulnerable customers

1.6. There was a call for greater reassurance in our final strategy that we remained committed to competitive markets in relation to our oversight of domestic supply markets and the intended regulation of gas storage and interconnectors. Other respondents were wary of further market interventions. Two respondents were sceptical of our approach on wholesale market liquidity but agreed with Ofgem that industry initiatives should be given some time to work. Two respondents requested clear guidance on the market power licence condition. Those respondents were similarly keen that we allow time for our probe retail remedies to bed in. Consumer Focus was keen for us to build on our recent "more aggressive pro-consumer approach" and felt this theme might be seen as rather weak by relying largely on monitoring and reporting. Consumer Focus believes that we should review the undue discrimination licence condition after 18 months and in the meantime not rule out making a referral to the Competition Commission. Consumer Focus and the

Institution of Engineering Technology said we needed to focus on the security issues surrounding smart meters. Our work on securing pro-competitive outcomes at European level continues to draw support from all those who commented. Several respondents said we should demonstrate more clearly in the strategy that we were still committed to better regulation given the drive to tackle climate change and pressures to re-regulate supply markets. In terms of policy, there were calls for Ofgem to review the network regulatory reporting requirements and to remove its obligations in respect of meter supplier of last resort and purchasing shrinkage gas. On process, it was suggested that Ofgem should alter its approach to aspects of the consultation process by publishing fewer documents, adopting a standard timetable and increasing its face-to-face stakeholder contact.

Ofgem's position

1.7. Ofgem remains committed to competition where this is the best means of protecting the interests of consumers. We will, as set out in the Strategy, continue to take action where necessary to make the competitive energy market work effectively in the interests of all consumers. As noted above, we will not hesitate to consider further action if, at any time, we feel that the existing regulatory arrangements are insufficient to protect consumers. However, in both our stewardship of the competitive market and in our regulation of network monopolies we will remain guided by the principles of better regulation. As part of this, we will ensure that any regulatory burdens that we impose on companies as a result of our decisions (and any burdens on stakeholders arising for example from our consultation processes) are appropriate in the light of our broader statutory duties.

Ensure, via Ofgem E-Serve, the timely and efficient delivery of Government programmes for a sustainable energy sector

1.8. Several respondents (including Consumer Focus, EON and RWE) believed that Ofgem E-Serve should not necessarily manage all the forthcoming sustainable development schemes as that might not be the most efficient outcome. There was also scepticism about whether Ofgem E-Serve was fully geared up to run the schemes in a consumer-friendly manner. RWE expressed concern that Ofgem might lose its focus on its core regulatory activities. Nigel Cornwall suggested there might be a potential conflict of interest in Ofgem operating the schemes and enforcing compliance with them. He also argued that Ofgem should not design and operate the schemes and that in any case doing so from Ofgem's London offices might be too costly, especially given that other service providers existed. Two such organisations responded to the consultation offering their services.

Ofgem's position

1.9. As noted elsewhere in the Strategy, we will continue to refine our approach with a view to ensuring that the schemes and approach are managed in the most effective, robust and responsive way. It should be noted that Ofgem E-Serve's role is to help develop the processes to implement and operate effectively schemes that have been established and designed by the Government.

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 was 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?

1.2. Please send your comments to:

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