

## Proposed Corporate Strategy and Plan 2011-16

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### Overview:

This strategy and plan sets out how we propose to meet our principal objective to protect the interests of current and future consumers. We also set out our proposals for Ofgem E-Serve to deliver Government programmes.

We welcome the Government's decision to retain Ofgem as the regulator of the energy market in Britain. The Government is reviewing aspects of the electricity market and the delivery landscape. We will revisit our strategy later this year in the light of the Government's conclusions.

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## Context

Each year Ofgem is required to consult on and publish its corporate strategy and plan by the end of March. This proposed strategy and plan takes account of responses to the open letter we published last summer seeking views on the main issues and priorities for the next five years.

## Associated Documents

Corporate Strategy and Plan initial consultation letter, July 2010 (Ref: 101/10).  
<http://www.ofgem.gov.uk/About%20us/CorpPlan/Documents1/fiveyearstrategyletter.pdf>

**The Lord Mogg KCMG  
Chairman**



10 January 2011

## **Ofgem's Proposed Corporate Strategy and Plan 2011-16**

This consultation document is being issued at a time of profound change at both European Union and national level.

The Third Energy Liberalisation package will come into effect in March 2011 and will establish an Agency in Ljubljana and create greater powers and independence for national regulators. The outline of the European Commission's strategy for competitive, sustainable and secure energy for 2020 and beyond and a proposal for the EU's energy infrastructure needs have recently been issued for European Council and European Parliament discussion. The Commission will also publish policy papers on energy efficiency, security of supply, research and innovation and international cooperation in the coming months.

In Britain the Government is now consulting on its proposals for the reform of the electricity market and is reviewing Ofgem and its own energy and climate change delivery landscape, in which Ofgem's E Serve plays a prominent role. The Government is also reviewing the competition and consumer protection regulatory landscape. We very much welcome the Department of Energy and Climate Change's comments on 16 December that "Ofgem is an integral part of the energy landscape" but await the final definition of our role.

In spite of this turbulent context, our ongoing duty to consumers remains undiminished. Thus we continue to review Britain's gas and electricity retail markets and the liquidity of the country's wholesale electricity market to decide whether further changes are needed. Decisions in these areas are likely in the next few months, along with the first Significant Code Review on cash-out arrangements.

We are legally obliged by statute to publish our strategy by the end of March 2011. In doing so, we confidently expect to publish a revised corporate strategy later in the year. This will allow us to take account of the major developments we expect in the coming months. However, a strong theme of energy regulation has been the need to maintain continuity in our approach and we believe that future changes will not fundamentally affect the four policy areas below where Ofgem will protect the interests of consumers:

- contributing to the achievement of a **low carbon** energy sector
- helping to maintain the **security** of Britain's energy supplies
- promoting **quality and value** for all consumers
- ensuring the timely and efficient **delivery of Government programmes for a sustainable energy sector**.

We would welcome comments on these draft proposals by 21 February.

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

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## 1. Contributing to the achievement of a low carbon energy sector

1.1. EU and UK targets for curbing greenhouse gas emissions and increasing renewable power provide the overall policy direction for the energy sector. One of the Government's key goals is to reduce carbon emissions by at least 34% by 2020. Meeting that target will set the UK on the right path to meet the target of reducing greenhouse gas emissions by at least 80% by 2050. Ofgem will do everything that it can to promote a cost-effective switch to low carbon energy on a timescale consistent with these targets.

1.2. We will continue to use our regulatory expertise and knowledge of energy markets to help shape the efficient decarbonisation of Britain's energy industry. We will encourage the investment required to develop new, low carbon generation and upgraded transmission networks. This requires a stable regulatory framework and market rules that offer a reasonable rate of return for investors. Ofgem E-Serve administers and ensures compliance with several Government initiatives to encourage low carbon generation and energy efficiency.

1.3. Ofgem has already taken action that will help the sector cut emissions. The new RIIO model for network price regulation will strengthen the incentives for companies to connect lower carbon generation and hence curb carbon emissions. Eight-year price controls will give the companies greater scope for longer term planning and with real financial incentives in place we have every reason to expect that the companies will deliver on their agreed output targets. Around half the investment needed in transmission and distribution will be spent on connecting new offshore generation to the onshore network. Ofgem E-Serve is running competitive tenders for the right to own and run offshore transmission assets.

1.4. Reducing electricity consumption is an essential part of meeting Britain's contribution to a 20% reduction in EU energy consumption by 2020. Ofgem will continue to encourage demand-reduction measures and informed consumer participation in them. In particular, smart meters will give customers the information they need to take greater control of their energy usage. The Government is responsible for managing the subsequent policy and implementation phases of the smart meter programme and we will make sure that consumer interests are promoted and protected during and after the transition.

1.5. Ofgem welcomes the first steps that have been taken to reform the electricity market and will advise the Government as the detailed proposals are developed. We will also continue to work with Government on the detail of the Green Deal to ensure that consumers' interests are protected, including in the secondary legislation that will be needed to give effect to the Government's plans.

1.6. Finally, we will work with Government and others to consider the issues raised by the development of new markets, such as renewable heat, which potentially will have an important role in meeting Britain's renewable targets.

## What we will do in 2011-12

### Energy networks

- Roll out RIIO conclusions in the next transmission and gas distribution price control reviews.
- Transmission Operator incentives – assess and decide funding for major investment projects that will facilitate 2020 renewable targets.
- Transmission Investment for Renewable Generation (TIRG) - assess any requests for funding renewable projects within price control periods using the TIRG mechanism.
- Low Carbon Network Fund (LCNF) - decide on new electricity distribution projects to receive funding.
- Innovation incentives - develop proposals to extend LCNF principles to electricity transmission and gas distribution.
- TransmiT - conclude our review of transmission network charging arrangements.
- Offshore transmission - issue transmission licences for Round 1 companies, select preferred bidders for Round 2a licences and implement refinements to the existing enduring offshore transmission regime.
- Decide whether a part of National Grid's gas transmission network should be used for a Carbon Capture and Storage demonstration project.

### Energy markets

- Continue work to reform market processes to encourage new market entry and the development of new energy services for consumers.
- Work with Government and industry on the electricity market reform to encourage investment in low carbon generation.

## 2. Helping to maintain the security of Britain's energy supplies

2.1. Well functioning markets in continental Europe are vital to Britain's security of supply. In part that results from increasing dependence on gas imports from Europe and greater interconnection with continental European gas and electricity networks. It also stems from EU Regulations and Directives that increasingly set the framework for how we regulate British energy markets. Ofgem will continue to take a leading role in developing European regulatory policy to make sure that new legislation enhances security of supply in Britain.

2.2. The step change needed to move to a low carbon economy at a time of increasing dependence on energy imports will increase the challenge of maintaining security of supply. This will test both the strength of the regulated network and the efficiency of markets. For that reason we have been careful to ensure that many of the policies that we are taking forward to contribute to a lower carbon energy sector will also help maintain the security of Britain's energy supplies. The RIIO package, competitive offshore tenders, our proposals on transmission incentives and energy efficiency measures all fall into this category. Another example is our review of the charging and connection arrangements for gas and electricity transmission networks.

2.3. Project TransmiT will be delivered in a number of phases – the first looking to collect evidence and determine whether all or part of the charging regime should be modified. It will also aim to identify what changes can be made to facilitate timely connection of new (including low carbon) generation. Getting these arrangements right will promote carbon emissions reduction and also maintain secure supplies.

2.4. We will continue to build our capability in security of supply modelling to identify potential future developments and their impacts on the security of Britain's energy supplies. As part of this we will work with government, industry and the research community to identify the impact and risks around technological and market developments which will be important in shaping the energy landscape. We will also provide the Secretary of State with options for capacity measures to be used in the near term assessment of whether there is adequate electricity supply capacity. We will also conclude our work to improve electricity market liquidity in the spring of 2011 and will align it with the Government's wider electricity reform package.

2.5. Finally, the reforms that we have made to the industry code governance arrangements will enable us to take a more pro-active role where necessary to help achieve security of supply and low carbon objectives. These reforms introduced a new regulatory mechanism for making modifications to industry codes – the Significant Code Review (SCR) process. For example, as part of Project TransmiT, we will consider whether it is appropriate to use the SCR process to develop proposals for changing the transmission charging arrangements.

2.6. In early 2011 we will be launching an SCR on gas security of supply, which will examine the case for sharpening incentives on gas shippers to avoid an emergency,

as well as the potential case for enhanced obligations on suppliers and/or the System Operator. We will consult with industry, consumers and other stakeholders throughout the course of 2011, with the intention that any required changes to codes and/or licences are in place by winter 2011-12.

2.7. Following the release of the Government's White Paper in spring 2011, we expect to launch a further SCR looking at potential reforms to the electricity cash-out arrangements. This SCR will investigate the strength of imbalance (cashout) charges placed upon parties who do not balance their generation and supply needs to ensure they accurately reflect the costs of actions taken by the System Operator (SO) to balance the system. Sharper cashout prices can enhance security of supply by providing stronger commercial incentives for companies to manage their imbalance and by providing stronger forward investment signals to peaking plant.

## **What we will do in 2011-12**

### **Energy Networks**

- RIIO - develop range of output measures as part of the transmission and gas distribution price control reviews.
- Low Carbon Network Fund - decide on further innovative distribution projects to receive funding.
- European transmission - work to harmonise arrangements and facilitate cross-border trading.
- Dartford supply incident - conduct lessons learned review including the regulatory requirements on companies.
- Great Britain Security and Quality of Supply Standard - review and decide on proposals put forward by National Grid.

### **Energy markets**

- Continue to review our regulatory treatment of Third Party Access at gas storage and LNG facilities to promote future investment.
- Undertake a Significant Code Review on gas security of supply.
- Undertake a Significant Code Review on electricity cashout arrangements (subject to the outcome of the Government's electricity market reform process).
- Undertake a Significant Code Review on the impact of smart metering on wider industry processes, such as settlement arrangements, and develop wider code changes to maximise the value of data made available by smart meters.
- Enhance security of supply modelling.



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### 3. Promoting quality and value for all consumers

3.1. Meeting EU and UK low carbon targets will impact on consumers' energy bills. The upward trend in global energy prices, along with additional measures to combat fuel poverty, will also put strong upward pressure on domestic bills. To ensure that energy bills are no higher than they need to be, we will carefully regulate the network companies and monitor the activities of generation and supply businesses. We will take action where necessary to promote and protect consumers' interests.

3.2. We will roll out the RIIO conclusions in the electricity and gas transmission and gas distribution price control reviews. The RIIO framework places strong incentives on the network companies to deliver the required outputs efficiently. Until then we are extending the transmission price controls until 2013.

3.3. Some suppliers have announced price increases and their margins have already increased sharply in recent months. We are now conducting a retail markets review to see whether further measures are needed to promote transparency and consumer confidence. We will take forward the conclusions of this review as appropriate in 2011. In the meantime we will police existing licence obligations to ensure that consumers are treated fairly and will take action for example through a new 30 day notice period to allow consumers to respond to rising prices by switching supplier.

3.4. Consistent with the Government's goal of minimising fuel poverty, Ofgem will seek to ensure that the financial burden of moving towards a low carbon sector does not fall disproportionately on those least able to pay. Ofgem will also continue to press companies to have regard to the difficulties facing customers by promoting best practice in debt prevention, debt management and measures needed to alleviate fuel poverty.

3.5. We will assist DECC in taking forward its electricity market review, which will concentrate primarily on wholesale market issues not addressed in the current Energy Bill. For our part, we are evaluating the progress made by industry in boosting wholesale market liquidity. Any decision to intervene to boost liquidity will be compatible with the direction of DECC's electricity market review. We will also review longer term System Operator incentives to minimise the costs of these activities and enable greater alignment of operational and investment decisions.

3.6. Ensuring that Britain's energy market is competitive and works efficiently in the interests of consumers will be central to our strategy. We will continue to report on the way companies meet their obligations and where necessary take action - including enforcement action - to make sure that companies treat customers fairly and deal with complaints effectively.

3.7. The retail energy markets are likely to see several changes through smart metering, the Green Deal and potentially new energy services. Market regulation should facilitate these new developments while ensuring that consumers are properly protected. We will work with other stakeholders as necessary to achieve this.

## What we will do in 2011-12

### Energy networks

- Transmission Price Control Review (TPCR) Roll-over - Finalise arrangements for the roll-over of TPCR4.
- RIIO-Transmission review 1 (RIIO-T1) - Develop a decision document, assess company business plans, engage with stakeholders, facilitate third party delivery of infrastructure, develop innovation and uncertainty mechanisms.
- RIIO-Gas Distribution 1 (RIIO-GD1) - Develop a decision document, assess company business plans, engage with stakeholders, facilitate third party delivery of infrastructure, develop innovation and uncertainty mechanisms.

### Energy markets

- Take forward any actions arising from the Retail Markets Review.
- Implement and monitor new rules on advance price change notification, taking enforcement action where appropriate if suppliers do not comply fully.
- Improve the clarity of contracts in retail markets.
- Ensure appropriate protections for small businesses and monitor their experience of operating in competitive energy markets.
- Review longer term System Operator incentives.
- Publish package of smart meters consumer protection proposals in response to early movers and to cover the early stages of the smart meters roll out.
- Assess the need for additional consumer protection in light of market developments such as the Green Deal, energy services and tariffs, an increase in demand-side response and the growth of heat markets.

### Protecting vulnerable consumers

- Report on the experience of vulnerable consumers engaging in the market.
- Continue monitoring of debt and disconnection, complaint handling and redress.
- Examine the distributional impacts of costs on consumers, including environmental schemes.
- Work with DECC and others such as OFT to help inform policy thinking and approach to tackling issues affecting vulnerable consumers, especially given changes to consumer landscape.

**Transparency and enforcement**

- Monitor retail and wholesale markets and take action using our enforcement powers where appropriate to protect consumers.
- Publish quarterly energy supply market reports to provide transparency about the operation of the energy supply market.
- Ensure that the vertically integrated major energy suppliers publish reports on the separate financial performance of their generation and supply businesses.
- Consider the implications of the Government's review of the consumer and competition landscape for Ofgem's duties and functions.
- Maintain our simplification agenda and work where possible within spirit of the 'one in one out' principle to ensure that regulatory burdens on companies are no more than they need be to protect consumers.
- Build on our Consumer First work, in particular
  - improving our website and call handling for consumers seeking advice
  - developing the challenge group model to support the new RIIO approach to consumer engagement
  - continuing our Consumer First panel that informs work across Ofgem.

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

4.1. Ofgem E-Serve was set up to use our regulatory expertise and industry experience to support the rapid growth of government climate change programmes and to manage the regulatory regime for offshore electricity transmission networks. Ofgem E-Serve implements, administers and ensures compliance for a number of programmes, such as Feed-In Tariffs, the Renewables Obligation and the Carbon Emissions Reduction Target. These programmes are vital to meeting the UK's challenging environmental targets.

4.2. Ofgem E-Serve also administers the offshore transmission tendering regime. The first tender round attracted several new entrants into the market and made savings of around £350m. The competitive approach should continue to generate significant savings for consumers. It will also, by delivering large scale offshore wind, contribute greatly towards raising renewable energy levels to 15% of total UK final energy consumption by 2020.

4.3. With Government, Ofgem E-Serve has drawn up the prospectus setting out the regime under which Britain's 27 million homes will be fitted with smart meters over the coming years. From 2011 DECC will have sole responsibility for the detailed design and roll out of smart meters. Ofgem will have a complementary, independent role in ensuring that consumers are protected through this period of change and that markets continue to work effectively.

4.4. This is likely to require changes to existing regulation and market structure, particularly through the proposed establishment of a new, licensed Data and Communications Company. Ofgem will work closely with Government to make sure that consumers are protected during and after the transition to smart meters.

4.5. We expect to continue the successful implementation of the offshore transmission regime and our work on the renewable heat incentive. We will ensure that all the programmes with which we are involved are delivered through efficient administration and tight control of costs.

4.6. Ofgem E-Serve will seek to maintain its strong two-way relationship with Government and will continue to build public and industry confidence. We also stand ready to work with Government, as required, on developing and delivering new initiatives, such as those related to the Green Deal and Energy Company Obligation.

4.7. External scrutiny of Ofgem's projects and programmes is increasing in keeping with the austerity measures across Government. Our expertise in project and programme management is a critical part of our planning and delivery to ensure delivery to time, cost and quality, in line with good practice.

4.8. Ofgem E-Serve manages back office functions for the Ofgem Group and others. We will continue to explore ways of increasing our back-office efficiency, including the scope for increased sharing of back office services with other regulators.

### **What we will do in 2011-12**

Subject to the outcome of DECC's delivery landscape review, we will:

- administer existing programmes (Renewables Obligation, REGO, Feed-in Tariffs, CCL exemption certificates, NFFO oversight, Carbon Emissions Reduction Target and Community Energy Saving Programme) monitor the energy companies to ensure that they can demonstrate their compliance with the regulatory regimes
- launch and operate the Government's new Renewable Heat Incentive, a world first scheme providing financial support to renewable heat generators
- start monitoring compliance with the Government's new Warm Home Discount scheme, a scheme which will require energy suppliers to provide over £1 billion of support to vulnerable consumers from April 2011
- bring biomass sustainability criteria into force for bioliquids used under the Renewables Obligation from April 2011, and continue to develop these requirements for biosolids and biogas
- begin designing administrative and compliance processes for the new Energy Company Obligation, which is proposed to replace the Carbon Emissions Reduction Target and Community Energy Saving Programme from 2013
- apply learning and good practice standards from our own experience, from Government and from the private sector to our projects and programmes, risk management and stakeholder engagement
- continue to design and build information systems that support and improve the efficiency and robustness of programmes that we administer on behalf of DECC
- continue to provide highly efficient and effective operational support processes to Ofgem and other regulators
- continue to reduce overhead costs (which already benchmark very well against similar sized departments) by making more efficient use of existing office space and exploring the scope to share services, notably with other regulators.

## Appendices

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## Appendix 1 - Responding to this consultation and summary of responses to the initial consultation letter

### Responding to this consultation

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 set out below.

**Question 1: Are the proposed themes suitable?**

**Question 2: Have we identified the right priorities within each theme?**

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

**Question 4: Are there any areas of regulation that constitute an unnecessary burden that should be removed?**

**Question 5: What performance measures do you believe we should use?**

1.2. Responses should be sent by 21 February to:

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1.3. If you have any questions about this document please contact Andy MacFaul using the contact details above or by phone on 020 7901 7083.

1.4. It would be helpful if responses could be submitted both electronically and in writing. Unless marked confidential, all responses will be published by placing them in our library and on our website [www.ofgem.gov.uk](http://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. Respondents who wish their responses to remain confidential should clearly mark them as such and include the reasons for confidentiality. Respondents are asked to put confidential material in appendices to their responses. Having considered the responses to this consultation, we will revise the strategy as necessary and publish it by the end of March.

### Summary of responses to the initial consultation letter

1.5. In the summer we conducted an initial consultation with interested parties and received 11 responses. These are available on our website and summarised below.

**Cutting carbon emissions and securing energy supplies**

1.6. The single most important issue arising from responses was the need for a stable regulatory framework so as to attract large-scale investment into the energy sector. One respondent said we should put security of supply concerns at the “front and centre” of all our decisions and urged us to set out what we propose to do following Project Discovery.

1.7. In relation to the networks, Project TransmiT was welcomed by all who commented. However, subsequent comments reflect division over the issues of cost-reflective/locational pricing. One respondent noted that the outcomes of the review should be consistent with the Government’s position on transmission access reform. Some respondents said that when implementing the RIIO principles Ofgem needed to take full account of financeability issues such as the short term revenue streams of the companies. There were strong messages that we should play a leading role in relation to smart meters and that this should be a key priority. Some called for stable market rules to reduce uncertainty.

**Protecting consumer choice and value and protecting vulnerable consumers**

1.8. There continues to be widespread support for promoting competitive EU energy markets and seeking to minimise the risk of EU policies adversely affecting British energy markets. Two respondents specifically stated that we should keep a tight rein on the costs of delivering low carbon networks (for instance by considering distributional impacts on low income consumers) and maintaining pressure on reducing bills.

1.9. Several suppliers called for less intervention in the wholesale and retail markets, which they regarded as being thoroughly competitive. One respondent in particular believes that there is scope to reduce burdens relating to regulations for which Ofgem is responsible. By contrast, Consumer Focus and National Energy Action expressed the hope that Ofgem’s more activist approach would continue given that many consumers were not seeing the benefits of competition.

1.10. Several respondents suggested that we review billing information requirements and switching and other industry processes (the latter particularly given the smart meters roll out). One respondent called for tariff simplification. Some felt that we should clearly demonstrate that we are using our resources effectively given pressure on budgets and look to make savings.

**Ensuring timely and efficient delivery of government programmes**

1.11. One respondent commented that responsibility for administering environmental programmes should not lie with Ofgem. Several others stated that we should subcontract delivery where possible. One respondent said we should streamline the administration of the energy efficiency measures to avoid duplication of requests. One other respondent said that we should seek views on less regressive ways of funding environmental schemes.



## Appendix 2 - Proposed Deliverables and Performance Indicators

### Proposed Deliverables 2011-12

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

Division	Action	Target Quarter
Smarter Grids & Governance	Publish Smarter Grid vision update	Q2
Smarter Grids & Governance	Publish Project TransmiT consultation	Q2
Smarter Grids & Governance	Publish Project TransmiT conclusions	Q3
Smarter Grids & Governance	Publish structure of charges decision	Q3
Smarter Grids & Governance	Publish decision on further innovative projects to receive Low Carbon Network Fund monies	Q3

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

Division	Action	Target Quarter
Markets	Develop security of supply model	Q3
Markets	Capacity adequacy report to Secretary of State	Q4

#### Theme 3 - Promoting value and quality for all consumers

Division	Action	Target Quarter
Markets	Submit National Report to European Commission	Q2
Markets	Launch review of undue discrimination sunset clause	Q4
Markets	Decide whether to certify TSOs as compliant with EU Third Package unbundling provisions	Q4
Smarter Grids & Governance	Publish Cost and Quality of Supply Report	Q3
Smarter Grids & Governance	Changes to network companies' ring-fence licence conditions	Q1
Smarter Grids & Governance	Publish TPCR4 rollover initial and final proposals	Q2 and Q4
Smarter Grids & Governance	RIIO T1/GD consultation and decision on fast track process	Q3 and Q4
Sustainable Development	Finalise 'Spring Package' of smart metering consumer protection measures	Q1

Sustainable Development	Publish Sustainable Development report and letter to Secretary of State	Q3
Sustainable Development	Publish climate change adaptation report	Q3
Sustainable Development	Consult on revised Enforcement Guidelines	Q3
Sustainable Development	Publish discussion paper on affordable energy	Q4
Sustainable Development	Publish complaints handling research	Q4
Sustainable Development	Publish research on vulnerable customer engagement with the market	Q4

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

<b>Division</b>	<b>Action</b>	<b>Target Quarter</b>
Group Functions	Publish annual report on Renewables Obligation	Q1
Group Functions	Publish annual report on the Community Energy Saving Programme	Q2
Group Functions	Set the Fossil Fuel Levy Rate for 2012-13	Q3
Group Functions	Publish annual report on the Feed in Tariffs scheme	Q3
Group Functions	Publish annual report on the Carbon Emissions Reduction Target	Q4
Commercial - New Schemes	Set Warm Home Discount supplier obligations	Q1
Commercial - New Schemes	Commence administration of the Renewable Heat Incentive	Q2
Commercial - New Schemes	Publish revised register for Feed-in tariffs	Q1
Commercial - New Schemes	Publish revised register for Renewables Obligation	Q1
Commercial - New Schemes	Renewables Obligation sustainability criteria: publish bioliquids guidance	Q1
Commercial - New Schemes	Make first Renewable Heat Incentive payments to commercial participants	Q3
Commercial - New Schemes	Renewables Obligation sustainability criteria: publish biosolids reporting guidance	Q3
Commercial - Offshore	Issue first licences under Tender Round 1	Q1
Commercial - Offshore	Complete shortlist of bidders for Tender Round 2a	Q1
Commercial - Offshore	Select preferred bidders for Tender Round 2a	Q3

Commercial - Offshore	Issue final licences under Tender Round 1	Q4
Commercial - Offshore	Implement refinements to existing enduring offshore transmission regime	Q4

## Proposed Performance Indicators 2011-12

1.1. Ofgem is currently reviewing its suite of performance measures used internally both to monitor gas and electricity markets and to understand the effectiveness of our own activities. We would welcome any comments on the measures you believe we should be using.

### Ofgem performance indicators

Division	Measure	Target	Timing
Markets	Consult on and carry out consultations regarding any applications made for exemption from Third Party Access arrangements under Article 22 by prospective storage and interconnector operators	100%	
Markets	Send decisions on Article 22 exemptions to the European Commission within prescribed timescales if adequate data has been provided	100%	
Markets	Assess and make decisions about any Income Adjusting Event within three months of it being raised if adequate information has been provided	100%	
Sustainable Development	Protect consumers by responding substantively to customer contacts	93%	10 work days
Sustainable Development	Respond to complaints on enforcement matters confirming whether we will investigate	90%	4 weeks
Smart Grids & Governance	Make code modification decisions within 25 working days of receiving the Final Modification Report (or, where applicable, final responses to a Final Impact Assessment or other Ofgem consultation)	90%	Annual
Smart Grids & Governance	Publish code modification IAs within 3 months of receiving the Final Modification Report	90%	Annual
Smart Grids & Governance	Grant competitive licence applications within 45 days of receipt of a duly made application	100%	Annual

**Ofgem E-Serve performance indicators**

<b>Division</b>	<b>Measure</b>	<b>Target</b>	<b>Timing</b>
Group Functions	Respond to obligated party CERT and CESP schemes for approval	90% within 10 working days of the submission deadline	Monthly
Group Functions	Follow up with the generators outstanding issues on their applications for accreditation	90% within 10 working days	Monthly
Group Functions	Issue the main batches of renewable certificates	95% within 10 working days of the generators' reporting deadline of their output data	Monthly
Group Functions	Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers	95% within 20 working days	Quarterly
Group Functions	Recycle the Renewables Obligation buy-out funds by 1 October (within one month of the deadline for the supplier payments)	95%	Annually
Group Functions	Complete reconciliation of CHP Levy Exemption Certificates after receiving accurate data from DEFRA	95% within 25 working days	Annually
Group Functions	Respond to inquiries under the Freedom of Information Act	90%	Within 20 days of receipt
Commercial - New Schemes	Process supplier applications for Warm Home Discount activity after receiving adequate information	90% within 20 working days of the submission deadline	Monthly
Commercial - Offshore	Conduct timely and robust tender process for 20 year licences	Achievement of timetables & publication of relevant data	Q1-Q4

## Appendix 3 – Proposed Budgets and Spend

### Funding

1.1. 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 either from the schemes themselves or from DECC's budget which, for example, will fund the work to develop administration of the new environmental programmes to support feed-in tariffs and the renewable heat incentive.

1.2. Direct 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 its share of the costs of running the headquarters building shared by Ofgem and DEFRA.

### Cost control regime

1.3. 2009-10 was the last year of Ofgem's first five year cost control regime. We saved a total of £11.9 million over the five year period.

1.4. The Authority has determined that Ofgem should operate a further five year cost control regime running from 2010-11 to 2014-15. The Authority also determined that the regime should continue on the basis of RPI-3% with a maximum year-end carryover of any savings of £5 million. We anticipate savings of at least £12.5 million from this regime.

1.5. 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.

### Five year plan

1.6. Ofgem's estimated gross costs for the next five year period are set out below.

**Figure 1: Ofgem's expenditure**

<b>£m</b>	<b>2010-11 Planned</b>	<b>2011- 12</b>	<b>2012- 13</b>	<b>2013- 14</b>	<b>2014- 15</b>	<b>2015- 16</b>
Smarter Grids & Governance	£16.2	£17.3	£17.6	£17.3	£16.8	£16.4
Markets	£13.4	£12.0	£12.9	£12.9	£12.8	£13.7
Sustainable Development	£6.5	£6.3	£7.0	£7.2	£7.1	£7.5
Scotland, Wales & the Regions	£1.4	£1.3	£1.6	£1.5	£1.5	£1.6
Expected changes from Government Reviews	£0	£3.6	£4.2	£4.1	£3.6	£3.7
<b>OFGEM</b>	<b>£37.5</b>	<b>£40.5</b>	<b>£43.3</b>	<b>£43.0</b>	<b>£41.8</b>	<b>£42.9</b>
Smart meters	£14.9	£5.6	£5.8	£4.9	£5.3	£2.1
OFGEM E-SERVE						
- Offshore	£10.0	£9.1	£8.8	£9.7	£9.4	£10.2
- New schemes	£10.6	£8.1	£8.9	£8.5	£9.3	£12.4
- Ongoing schemes	£5.7	£8.7	£8.3	£8.6	£8.5	£9.4
<b>GROSS TOTAL</b>	<b>£78.7</b>	<b>£72.0</b>	<b>£75.1</b>	<b>£74.7</b>	<b>£74.3</b>	<b>£77.0</b>

1.7. Ofgem's 2010-11 actual spend is likely to be significantly lower than the planned gross budget of £78.7 million. This is because of efficiency savings, delays to environmental scheme development and the Government's austerity measures, such as the pay freeze and constraints on staff recruitment and the use of consultants.

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

1.9. The potential changes to Ofgem's responsibilities resulting from Government reviews in progress (EMR, Review of Ofgem and DECC Delivery Landscape Review) create a higher than usual degree of uncertainty as to the budgets required during the five year planning period. The budgets in figure 1 reflect current best estimates of costs. In particular the budgets for smart meters costs have been reduced to reflect decisions regarding responsibilities for future phases of this programme. The RPI-3% budget ceiling has been reduced accordingly.

1.10. Ofgem budgets include provision for expected changes resulting from these reviews arising within Markets and Sustainable Development.

1.11. The budgets for Smarter Grids and Governance include the expected costs associated with delivering both Transmission and Gas Distribution price control reviews in line with the new RIIO model.

**Figure 2: Ofgem's RPI-3% Calculation**

<b>£m Rate Applied</b>	<b>2010-11 2.4%</b>	<b>2011-12 4.0%</b>	<b>2012-13 2.5%</b>	<b>2013-14 2.5%</b>	<b>2014-15 2.5%</b>
Baseline	£81.5	£81.0	£75.6	£75.1	£74.7
Adjustment for Smart Meters	£0	(£6.1)	£0	£0	£0
RPI	£2.0	£3.0	£1.9	£1.9	£1.9
Baseline +RPI	£83.5	£77.9	£77.5	£77.0	£76.6
Less X (3%)	(£2.5)	(£2.3)	(£2.4)	(£2.3)	(£2.3)
Budget Ceiling	£81.0	£75.6	£75.1	£74.7	£74.3

1.12. RPI was projected in December 2009 as 2.4% for 2010-11. For 2011-12 the rate has been estimated at 4.0% and for later years at 2.5% and will be adjusted to the prevailing rates.

## Appendix 4 - Proposed Simplification Plan 2011-16

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 order to reduce regulatory burdens while ensuring proper consumer protection, we published our first Simplification Plan in March 2006. 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 2011-12. 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.

### Process initiatives

<b>Initiative</b>	<b>Outcome</b>	<b>Current status</b>
The new RPI-3% internal cost control for 2010-15	The previous cost control increased our efficiency and licensees' fees were reduced substantially. The new control maintains the pressure for efficiencies. Cost reductions will be passed on to licensees	The current internal cost control came into effect on 1 April 2010 and commits Ofgem to save at least £12.5 million in 5 years.
The Consumer First project aims to improve our understanding of the priorities of domestic consumers	The project has led to improved decisions that take proper account of consumers' views. We have published research and other data to facilitate debate. Consumer First will continue to embed consumer insight into our policy making.	We are looking to improve our website and call handling services and will consider how to build on the challenge group model to support the new RIIO approach to consumer engagement



## Ofgem policy initiatives

<b>Initiative</b>	<b>Outcome</b>	<b>Current status</b>
Our Retail Market Review is considering the scope for greater transparency in company financial reporting and tariff simplification	Any remedies on financial reporting will comply with our duty to avoid imposing unnecessary burdens. Any proposals on tariff simplification would be intended to enable better informed switching decisions by consumers and thus strengthen competition.	We are reviewing the information we have received from the vertically integrated major energy suppliers and will consult on any proposals.
Rolling out the RIIO conclusions	The transmission and gas distribution price controls will be the first time the new regime is used	We have begun work on these price controls and will consult on fast-track proposals in Q3
Carrying out a review of the gas transmission licence	Consider the scope for simplifying the licence held by National Grid Gas	We will take this work forward as part of revising the transmission licence for the price control roll over and RIIO-T1
Carrying out a review of gas distribution licences (focusing on the elements of the licence relating to Gas Distribution Networks)	We aim to improve the clarity of the Standard and Special Standard Conditions without making substantive changes to underlying policies and obligations. We will concentrate on restructuring and consolidation, including removal of redundant conditions and simplifying and redrafting to improve clarity and certainty.	We have consulted on the review scope and process. We are leading an industry working group. We will consult on potential licence changes shortly and, subject to responses, issue a formal licence modification proposal for statutory consultation in summer 2011.
Networks regulatory reporting requirements	We will carry out a review of the reporting requirements that we place on the transmission and distribution companies	We will launch the review in the spring of 2011.
Billing information requirements	We will carry out a comprehensive review of the information that suppliers must set out on energy bills	We are monitoring the progress of the Energy Security and Green Economy Bill. This Bill seeks to add new obligations for suppliers. We will begin our review when the Bill has received Royal Assent

## Ofgem E-Serve initiatives

<b>Initiative</b>	<b>Outcome</b>	<b>Current status</b>
Updating procedures for administering the existing environmental programmes including the Renewables Obligation, the Feed in Tariff, the Carbon Emissions Reduction Target and the Community Energy Saving Programme	More effective application and efficient administration. Effective use of business process design techniques and compliance powers	Quarterly risk reviews feeding back into changes to our processes. Reviews are also under way to take account of revised Government requirements.
Introducing new Government environmental programmes including Renewable Heat Incentive (RHI) and Warm Home Discount (WHD)	We intend to administer these schemes cost effectively and efficiently, drawing on our experience, facilities and teams from existing environmental programmes and social tariff schemes. We will use business process design techniques and compliance powers effectively	We are advising DECC in relation to RHI and WHD and are undertaking detailed design of our administration and compliance processes for these schemes
Developing the offshore transmission regulatory regime	Less onerous regulatory burden at start and during life of projects	The competition for nine projects in the first round – covering £1bn worth of transmission links - attracted a good response.

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## 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, 2008 and 2010) 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. 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 accordingly.<sup>1</sup>

1.3. The Authority’s principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them. The Authority is generally required to carry out its functions in the manner it considers is best calculated to further the principal objective, wherever appropriate by promoting effective competition between persons engaged in, or commercial activities connected with

- the shipping, transportation or supply of gas conveyed through pipes;
- the generation, transmission, distribution or supply of electricity;
- the provision or use of electricity interconnectors.

1.4. Before deciding to carry out its functions in a particular manner with a view to promoting competition, the Authority has to consider the extent to which the interests of consumers would be protected by that manner of carrying out those functions and whether there is any other manner (whether or not it would promote competition) in which the Authority could carry out those functions which would better protect those interests. In performing these duties, the Authority must 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;

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<sup>1</sup> 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.

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- 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 them<sup>2</sup>; and
  - the need to contribute to the achievement of sustainable development.

1.5. In performing these duties, the Authority must have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.<sup>3</sup> Subject to that, the Authority must carry out the functions referred to in the manner which it considers is best calculated to:

- promote efficiency and economy on the part of those licensed<sup>4</sup> 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,
- and shall, in carrying them out, have regard to the effect on the environment.

1.6. In carrying out these functions the Authority must also have regard to:

- 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
- statutory social and environmental guidance from the Secretary of State.

1.7. The Authority may, in carrying out a Gas Act or Electricity Act function, have regard to interests of consumers relating to communications services and electronic communications apparatus or to water or sewerage services within the meaning of the Water Industry Act 1991, that are affected by carrying out that function.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and to take action for breaches of the prohibitions in the legislation relating to the gas and electricity sectors in Britain. The Authority is a designated National Competition Authority under the EC Modernisation Regulation<sup>5</sup>. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

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2 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 Acts in the case of Electricity Act functions.

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

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

5 Council Regulation (EC) 1/2003.

## Appendix 6 - Feedback Questionnaire

1.1. 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 are keen to get your answers to the following questions:

- 1.** Do you have any comments about the process adopted for this consultation?
- 2.** Do you have any comments about the tone and content of the report?
- 3.** Was the report easy to read and understand or could it have been better written?
- 4.** To what extent did the document conclusions provide a balanced view?
- 5.** To what extent did it make reasoned recommendations for improvement?

1.2. Please send your comments to:

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London SW1P 3GE

Email: [andrew.macfaul@ofgem.gov.uk](mailto:andrew.macfaul@ofgem.gov.uk)