

Forward Work Programme FY2013-14

Draft for Consultation

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Overview:

The Forward Work Programme sets out for consultation the projects that we think will make the greatest difference to consumers in the coming financial year.

Much of our work is shaped by consultation and dialogue with our stakeholders, in particular consumers and their representatives, to whom we are accountable. Your attention is drawn to the Introduction section that concludes with the specific questions upon which your views will be most welcome and the requested format for your responses.

Your responses to this draft Forward Work Programme are required by noon 18 February 2013. Unless requested to do otherwise we will publish your responses on our web site when we publish our finalised Forward Work Programme, planned for March 2013.

Chairman's Foreword

Major influences are shaping the energy sector. Our programme of projects for 2013-14 recognises and responds to these in an appropriate and timely way. These influences include:

- the new Energy Bill
- Electricity Market Reform
- the need to attract investment in energy infrastructure
- the fast-evolving EU agenda and its impacts

Our programme of projects for 2013-14 is designed to meet our principal statutory objective to protect the interests of gas and electricity consumers. The outcomes we achieve from this programme will meet this duty and make a positive difference to energy consumers. Key amongst these is the pursuit of the changes we believe are necessary in the retail market to meet the concerns of consumers, both domestic and business. These will lead to a market that is simpler, clearer and fairer. Further we shall not hesitate to use our existing and new powers of enforcement to tackle abuse and promote fairer markets for consumers.

Major drivers for our projects will be EU energy policy and our role as GB National Regulatory Authority. We will implement responses to the EU third energy package; for example we will deliver wholesale market monitoring and compliance measures which underpin an open, competitive, secure and environmentally sustainable single market for energy across the EU.

Building on the successful introduction of the RIIO Price Control process for transmission and gas distribution, electricity distribution will follow in 2015. The smart grid debate will add a new and challenging dimension to this process. Other projects will examine how better coordination of strategic transmission investment can be achieved to ensure that delivery is planned, designed and built in the most efficient way. Other policy contributions will be achieved as we develop further the wide range of energy and energy-efficiency schemes that we administer for government.

We are acutely aware of the pace of change in Great Britain and in the European Internal Energy Market. We shall pursue our work programme in line within the government's wider economic austerity programme, EU energy policy, and the impacts of consultations on EU and GB issues.

This is a demanding agenda for 2013. It reflects the imperatives and uncertainties in our sector and we strongly encourage a high level of involvement in this consultation process.

The Lord Mogg, KCMG
Chairman

Introduction

The 2013-14 Forward Work Programme sets out for consultation the projects and areas of work that we think will make the greatest difference to consumers in the coming year.

Delivering an affordable, secure and sustainable energy system has for a number of years been the central aim of our energy policy. There will remain the challenges faced by those involved in delivering that policy. In particular:

- Cost trends that had been reducing during the eighties and nineties are now increasing throughout the supply chain.
- The energy capacity assessments we have carried out suggest that margins in electricity and gas are falling to potentially historically low levels. Maintaining security in the future will therefore require significant investment and potential changes to the way the market works. The Government's Electricity Market Reform is designed to address this, and we anticipate further helping government in this area next year. Energy efficiency and demand management measures will also potentially help by lowering demand.
- There will be significant new challenges for our energy networks in facilitating the transition to a low carbon economy; in particular by developing a smarter grid and extracting value from the smart meter roll-out.
- EU policy direction and initiatives will drive regional co-operation as steps towards the creation of a fully liberalised internal market.
- Pressure to fulfil internationally and nationally agreed targets by 2020 for carbon reduction and renewables will increase. While markets in carbon and pricing of carbon have been introduced, these have been insufficient to generate the necessary investment in green technology required to meet our obligations. Many Governments throughout Europe have found it necessary to intervene in to support particular energy technologies.

However, since Ofgem's formation in 2000, our principal objective remains unchanged - to protect the interests of gas and electricity consumers. How we fulfil this objective inevitably needs to change from time to time to reflect both the challenges of the day and the full breadth of our responsibilities which over time have increased. The legal framework in which we operate, set out in the various Energy Acts, now makes clear that the interests of consumers include the future security and sustainability of energy. Government continues to use Ofgem E-serve as a vehicle for delivering its consumer and environmental programmes (indeed e-Serve staff numbers now account for about half of Ofgem). The continuing case for Ofgem with its single objective to protect consumers' interests in all their complexity has never been stronger. **Making a positive difference for all energy consumers** has been and will continue to be what drives Ofgem and its staff.

In order to protect consumers' interests Ofgem needs to operate effectively with both government and EU institutions. With the third EU energy package, Europe provides a coherent and comprehensive definition of the duties and powers against which we now act as the GB National Regulatory Authority. This leadership from Europe pervades all we do. We have grouped our activities around four themes.

Promoting value for money Economic pressures on energy consumers resulting from the recession have been well documented in the media. These affect all energy consumers, from the smallest to the largest, whether domestic or business. Our remit requires us to lead in promoting value for money and, with others in government and industry, affordability as well.

Whether it is through the setting of revenue controls and incentives on the network companies or through the supervision and development of the wholesale and retail markets, we look to ensure that the prices consumers pay represent value for money.

In October 2012 we announced our final proposals for the retail market. Stakeholders have until 21 December to respond to the consultation. Implementing those conclusions will be an important part of next year's work. Our new price controls for transmission and gas distribution networks are due to take effect in April 2013 and will keep the pressure on the network companies to deliver value for money.

Promoting security of supply Consumers expect gas and electricity to be available on demand at all times. Many facets of Ofgem's work help to ensure security of supply. For example we incentivise network companies to keep interruptions to a minimum. Generation and supply companies are incentivised to make sure that the energy put on to the system balances with the energy their customers consume.

We recognise that investors need confidence that investments they make now will be appropriately remunerated over the life of the assets. Ofgem's work next year on security of supply will cover a range of measures including major reviews (Significant Code Reviews) for both Gas and Electricity.

Promoting sustainability Networks will play a vital role in facilitating the transition to a low carbon economy. However promoting sustainability encompasses more than our work on low carbon. Promoting sustainability includes initiatives to protect vulnerable consumers, promote energy saving and demand side response, and support improvements in all aspects of the environment. Next year, we will further develop our Smarter Markets Strategy and our approach to smart grids.

Ensuring efficient delivery of Government's consumer and environmental programmes Ofgem E-serve administers a range of consumer and environmental programmes on behalf of Government. The total estimated value in 2011-12 was £5.2bn and in addition to the ongoing administration of existing schemes we expect additional work in 2013-14 to include the Energy Companies Obligation. The cost of administering these programmes is funded indirectly through the bills paid by gas and electricity consumers.

In addition to the main sections, covering each theme, budgets and spend, we also attach

- a list of the major deliverables as currently planned (appendix 3) - project planning will continue across the portfolio and delivery dates may change.
- a list of Key Performance Indicators (KPIs) that Ofgem reports on to the Authority and in our Annual Report and Accounts. These KPIs are set out at Appendix 4.

Questions and Format for your Responses.

We welcome responses under three separate headings.

1. The substance of Ofgem's policy that is set out in this Forward Work Programme, the proposed budget and spend, and the programme of deliverables provided in Appendix 3.
2. The proposed KPIs in appendix 4. We would particularly welcome views and comments from parties who interact with our systems and processes on the KPIs for the consumer and environmental programmes administered by Ofgem E-Serve.
3. The process of consultation and the manner in which this consultation has been conducted. For these purposes the standard set of Ofgem consultation questions is provided at Appendix 1.

Any questions should be addressed to:

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1. Promoting value for money

1.1. Rapidly increasing demand for energy in the industrialising countries, measures to meet low carbon targets and combat fuel poverty, as well as the need to secure investment to ensure security of supply are all placing upwards pressure on consumer prices. In this environment, it is important for consumers to know that we are doing everything we can to ensure value for money.

1.2. We have thoroughly reviewed the retail market in Britain to see if it functions in the best interest of consumers and in 2013-14 we will be taking forward a number of important reforms. Our proposals aim to improve consumers' trust in the market so that more people are inclined to engage, and to put in place measures so that when they do engage consumers are better able to choose the deal that suits them. Ofgem has an important role in ensuring that consumers are empowered and protected as they engage with the market to gain better value.

1.3. European policies for energy markets will shape the way that the GB market develops, and our contribution to mechanisms to protect against market abuse of wholesale markets in Britain and across Europe will be a high priority in our work next year. As the National Regulatory Authority for GB we submit annually a report to the EU Commission.

1.4. There is a need for increasing levels of investment in transmission and distribution networks to meet security of supply and low carbon objectives. On 1 April 2013 our new approach to price controls will come into effect, setting and monitoring the amount of revenue network companies can recover from customers over the next eight years. Known as 'RIIO' (**R**evenues = **I**nvestment + **I**nnovation + **O**utputs), this approach will initially cover transmission and gas distribution, but throughout 2013-14 we shall continue to prepare for the electricity distribution price control that will come into effect in April 2015.

1.5 We will report on the way companies meet their obligations and where necessary take action - including enforcement action - to make sure that companies treat customers fairly, meet their licence obligations and deal with complaints effectively. We will review ways in which to make enforcement action swift and more effective whilst remaining fair and transparent.

1.6 By the end of the decade, the government's aim is that all consumers should have smart meters, enabling them to make informed choices to use energy more efficiently, so promoting value for money. We have an important role in ensuring the interests of consumers are protected, both during the transition to smart metering and in the enduring framework.

1.7 Ofgem's measures to develop a smarter market and to protect vulnerable consumers as we move to a more sustainable economy are described in chapter 3.

Key projects planned for 2013-14

- We will follow through our **Retail Market Review**, published October 2012 and look to implement our proposals in 2013-14. These proposals will include simpler choices for consumers; clearer information about products, prices and available savings; and fairer treatment in all supplier interactions with their customers. Our aim is to improve trust in the market so that customers – whether domestic or non-domestic – are more inclined to engage. Further we aim to put in place measures so that when they do engage, customers are better able to choose the deal that suits them. In parallel, we will progress delivery of Ofgem's consumer vulnerability strategy and proposed associated work programme, which are covered in chapter 3.
 - In addition to our RMR proposals, we are launching a review of the wider regulatory framework for **Third Party Intermediaries** (TPIs), including areas where TPIs are taking or seeking to take active roles in the domestic sector. We will publish an issues paper for consultation in the first half of 2013.
 - We will develop rapidly our implementation of the EU regulation on **wholesale energy market integrity** (REMIT). REMIT introduces, for the first time, a consistent EU-wide framework defining market abuse in the form of market manipulation; introducing explicit prohibitions of market manipulation and insider trading in wholesale energy markets; establishing a new framework for monitoring; and providing that National Regulatory Authorities (NRAs) should be given powers for the enforcement of these prohibitions. We have been working closely with ACER and other NRAs to implement these new arrangements as well as with DECC which will arrange for Ofgem to be provided with the powers necessary to enforce the new prohibitions.
 - We shall monitor the compliance of the GB wholesale electricity market with the **Transmission Constraint Licence Condition** which prohibits generators from obtaining an excessive benefit from electricity generation in relation to a period of transmission constraint.
 - We will complete implementation of our reforms being proposed to enhance **liquidity** in the wholesale electricity markets. These reforms are designed to ensure adequate liquidity to permit non-vertically integrated energy suppliers to compete effectively, to encourage competition between the major energy suppliers, and to provide transparency of wholesale energy prices and costs.
 - We shall pursue our **price control review for electricity distribution (RIIO-ED1)** to be ready to implement from 1 April 2015. This will address changes to incentivise companies to meet the new demands which will be placed on them through the take up of low carbon technologies.
 - We will engage constructively with DECC on its regulatory design for **smart meter rollout**, and take on new regulatory functions during 2013-14 as the Secretary of State begins to implement the regulatory changes required for rollout.
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- We will conclude our **Enforcement Review**, which aims to increase the impact and efficiency of Ofgem enforcement work, whilst at the same time ensuring that our approach remains proportionate, consistent and targeted.
- We expect to conclude a number of **mis-selling investigations**. Our enforcement activities are carried out with a view to ensuring that energy market participants meet their obligations towards consumers and ensure that energy markets are as competitive as possible.
- We will publish our final proposals to address electricity **theft** to deliver significant savings for consumers.

2. Promoting security of supply

2.1. The electricity market will be shaped by retirement decisions for old and more heavily polluting generation plant, investment in new generation some of which is intermittent such as wind, or inflexible such as nuclear, interconnector flows, technological developments, and overall electricity demand.

2.2. The gas market will be shaped by declining indigenous gas production, the potential of shale, increasing reliance on gas imports from continental Europe and beyond, greater interconnection with neighbouring countries and increasing liquefied natural gas import and storage capacity. Well functioning markets in continental Europe are vital to Britain's security of supply.

2.3. The European Third Energy Package created a new legal framework; it provides for legally binding pan-European network codes, designed to remove barriers to cross-border trade, integrate national markets and ensure security of supply and secure system operation with high levels of renewable generation. Collectively these network codes will form the basis of the target model for Europe's gas and electricity markets. Ofgem will continue to take a leading role on ACER's Board and in its working groups, and to engage with the European Commission and other stakeholders on these topics. We will look at what the European target model means for GB markets, and ensure that measures to support secure and efficient system operation are both relevant and proportionate.

2.4. The government's analysis for the Electricity Market Reform (EMR) shows that in this decade around £75 billion could be needed in new generation capacity. This is in addition to the £35 billion of investment needed for electricity transmission and distribution. The unprecedented challenges facing Britain's energy industry, identified in Project Discovery (2010) still remain. We are playing our part by helping to attract investment through our RIIO network price controls and by working with Government. In particular in our regulation of the System Operator (SO) the government has asked us to regulate the new duties the SO will take on as the delivery body for EMR.

2.5. In October 2012, we provided DECC with the first annual Electricity Capacity Assessment which showed that electricity margins could fall from 14% in 2012/13 to 4% in 2015/16.

2.6. The Government also asked us to review whether action is needed to ensure that medium to long-term gas supplies for consumers remain secure. Our Gas Report, published in November 2012, showed the likelihood of a combination of events occurring that would jeopardise supply to firm customers is low, but the potential consequences of such an event would be very significant. Ofgem expects to be further involved, helping government define measures for potential further consideration.

2.7. Our interconnector cap and floor regime development and interconnector policy work is building understanding of the contribution that interconnection can make to security of supply and to efficient integration of renewable generation. We will engage with Government and fellow regulators in Europe to ensure this insight is shared and taken into account, for example when developing Capacity Mechanisms, or the European Target Model for cross-border trade. The new regime will also create a positive environment for investment, to encourage development of new cross border capacity where it drives benefits for consumers.

2.8. We are also working on delivering better coordination of strategic investment across the different transmission regimes (onshore, offshore and interconnector) to ensure that this is planned, designed and built in the most efficient way. EU initiatives such as the North Sea Countries Offshore Grid Initiative will establish the wider EU context.

2.9. We will work with government on the Statutory Security of Supply Report, and 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.

Key projects planned for 2012-13

- We will support the Government to implement its **Electricity Market Reform** proposals, aiming to assure security of supply in face of increased generation intermittency. We will deliver our second Electricity **Capacity Assessment** to align with the timings of EMR.
- We will take forward work arising following our **Gas Security of Supply Report**, including work on gas storage.
- We will complete our **Significant Code Review (SCR)** in relation to a Gas deficit emergency. If suppliers do not have enough gas to cover their contracts they will pay a cash out price that better reflects the value of security of supply to customers.
- We will develop proposals under our **Electricity Balancing SCR** to improve charging arrangements when power companies don't generate, or buy, enough electricity to meet their contracted supply or demand. The objectives include sending clear signals to improve market arrangements in the face of increased generation intermittency promoting investment in electricity security of supply.
- The future British market will increasingly involve supply and demand from Europe, and we will work with **ACER and European Regulators** on the development of network codes to implement the European Target Model, removing the barriers to cross-border trade, promoting market integration, and enabling interconnection with neighbouring markets. There is a close connection to our Electricity Balancing SCR work. Interconnector assets play an important role in security of supply by allowing energy to flow to where the power is valued most; they are key infrastructure for the integration of European markets.

- We will take forward plans to consult on **Integrated Transmission Planning Regulation (ITPR)**. ITPR will take a forward-looking approach across the planning and delivery of onshore, offshore and cross-border transmission. It seeks to integrate our approaches to transmission network regulation, to optimise system planning whilst ensuring that security of supply is not compromised. Through the course of this year we will bring clarity to investors and developers hoping to realise integrated projects that will contribute to secure system operation and integration of renewable generation. [We have previously consulted separately on a framework to allow third parties to build, own and operate parts of the onshore electricity transmission system, but this is now included in ITPR].
 - Under RIIO through our **Strategic Wider Works** (SWW) Review we will consider proposals for the build out and reinforcement of the electricity transmission network. Some SWW projects are important in ensuring that the network complies with the Security and Quality of Supply Standards (SQSS) and provides security of supply.
 - Following a future industry code panel recommendation, we expect to conclude **Project TransmiT**, ensuring the charging methodology for the use of transmission assets promotes efficient generation build in order to deliver security of supply.
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3. Promoting sustainability

3.1. Ofgem's principal objective requires us to have regard to consumers' interests in reducing greenhouse gas emissions and, more generally, Ofgem is required both to contribute to the achievement of sustainable development and to have regard to Government guidance on social and environmental matters. Each year we publish our Sustainable Development Focus¹ setting out the key contributions that we have made to sustainable development in the energy sector (most recently July 2012).

3.2. EU and UK targets for curbing greenhouse gas emissions and increasing renewable power provide the overall policy direction for the energy sector. We focus on the challenges faced by the transmission and distribution companies that we regulate. For example, as part of the current electricity distribution price control mechanism that runs to 31 March 2015, Ofgem established the Low Carbon Network Fund. Annual competitions provide support for Distribution Network Operators' projects to try out ways to address the challenges they face in moving to a low carbon economy. Similarly, as part of RIIO, we will next year introduce annual Network Innovation Competitions for electricity transmission (£30m pa) and gas transmission and distribution (£20m pa) for them to address the challenges they face in moving to a low carbon economy.

3.3 Ofgem has a principal duty to protect the interests of existing and future gas and electricity consumers, and in doing so to have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes or who live in rural areas, as well as to those of other consumers. We have developed proposals for a new Consumer Vulnerability Strategy that aims to advance our work in this area by recognising the potentially dynamic nature of vulnerability, which may vary over time and in different settings as a result of the changing circumstances and capabilities of individual consumers.

3.4 Alongside this new Strategy, we propose to publish an annual workplan, against which we will report progress. A number of key projects will be progressed under this workplan including measures to improve the effectiveness of existing regulatory protections for consumers in vulnerable positions. The project will also encourage innovation and joint working between electricity and gas distributors in developing alternatives to extending the gas network for fuel poor off-gas-grid consumers. And we will explore new ways of providing advice or support to consumers in vulnerable positions and enable them to engage confidently with the energy market.

¹ Sustainable Development Focus

<http://www.ofgem.gov.uk/Sustainability/SDR/Documents1/Sustainable%20Development%20Focus%202011-12.pdf>

3.5 We will encourage and facilitate demand side response and reduction measures and informed consumer participation in them.

3.6 We will work with Government on the delivery of the Green Deal and issues raised by the development of new markets, such as renewable heat, which will have an important role in meeting Britain's renewable targets.

3.7 Smart meter roll-out represents a key government policy designed to help the transition to a low-carbon economy, providing a platform for transforming how energy markets operate. We have published a work programme aimed at promoting the development of smarter markets that will specifically look at the regulatory arrangements needed to empower and protect consumers and encourage them to participate effectively in smarter retail energy markets. This recognises both the opportunities and the risks involved.

3.8 We will review the guidelines to support the development of green tariffs for consumers. We will also contribute where appropriate to DECC's development of their Heat Strategy and examine the implications of the transition to low carbon heat on our duties. We will contribute to the response of the energy sector to climate change adaptation including via the National Adaptation Plan.

Key projects planned for 2013-14

- We will explore, through the **Smart Grid Forum** which we chair jointly with DECC, the value that smart grids could provide to the entire energy chain.
 - We will run our annual competition for innovative electricity distribution projects funded through the **Low Carbon Networks Fund**.
 - We will establish the **Network Innovation Competitions** under RIIO
 - We will further progress our **Smarter Markets Strategy** having prioritised four areas of the market that require further analysis and where Ofgem needs to play a key role in policy development – Change of supplier, Electricity settlement, Demand Side response, consumer empowerment and protection.
 - We will publish our annual **Sustainable Development Focus**.
 - We will conduct the first annual assessment under the new **Environmental Discretionary Reward** scheme.
 - We will contribute to the development of the Government's National Adaptation Plan and ensure that through our actions we facilitate the energy sector's response to **Climate Change Adaptation** and network resilience.
 - We will finalise our **Consumer Vulnerability Strategy** proposals and **take forward our** annual workplan.
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- We will maintain regular monitoring and reporting of suppliers' obligations towards customers who are at risk of **debt or disconnection** and the delivery of other help and advice to vulnerable consumers.
- We will publish revised guidance on our **approach to impact assessments**. Amongst other things, this document will incorporate our conclusions on strategic sustainability considerations , new cross-border European impacts that we must consider and recent equalities legislation.
- We will report on performance against our current **Better Regulation Simplification Plan** and publish a new one for 2013-14

4 Ensuring efficient delivery of Government consumer and environmental programmes

4.5 Ofgem E-Serve supports the delivery of Government consumer and environmental programmes and manages the regulatory regime for offshore electricity transmission networks.

4.6 We implement, administer and ensure compliance for these programmes which are vital to meeting the UK's challenging environmental sustainability targets.

4.7 Most recently we have worked with Government on developing and delivering their new Energy Company Obligation, helping ensure it is well designed and allows for efficient and robust delivery.

4.8 Next year we will continue to build public and industry confidence, including through our management of the risks of fraud and cyber crime. Internally, we will strive for operational excellence through our programme of process improvements.

Key projects planned for 2013-14

- We will regulate **offshore transmission**. This includes running competitive tender processes for the right to own and operate the transmission links connecting offshore windfarms to the GB market. We are also undertaking further development of the regime in light of experience with the first projects and to enable coordination between offshore transmission assets.
 - We will develop and administer the **Renewable Heat Incentive** efficiently and will provide systems which are robust in protecting from risks including risks of fraud.
 - We will manage the transition from the **Carbon Emissions Reduction Target** and the **Community Energy Saving Programmes** to the **Energy Company Obligation**.
 - We will administer the **Warm Home Discount, Renewable Obligation** and **Feed In Tariff** schemes efficiently ensuring that we respond to applicants in a timely way. We will update our systems in line with the Governments changes to these schemes.
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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, such as the offshore wind programme, or from DECC's budget. We also receive a contribution from DEFRA to cover our proportion of the costs of running the headquarters building shared by Ofgem and DEFRA.

Five year plan

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

Figure 1: Ofgem's expenditure

£m	2012-13 planned	2013-14	2014-15	2015-16	2016-17	2017-18
Smarter Grids & Governance	19.7	18.9	17.3	17.2	16.9	16.9
Markets	20.3	19.4	18.2	18.2	18.2	17.6
Sustainable Development	10.6	11.7	10.7	10.5	10.7	10.7
Scotland, Wales & the Regions	1.4	1.5	1.4	1.5	1.6	1.6
OFGEM E-SERVE	25.2	31.0	32.8	32.1	33.2	35.4
Gross Total	77.2	82.5	80.4	79.5	80.6	82.2
Contingent spend RMR & DECC projects	5.0	8.0	8.0	8.0	8.0	8.0
	82.2	90.5	88.4	87.5	88.6	90.2

1.3. As described in this Forward Work Programme, there are some very substantial projects planned for 2013-14. These include a major programme of work to implement our Retail Market Review (RMR) proposals for a package of simpler, clearer and fairer measures to improve the competitiveness of the retail market, continue development of our price control for electricity distribution (RIIO-ED1), take forward plans to consult on Integrated Transmission Planning Regulation (ITPR) and conclude our enforcement review. Ofgem E-Serve will also continue to develop and administer the Energy Company Obligation and other schemes.

1.4. Our work programme in 2013-14 includes a number of projects where the level of work is currently uncertain and will be shaped by consultation and dialogue with our stakeholders.

Cost control regime

1.5. 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.

1.6. GEMA has determined that Ofgem should operate a further five year cost control regime running from 2010-11 to 2014-15. GEMA also determined that the regime should continue on the basis of RPI-3 per cent with a maximum year-end carryover of savings up to £5 million. We anticipate savings of at least £12.5 million from this regime. In 2013-14 budgeted gross expenditure of £90.5 million exceeds the adjusted budget ceiling by £0.9 million and this will be offset by agreed carryover savings brought forward.

Figure 2: Ofgem's RPI-3 per cent Calculation

£m Rate Applied	2010-11 2.4%	2011-12 4.8%	2012-13 4.8%	2013-14 2.0%	2014-15 2.5%
Baseline	£81.5	£81.0	£73.5	£79.9	£89.6
Adjustment for:					
Smart Meters	-	(£9.6)	-	-	-
Offshore	-	£1.0	-	-	-
EMR	-	-	0.6	-	-
DECC projects	-	-	4.5	9.1	-
ITPR	-	-	-	1.6	-
RPI	£2.0	£3.4	£3.8	£1.8	£2.2
Baseline +RPI	£83.5	£75.8	£82.4	£92.4	£91.8
Less X (3%)	(£2.5)	(£2.3)	(£2.5)	(£2.8)	(£2.7)
Budget Ceiling	£81.0	£73.5	£79.9	£89.6	£89.1

1.7. RPI was determined as 2.4 per cent for 2010-11 and 4.8 per cent for both 2011-12 and 2012-13. RPI has been estimated at 2.0 per cent and 2.5 per cent for 2013-14 and 2014-15 respectively and will be adjusted to the prevailing (December) rates.

Appendix 1 - Feedback Questionnaire

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

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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Appendix 2 - Forward Work Programme : Glossary of terms

C

Capacity Assessment

The Electricity Act 1989 obliges Ofgem to provide the Secretary of State with a report assessing different electricity capacity margins and the risk to security of supply associated with each alternative. Ofgem's capacity assessment report is to be delivered to the Secretary of State by 1st September every year, starting in 2012.

Capacity margin

The capacity margin is defined as the excess of installed generation over demand. It is sometimes referred to as reserve margin.

Capacity mechanism

Policy instrument designed to help ensure security of supply by providing a more secure capacity margin than that which would be determined by the market without intervention.

CERT

The Carbon Emissions Reduction Target (CERT) 2008 – 2012 follows on from the Energy Efficiency Commitment (EEC) 2005 – 2008. Revised in 2009 and further revised in 2010 and 2011. The CERT requires gas and electricity suppliers to achieve targets for a reduction in carbon emissions generated by the domestic sector. Ofgem has certain statutory duties under the CERT legislation. These include requesting and collecting specified data, from the suppliers, on a quarterly basis. From this data, Ofgem prepares the CERT Update to inform energy efficiency stakeholders of the suppliers' overall progress towards the CERT target.

CESP

The Community Energy Saving Programme (CESP) has been created as part of the government's Home Energy Saving Programme. It requires gas and electricity suppliers and electricity generators to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain. CESP has been designed to promote a 'whole house' approach and to treat as many properties as possible in defined areas. CESP came into effect on 1 September 2009.

E

ECO

The Energy Companies Obligation (ECO) is the Government's new domestic energy efficiency programme designed to replace the existing CERT and CESP programmes, both of which come to a close at the end of 2012. It will work in parallel with the Government's Green Deal.

Enforcement

Ofgem investigates companies which may be:

- breaching the terms of their licence;
- acting anti-competitively; or
- breaching consumer protection law.

Electricity Theft

Theft of gas and electricity increases the costs paid by customers and represents a safety hazard for consumers. It leads to misallocation of costs among suppliers that can distort competition and hamper the efficient functioning of the market. Ofgem is taking steps to reform the regulatory framework for tackling theft of gas and electricity. While progress has already been made in the gas sector - where we are making changes to licence obligations and are working with the industry to bring our proposals into effect - the current regulatory arrangements in the electricity sector do not ensure or require that parties make sufficient efforts to detect, prevent and investigate theft.

Electricity Market Reform (EMR)

The Government-led Electricity Market Reform Project which aims to develop and deliver a new market framework that will ensure secure, low carbon and affordable electricity supplies.

F

Feed-in-Tariff scheme (FITs)

The Feed-in-Tariff scheme (FITs) is an environmental programme introduced by the government to promote widespread uptake of a range of small-scale renewable and low-carbon electricity generation technologies.

G

Gas Security of Supply Report

This document contains an assessment of the medium to long term gas security risks to Great Britain. The report also contains some assessment of potential further measures to mitigate these risks.

Gas Significant Code Review

The Gas Significant Code Review (SCR) aims to sharpen the incentives on suppliers who fail to provide enough gas to customers when supply and demand is tight.

I

Innovation Stimulus Package

As part of the RIIO-T1 and GD1 price controls in 2013 we will introduce the Network Innovation Competitions (NIC). These are annual competitions for electricity and gas, where network companies compete for funding for research, development and trialling for new technology, operating and commercial arrangements. Funding will be provided for the best innovation projects which help all network operators understand what they need to do to provide environmental benefits and security of supply at value for money as Great Britain (GB) moves to a low carbon economy.

ITPR

The ITPR project is a review of the current arrangements for system planning and delivery to determine whether they are appropriate to achieving a long-term efficient integrated network - onshore, offshore and cross-border.

L

Liquidity

Liquidity is the ability to quickly buy or sell a product without causing a significant change in its price and without incurring significant transaction costs.

Liquid Market

A market characterised by the ability to buy and sell with relative ease.

Mis-selling

Ofgem is investigating a number of companies to determine whether they are complying with obligations under standard licence condition 25 with respect to telephone and face-to-face sales activities. The objective requires domestic suppliers to take all reasonable steps to ensure information provided is complete and accurate, understandable, appropriate and not misleading, and that sales activities are conducted in a fair, transparent, appropriate and professional manner.

Losses Incentive Mechanism

Electrical losses are an inevitable consequence of transferring electricity across the distribution network and they have a significant financial and environmental

impact on consumers. For example they contribute to approximately 1.5% of GB's greenhouse gas emissions. To encourage distribution network areas to manage an efficient level of losses on their network, Ofgem introduced a losses incentive mechanism as part of our electricity distribution price control.

Low Carbon Networks Fund

As part of the electricity distribution price control arrangements that run from 1 April 2010 to 31 March 2015, Ofgem established the Low Carbon Networks (LCN) Fund. The Fund allows up to £500m support to projects sponsored by the distribution network operators (DNOs) to try out new technology, operating and commercial arrangements. The objective of the projects is to help all DNOs understand what they need to do to provide security of supply at value for money as Great Britain (GB) moves to a low carbon economy.

N

Northern Ireland Renewable Heat Incentive (NIRHI)

The Northern Ireland Renewable Heat Incentive (NIRHI) scheme will be open for applications from 1 November 2012. The Renewable Heat Incentive is a financial incentive scheme for renewable heat generation that will help the UK reduce carbon emissions and hit its EU renewable energy targets.

P

Project Discovery

Project Discovery was Ofgem's year-long study of whether the current arrangements in GB are adequate for delivering secure and sustainable electricity and gas supplies over the next 10-15 years. Its findings were published in February 2010.

R

Regulation on Wholesale Energy Markets Integrity and Transparency (REMIT)

REMIT is a European Union (EU) Regulation which is aimed at preventing market abuse in wholesale energy markets. It establishes a new framework for monitoring of wholesale energy markets and prohibiting market abuse. Within 18 months from its entry into force DECC will amend domestic legislation and will give Ofgem new investigatory and enforcement powers that will enable Ofgem to take enforcement action against companies found to have breached the new rules.

Retail Market Review (RMR)

Ofgem's Retail Market Review aims to encourage and equip consumers to engage effectively so that they can get the best deal from the energy market. The latest consultation on RMR was published in October 2012.

RIIO (Revenue = Incentives + Innovation + Outputs)

Ofgem's new regulatory framework, stemming from the conclusions of the RPI-X@20 project, to be implemented in forthcoming price controls. It builds on the success of the previous RPI-X regime, but better meets the investment and innovation challenge by placing much more emphasis on incentives to drive the innovation needed to deliver a sustainable energy network at value for money to existing and future consumers.

RIIO-Electricity Distribution Price Control Review 1 (RIIO-ED1)

The price control will set the outputs that the 14 electricity distribution companies (DNOs) need to deliver for their consumers and the associated revenues they are allowed to collect for the eight-year period from 1 April 2015 to 31 March 2023.

RIIO-Gas Distribution Price Control Review 1 (RIIO-GD1)

The price control review to be applied to the gas distribution network operators, following GDPCR1. This price control would be expected to run from 1 April 2013 and will be the first transmission price control review to reflect the new regulatory framework, RIIO, resulting from the RPI-X@20 review.

RIIO-Transmission Price Control Review 1 (RIIO-T1)

The price control review to be applied to the electricity and gas transmission network operators, following the TPCR4 rollover. This price control would be expected to run from 1 April 2013 and will be the first transmission price control review to reflect the new regulatory framework, RIIO, resulting from the RPI-X@20 review.

RO Banding

The Renewables Obligation (RO) is currently the main financial mechanism by which the Government incentivises deployment of large-scale renewable electricity generation. Bands of support were introduced in 2009 which allowed the RO to offer varied support levels by technology, and reviews of those banding levels were set for every four years.

S

Significant Code Review (SCR)

The SCR is a new modifications process introduced through the Code Governance Review. This process allows Ofgem to develop modifications proposals before directing them to be raised.

Smart Metering

Ofgem is providing regulatory expertise and advice to the Government's central programme responsible for delivering the rollout of smart metering. We are also taking steps to put in place appropriate consumer protections.

Smarter Markets

By the end of the decade, it is the government's aim that all consumers should have smart meters for gas and electricity. This roll-out provides a platform for transforming how energy markets operate, benefitting consumers through innovative products, better service, lower costs and more effective competition. To make progress towards our vision, our strategy is to proactively identify, and see implemented, changes to market arrangements to enable the development of smarter markets.

Strategic Wider Works

Strategic Wider Works (SWW) is a framework for providing interim funding for critical large-scale investments that the Transmission Owners (TOs) (National Grid Electricity Transmission (NGET), Scottish Power Transmission (SPTL) and Scottish Hydro-Electric Transmission Ltd (SHETL)) identify as required.

System Operator (SO) incentive schemes

Generally each year we develop System Operator (SO) incentive schemes that are designed to encourage National Grid Electricity Transmission (NGET) and National Grid Gas (NGG) to operate the electricity and gas transmission system respectively in an efficient and economic manner, and to effectively manage the costs of operating each system.

T

The Third Package

The Third Package is a key step in implementation of the internal European energy market. It recognises the need for better co-ordination between European network operators and continuing co-ordination between regulators at that level.

When discussing the 'Third Package' in this document we are referring to Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and to Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.

Transmit

Project TransmiT is Ofgem's independent review of the charging arrangements for gas and electricity transmission networks, and the connection arrangements that DECC has explicitly left for Ofgem and the industry to resolve.

Appendix 3 - Deliverables

Theme 1 - Promoting Value for Money

Activity	Action	Outcome	Period
Markets	Submit National report to EU Commission	Commission is advised of developments, regulation and performance of GB energy markets	Q3
Markets	Implement Retail Market Review reforms	New obligations in place and working	Q3
Markets	TPI regulation - Publish issues paper	Increase customer engagement in the energy market	Q1
Markets	Electricity theft reform - Final proposals plus licence changes	Increased effectiveness of competition in retail markets	Q4
Markets	Continue work on wholesale electricity market liquidity - Following consultation on the Secure and Promote option, aim to make a minded to decision on the way forward ahead of Summer 2013.	Ensure sufficient electricity wholesale market liquidity to facilitate effective competition in the market	Q2
Markets	Smarter Markets - Change of supplier reform - Consultation on policy options	Increased effectiveness of competition in retail markets	Q4
Markets	Smarter Markets -Demand-side response - Conclude regulatory issues consultation	Increased effectiveness of competition in retail markets	Q3
SG & G Distribution	RIIO ED1 - Initial assessment of business plan published	Output, incentive and innovation arrangements to enable efficiently-run companies to provide the network services required for the ED1 period.	Q3
Sustainable Development	Consultation on proposals following Enforcement Review	Effective consumer engagement and protection	Q2
Sustainable Development	Publish decision on changes following Enforcement Review	Effective consumer engagement and protection	Q4

Sustainable Development	Finalise enforcement approach to Standards of Conduct	Effective consumer engagement and protection	Q3
Sustainable Development	Non-domestic back-billing data review	Reduction in number and scale of back-billing cases	Q2
Sustainable Development	Consumer empowerment progress report	Continuing innovation to empower consumers, learning from other sectors	Q4

Theme 2 - Promoting Security of Supply

Activity	Action	Outcome	Period
Markets	Capacity assessment report to Secretary of State	Highlight capacity issues for Government/industry action	Q3
Markets	Statutory Security of Supply Report	To fulfil statutory duty and highlight security of supply issues for Government/industry action	Q4
Markets	Continue to input into Government's Electricity Markets Reform	Market design that meets objectives of security of supply, government low carbon goals and value for money for GB customers	Ongoing and reflective of Government EMR timings.
Markets	Consultation document EB and SCR,(implementation of EU Elec Target Model)	Improve market signals for electricity security of supply, further the effective implementation of the EU single market in the interests of GB customers.	Q1
SG & G Distribution	Code Governance Review phase 2 Conclusions	Ensuring effective and efficient licence and code regulations	Q4

Theme 3 - Promoting Sustainability

Activity	Action	Outcome	Period
SG & G Distribution	Progress work on removing barriers and creating enablers for the development of Smart Grids.	Understand how the role of the DNO may need to develop as smart grids evolve	Q4
SG & G Distribution	Decisions on NIC/LCN Fund competitions	Ensure value for money and consumer protection	Q3

Forward Work Programme FY2013-14

Sustainable Development	Debt and disconnection annual report	Reduction in levels of debt and number of disconnections	Q2
Sustainable Development	Smart metering consumer protection and empowerment consultation paper	Effective consumer engagement and protection	Q2
Sustainable Development/ Markets	Smart metering consumer protection and empowerment response to consultation/decision paper	Effective consumer engagement and protection	Q4
Sustainable Development	Debt Assignment Protocol review of progress	Effective competition and choice for consumers on pre-payment meters	Q3
Sustainable Development	Complete annual Sustainable Development report	Fulfil statutory duty and to contribute to sustainable development policy/activity	Q3
Sustainable Development	Publish discussion paper on the Review of Green Tariff s	Effective consumer engagement and protection	Q2
Sustainable Development	Annual conduct of EDR Assessment as part of RIIO-T1	Improved industry performance in environmental management	Q4
Sustainable Development	Ofgem-specific National Adaptation Policy actions delivered	Facilitate energy sector contribution to climate change adaptation	Q4
Sustainable Development	Consumer Vulnerability Network	Effective consumer engagement and protection	Q2
Sustainable Development	Better regulation simplification plan	Delivery of Ofgem Better Regulation duties	Q1

Theme 4 - Ensuring Efficient Delivery of Government's Consumer and Environmental Programmes

Activity	Action	Outcome	Period
Environmental Programmes	Go live with enduring IT system for ECO	Through excellence in administration improve energy efficiency of domestic households	Q1
Environmental Programmes	Complete annual report on the Community Energy Saving Programme	Met deadlines and close schemes	Q1

Environmental Programmes	Complete annual report on the Carbon Emissions Reduction Target	Met deadlines and close schemes	Q1
Environmental Programmes	Complete annual report on the Feed in Tariffs scheme	Through excellence in administration, increase the update in small scale renewable generation	Q4
Environmental Programmes	Complete annual report on Renewables Obligation	Through excellence in administration to increase proportion of electricity from renewable sources	Q4
Environmental Programmes	Complete annual report on the Warm Home Discount scheme	Through excellence in administration support fuel poor customers	Q3
RHI Development	Complete annual report on the Renewable Heat Incentive scheme	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Q2
RHI Development	Go live with phase 3 changes	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Q3
RO Sustainability	Complete revised guidance for biosolids and biogas sustainability requirements	Through excellence in administration to increase proportion of electricity from renewable sources	Q4
RO Banding	Go live with RO Banding changes	Through excellence in administration to increase proportion of electricity from renewable sources	Q1
FIT	Go live with 'licensee facing' changes from phase 2B of the comprehensive review of FITS	Through excellence in administration, increase the update in small scale renewable generation	Q1
Offshore	Publish updated regulatory position on co-ordination and future tenders	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Q1
Offshore	Consult on revisions to tender process	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Q2
Offshore	Publish regulatory report on OFTO revenues	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Q1

Organisational Health

Forward Work Programme FY2013-14

Activity	Action	Outcome	Period
Finance and Risk Management	Publish 2012-13 Annual report and accounts	Financial propriety, transparency and accountability	Q2
Finance and Risk Management	Publish the Fossil Fuel Levy Rate for 2014-15	Levy set	Q3
Project Management	Publish the Forward Work Programme 2014-15	Transparency	Q4

Appendix 4 - KPIs

Activity	Metric (KPI's)	Details of what is being measured	Outcome	Frequency	Annual target 2013-14
Theme 1 - Promoting Value for Money					
Markets	Third party access	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	Sufficient storage capacity to provide a balance of supply and demand for gas and electricity	Ongoing (as applications are received)	100%
Markets	Third party access	Send decisions on Article 22 exemptions to the European Commission within prescribed timescales if adequate data has been provided	Sufficient storage capacity to provide a balance of supply and demand for gas and electricity	Ongoing (as applications are received)	100%
Sustainable Development	Customer service	Protect consumers by responding substantively to customer contacts	Protecting consumers	Quarterly	93% - 10 working days
Sustainable Development	Enforcement	Respond to complaints on enforcement matters confirming whether we will investigate	Effective consumer engagement and protection	Quarterly	90% - 20 working days
Sustainable Development	Enforcement	Produce statement of case or inform party under investigation of progress or what action we propose to take.	Effective consumer engagement and protection	Quarterly	100% within 9 months of initiation of formal investigation

SG & G Distribution	Licensing	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)	Ensuring effective and efficient license and code regulations	Quarterly	90%
SG & G Distribution	Licensing	Publish code modification IAs within 3 months of receiving the Final Modification Report	Ensuring effective and efficient license and code regulations	Quarterly	90%
SG & G Distribution	Licensing	Grant competitive licence applications within 45 days of receipt of a duly made application	Ensuring effective and efficient license and code regulations	Quarterly	100%
SG & G Distribution	Network connection	Competition Test decisions to be made within 4 months of receipt	Customers to receive a better, quicker and more cost effective service when connecting to the network	Quarterly	4 months
SG & G Distribution	LNCF	Announcements of NIC/LCNF ISP decisions within one month of ISP submission.	Project learning developed and effectively disseminated by DNOs. NIC/LCNF selection process robust to challenge and ensures VFM in GEMA decision.	Quarterly	1 month

E-Serve	FIT processing	Follow up with the generators outstanding issues on their applications for accreditation.	Through excellence in administration, increase the update in small scale renewable generation	Monthly	90% within 10 working days
E-Serve	FIT processing	Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers.	Through excellence in administration, increase the update in small scale renewable generation	Quarterly	95% within 22 working days
E-Serve	REN & CHP processing	Issue the main batches of renewable certificates following the generators' reporting deadline of their output data.	Through excellence in administration to increase proportion of electricity from renewable sources	Monthly	95% within 17 working days (Apr - Jun) 95% within 12 working days (July - Mar)
E-Serve	REN & CHP processing	Complete reconciliation of Combined Heat and Power Levy Exemption Certificates after receiving accurate data from CHPQA.	Through excellence in administration to increase proportion of electricity from renewable sources	Annually	95% within 25 working days
E-Serve	RO processing	Follow up with the generators outstanding issues on their applications for accreditation.	Through excellence in administration to increase proportion of electricity from renewable sources	Monthly	90% within 10 working days
E-Serve	WHD processing	Respond to obligated party Warm Homes Discount schemes for approval.	Through excellence in administration to support fuel poor customers	Monthly	100% within 28 days

E-Serve	RHI processing	Enquiries to be answered within 10 working days.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Quarterly	90% within 10 working days
E-Serve	RHI processing	Follow up with generators on outstanding issues with their applications for accreditation.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Quarterly	90% within 10 working days
E-Serve	RHI processing	Payments to be made within 30 working days of quarterly periodic data submission.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Quarterly	95% within 30 working days
E-Serve	RHI processing	The on-line application system will be available for a minimum of 99% of the supported business hours (excluding planned down time). Supported business hours are 08:00-17:30 Monday to Friday excluding bank holidays.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Ongoing	99% availability
E-Serve	Offshore processing	Licence grant within 70 days of commencement of Section 8a consultation	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Quarterly	70 days
E-Serve	Offshore processing	Preferred Bidder selection within 120 days of ITT submission (excluding BAFO)	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Quarterly	120 days

