



# Forward Work Programme 2015-16

## Draft for consultation

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### Overview:

The Forward Work Programme sets out for consultation how we plan to use our resources to make the greatest positive difference to consumers in the coming financial year.

Much of our work is shaped through dialogue and engagement with our stakeholders, in particular consumers and their representatives, to whom we are accountable. Your attention is drawn to the Introduction section which concludes with the specific questions upon which your views will be welcome.

Any responses to this draft Forward Work Programme should be received by us by noon on 18 February 2015. Unless requested to do otherwise we will publish your responses on our website when we publish our final Forward Work Programme 2015-16, planned for March 2015.

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# Chairman's Foreword

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Over the last year, electricity and gas remained high on the political agenda. Next year will see a general election in the UK, and it is likely that energy policy, and the future role of Ofgem, will be a prominent part of the debate. It has never been more important to be clear about what we are here for, and why our work matters to energy consumers.

Last year I said that I would be taking time with the Gas and Electricity Markets Authority to review and set out Ofgem's forward strategy. We have now completed this work, and today, alongside this draft programme for 2015-16, we have published a short document outlining the key elements of our strategy. Our strategic mission is to make a positive difference for energy consumers through independent regulation. We are already engaged in transforming our organisation so that we focus our resources in realising this important goal.

This Forward Work Programme for 2015-16 is the first that draws on our new strategy to set out priorities and show how this will deliver benefits for consumers. We have divided our planned work into six themes to show how it contributes to the six critical strategic outputs of our independent regulation: regulation, competition, standards, partnership, trust and confidence, and efficiency.

All of our work will be focused on delivering better outcomes for consumers, including lower bills, reduced environmental damage, improved reliability and safety, better quality of service and benefits for society as a whole.

This programme also represents another important milestone for Ofgem. After many years of increased activity and costs, it envisages an overall reduction in expenditure next year. The planned budget of £87.0 million represents an absolute cut on last year of £3.0 million and an underlying reduction in our ongoing costs of 7% (excluding one-off strategic initiatives and inflation). We aim to achieve this without compromising the important work we do for consumers. Indeed, one of our goals is to work more efficiently and speed up our decision making so we can bring benefits to consumers more quickly.

The health of competition in the retail energy market remains a top priority for Ofgem. In June 2014 we referred the energy market in Great Britain to the Competition and Markets Authority (CMA) for a Market Investigation. This review will continue in the next financial year, and may make important recommendations for changing the market. Whilst we will continue our oversight and scrutiny of the energy markets during 2015-16 to ensure consumers remain protected, we are unlikely to launch any major initiatives in this area whilst the CMA investigation continues. Ofgem will continue to engage with the CMA during its investigation and stands ready to help implement any remedies the CMA sees fit to recommend.

Another important priority is to extend the benefits of competition to activities that are currently monopolies. In 2015-16, subject to consultation, we will develop proposals to increase the role of competitive tendering for onshore transmission projects.

The energy markets are on the cusp of a technological revolution, with 50 million smart meters due to be rolled out to residential consumers before the end of the

decade. These meters will be connected into a nationwide network, which will allow innovative new products and services to be developed to help consumers manage their energy use and bills. Ofgem will play an important part in ensuring companies deliver the rollout. Much of our work in 2015-16 will be focused on ensuring suppliers have appropriate plans in place to roll out smart meters in an efficient and timely way so that consumers can realise the full benefits of this new technology.

Our strategy makes clear that one of our most important functions as an independent regulator is to engender trust in the industry and the arrangements that we regulate. We do this both through the way we regulate and by being a trusted source of impartial information. In 2015-16, we intend to sharpen our focus on providing timely and relevant data and information about the markets for which we are responsible. The aim is to build trust and confidence of consumers, investors and market participants, which should lead to better outcomes for consumers.

An important part of our role is that, through our delivery arm, E-Serve, we are responsible for administering, delivering and enforcing a range of social and environmental schemes on behalf of the Department of Energy and Climate Change (DECC). One aspect of our strategy is that we are reforming the governance of E-Serve. From the start of 2015, E-Serve will have its own board, which will be better able to focus on its distinct challenges and opportunities. These schemes bring benefits to consumers and it is important that we deliver them effectively, at low cost and in a way that doesn't compromise our role as an independent regulator.

These are just a few of the important activities that we will prioritise in 2015-16. It is important that we listen closely to the priorities of our stakeholders, including government. The first version of the government's Strategy and Policy Statement is expected to be considered by Parliament in early 2015. This statement provides important guidance for how we carry out our functions. Other stakeholders' views are also important to us, including the responses to the consultation on this programme.

With the general election and the market investigation by the CMA, 2015-16 will be a pivotal year for Ofgem. It is important that we continue to focus on delivering real benefits for consumers through the important regulatory and delivery functions that we carry out. It is also important that we face the difficult choices around transforming our organisation to a more effective and efficient independent regulator, that engenders the full public support because of the valuable and cost effective work that we do. If we do that, we will be well placed to continue delivering better outcomes for consumers into the future.

David Gray  
Chairman

# Introduction

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Our strategic mission is to make a positive difference to every consumer through independent regulation.

We need to make the most of our resources and our powers in order to make as much of a positive difference as we can. This means producing through our actions better outcomes for energy consumers. We do this through independent regulation as well as through the additional functions given to us by government to administer its social and environmental schemes.

It is critical to recognise that independent regulation doesn't only involve setting and enforcing rules and regulations. It also includes building trust and confidence in these arrangements so that consumers engage and companies invest. We also have an essential role in setting and enforcing standards that people expect from an essential service.

## What are we looking to achieve?

Consumers are at the heart of everything we do. This is recognised explicitly in our strategy which outlines the key consumer outcomes we are aiming to achieve, published alongside this Forward Work Programme. These outcomes are:

- **Lower bills** than would otherwise have been the case
- **Reduced environmental damage** both now and in the future
- **Improved reliability and safety**
- **Better quality of service** appropriate for an essential service
- **Benefits for society as a whole** including support for those struggling to pay their bills

We also make a difference to consumers by implementing government social and environmental schemes through our delivery arm, E-Serve. These schemes include: the Domestic and Non-Domestic Renewable Heat Incentives, the Renewables Obligation, the Feed in Tariff, the Energy Companies Obligation, the Warm Home Discount and the government Electricity Rebate. We do this in partnership with DECC.

We should not forget in our drive to make a positive difference for consumers, that it is important we deliver value for money in our own activities. Across the whole of Ofgem, our focus in 2015-2016 will be to minimise the direct and indirect costs we impose on consumers and the industry. We will set challenging budgetary targets, make measurable commitments to reducing expenditure and continually evaluate our impact. Our overall budget for 2015-16 will be down £3.0 million compared to last year despite absorbing the cost of the strategic initiatives.

We are already making good progress in this area. Last year the E-Serve Continuous Improvement Programme led to savings of 13% through cost, quality and speed improvements. 2015-16 will be no different: our E-Serve division plans to make an overall 10% saving across the year, ensuring value for money for consumers and the industry. Having proven our approach to efficiency savings within E-Serve, we plan to roll out this approach across the wider organisation during 2015-16.

We have a duty to protect the interests of existing and future gas and electricity consumers, including their interests in reducing greenhouse gas emissions. In doing so we must have regard to the interests of particular consumers, including but not limited to those who are disabled, sick, pensioners, people living in rural areas or on a low income. We are also required to contribute to the achievement of sustainable development, to take into account government guidance on social and environmental matters<sup>1</sup>. Each year in our Annual Report we review our contributions in the energy sector.

## How are we going to achieve it?

This Forward Work Programme provides greater detail on how we plan to achieve the above outcomes for consumers. We have grouped our activities for 2015-2016 around six outputs, as set out in our strategy document:

- **Regulation** - designing strong, stable systems for regulating monopoly activities and the way markets operate
- **Competition** - promoting effective competition where this can benefit consumers by driving down costs and improving service quality
- **Standards** - ensuring results and protection for consumers meet the high standards expected of an essential service
- **Partnership** - engaging with the government and others to make sure consumers get the greatest benefit from independent regulation
- **Confidence** - fostering trust and confidence across the energy market through transparency, accountability and good regulatory processes
- **Efficiency** - minimising the direct and indirect costs we impose on consumers and the industry

We are also expecting the new government Strategy and Policy Statement (SPS) to be designated in early 2015. The SPS is an important document and seeks to clarify the policy outcomes government expect Ofgem to achieve. More information on the SPS is included in annex 3.

In addition to the sections mentioned above, this Forward Work Programme also includes:

- A section on budgets and spend in chapter seven.
- A list of the major deliverables as currently planned. Planning will continue across our work and delivery dates may change.

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<sup>1</sup> To be replaced by the Government's Strategy and Policy Statement (see annex 3)

## **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 deliverables (provided in annex 1).
2. The proposed Key Performance Indicators (KPIs) in annex 2. We would particularly welcome views and comments from parties who interact with our systems and processes on the KPIs for the social and environmental schemes 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 annex 4.

Any questions should be addressed to:

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# 1. Regulation of Monopolies and Enabling Markets

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1.1. Ensuring an affordable, secure and sustainable energy system has been our priority for many years. How we do this has changed over time to reflect the challenges of the day and our increased responsibilities. The challenges are considerable and the case for independent regulation to influence, enforce and increase confidence has never been stronger.

1.2. We design strong, stable systems for regulating monopoly activities. We are also responsible for setting and maintaining the rules which allow competitive markets to operate. By doing this we make sure that companies do not take advantage of their position, and that consumers' interests are helped and not hindered by the market.

1.3. The last few years have seen significant changes to the energy market arrangements. We have also introduced a new way of regulating monopoly networks called RIIO<sup>2</sup> and implemented the first round of price reviews under this regime. This year the focus is more on monitoring their effect, ensuring companies deliver and enforcing compliance.

## Key initiatives planned for 2015-16

### Electricity Market Reform (EMR)

1.4. EMR went live in August 2014 and we are now delivering the roles we have been given. This includes dealing with disputes from generators and demand side response providers against decisions made by the EMR delivery body, National Grid Electricity Transmission (NGET), and overseeing NGET's delivery of EMR. From January 2015 we will take ownership of the rules that govern the capacity market so 2015-16 will see us, subject to consultation, consider the first set of changes to those rules. This will include a consultation on revenues, incentives and outputs for NGET as the EMR delivery body and we intend to have these in place by the start of the following financial year 2016-17. By delivering our role, and seeking to ensure NGET delivers its EMR roles efficiently and effectively, we are contributing to the overall smooth running of the EMR processes to help that policy achieve its decarbonisation and security of supply objectives.

### European codes

1.5. We will continue our work on the European Network Codes, a suite of binding European laws which promote competition, efficient use of transmission capacity,

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<sup>2</sup> See chapter one, section 1.6 for an explanation of RIIO

integration of energy markets and the harmonisation of rules for the operation of transmission and distribution networks. This will involve making significant changes to codes and licences in Great Britain. We will work with DECC and industry to ensure we implement the codes in a proportionate and timely manner, as well as working closely with our fellow European regulators. This will involve managing multiple changes to existing GB industry arrangements, licences and legislation where necessary.

## Network price controls

1.6. RIIO is our method for setting the prices charged by the companies that own and run the electricity and gas networks. It runs for eight years and stands for “revenue = incentives + innovation + outputs”. It’s designed to ensure that consumers get value for money. Having now set the overarching price controls for all the major networks there are still important decisions that we need to take each year to confirm the revenues that the companies can earn.

1.7. For example, the RIIO price controls include a limited number of uncertainty mechanisms where costs and outputs could not be determined for Final Proposals. We are likely to receive a number of applications under the uncertainty mechanisms for electricity and gas transmission networks (RIIO-T1), and the gas distribution networks (RIIO-GD1), including additional costs for required physical site upgrades, additional street works costs, and costs associated with implementation of the Industrial Emissions Directive. We will be reviewing the companies’ submissions for each of these areas before consulting and determining on any amendments to revenue and associated outputs for RIIO-T1 and RIIO-GD1.

1.8. There are also a number of mechanisms in the previous electricity distribution control which need to be reviewed, where we set ahead of time the allowances against a set of expected outputs set at the time of the price control. We will review whether the required works have been delivered and if they have been delivered efficiently, and make any relevant adjustments to Distribution Network Operators (DNOs) revenue.

## Enhanced system operator

1.9. Through our Integrated Transmission Planning and Regulation project, we have developed proposals to enhance the role of the electricity system operator (SO). In particular, we think the SO should play an increased role in the identification of the long-term needs of the system, and in the development and assessment of options to meet these needs. Subject to consultation responses, we will implement these proposals in 2015.

## Electricity interconnectors and strategic investments

1.10. An important part of our role regulating electricity transmission is to assess the need for, and efficiency of, major projects in electricity and gas transmission. This includes onshore projects that meet the criteria for Strategic Wider Works (SWW) under RIIO and new interconnector projects under the cap and floor regime. The new cap and floor regime regulates how much money a developer can earn. We

expect to complete needs case assessments for a number of major projects in 2015, and to scrutinise the efficiency of those projects where sufficient information is provided. We expect to have a second window for interconnector projects in the autumn and are open to SWW submissions from transmission companies whenever they are able to prove the case for investment.

## Network innovation

1.11. In 2015, we will run the first electricity Network Innovation Competition (NIC) involving both electricity transmission and electricity distribution. £81 million will be available in this competition for innovation projects with the potential to deliver significant financial and environmental benefits to electricity customers. This will be run in parallel to the third Gas NIC competition. We will also commence our value for money review of the outcomes of the innovation fund for electricity distribution (Low Carbon Network Fund) projects which we have already funded.

## Shetland

1.12. In 2015, we will work closely with Scottish and Southern Power Distribution to procure the most efficient energy solution for the Shetland Isles, which are currently not connected to the mainland and thus cross subsidised by the mainland customers. We will ensure that the potential for innovative solutions on the islands are fully explored in this process.

## System operator incentives

1.13. Following consultations during 2014, an updated incentive scheme for the Electricity System Operator (NGET) for the period 2015-17 is due to be implemented at the start of the 2015-16 financial year. Similarly updates to three incentives for the Gas System Operator (NGG) for the period 2015-18 are also due to be implemented in early 2015-16. For electricity we will begin a wider review of the incentive framework. We will continue to monitor NGG and NGET's performance against these incentives to ensure that they are delivering value for money for consumers.

## Data and Communications Company

1.14. Following their first annual price control last year, we will continue to regulate the Data and Communications Company (DCC). The DCC is the licensed monopoly that is responsible for the communications between smart meters and market participants. We will closely scrutinise DCC's costs through the annual price control process to ensure that it provides value for money as it develops its systems in support of the smart meter rollout. In 2015 we plan to develop DCC's operational incentive so that it has strong incentives to provide a good service when it reaches a steady state in its operations.

## Demand side flexibility

1.15. Linked to our smart grids work and our smarter markets agenda noted in chapters two and four, we are considering what more we need to do across Ofgem to facilitate the development of demand side response and other forms of flexibility such as storage. Making greater use of demand side flexibility has the potential to reduce costs across generation, supply and networks and we recognise the need to take an end-to-end view of what is required. In developing our thinking we will need to work closely with stakeholders from across the sector, with DECC and with Europe.

## Gas Significant Code Review (SCR)

1.16. In 2014-15 we implemented the gas SCR which improves the incentives on gas suppliers to meet expected demand. We will evaluate and monitor the impact of the 'Gas Significant Code Review' changes. In addition we will make a timely decision on the National Grid's Centralised demand side response platform.

## Electricity Significant Code Review (SCR)

1.17. This year also saw us publish our final policy decision for reform of electricity cash out arrangements<sup>3</sup> which will support efficiency in balancing and supply. We decided against initial sharpening of cash out prices in the 2014-15 winter after taking industry feedback into consideration.

1.18. Cash out reforms scheduled for implementation in November 2015 are now under consideration in the Balancing and Settlement Code (BSC) modification process. The BSC Panel responsible for implementation will present a recommendation to the Gas and Electricity Markets Authority in the spring of 2015.

## Governance review

1.19. From our experience we are aware of the many challenges involved in implementing changes to the industry framework. Many such changes will be needed in a number of key areas in the coming years. We are considering if there is a need to do further work on this, to consider if 'governance' issues faced across industry are impacting delivery of change and result in barriers to entry.

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<sup>3</sup> Cash out arrangements are explained in more detail on our website here: <https://www.ofgem.gov.uk/gas/wholesale-market/market-efficiency-review-and-reform/cash-out-arrangements>

## Compliance and enforcement

1.20. As well as setting rules and regulations it is also important to ensure companies comply with these rules. We are committed to a tough stance on enforcement. We completed our Enforcement Review last year and are seeing benefits in the increased pace and effectiveness of our actions. In 2015-16 we will build on this in line with our enforcement vision; that businesses put energy consumers first and act in line with their obligations.

1.21. We will assess whether we have the right suite of tools and powers to deliver credible deterrence and engender compliant behaviour. We will look for opportunities to strengthen and develop these as necessary. We will also focus on the role of other organisations who have a part to play in driving improved company performance, such as the ombudsman.

## Ongoing activities

1.22. We will thoroughly analyse all requests for exemptions to the Liquefied Natural Gas 'Third Party Access' requirements, as well as gas storage Minor Facilities Exemption requests and make timely decisions.

1.23. We will continue our work to ensure that our Transmission System Operators (TSOs) are certified as being ownership unbundled in line with legal requirements. This will ensure barriers to investment in energy infrastructure are removed and will benefit consumers by helping to create a secure, affordable and low-carbon energy supply.

## 2. Effective Competition

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2.1. We see effective competition in the energy market as being an important means of benefiting consumers. In recent years we have undertaken a number of investigations and reforms to address the problems identified with competition, including our Retail Market Review (RMR) and associated reforms. These promote consumer engagement and improve competition by making the market simpler, clearer and fairer for consumers.

2.2. Last autumn the Prime Minister asked us to conduct an assessment of the state of competition in the energy market, in conjunction with the Office of Fair Trading (OFT) and the Competition and Markets Authority (CMA). Following this assessment, on 26 June 2014 we referred the energy market in Great Britain to the CMA for a market investigation because we felt that competition was not working as well as it could for consumers.

2.3. In 2015-16 we will continue to promote effective competition where this can deliver benefits for consumers by driving down costs, promoting innovation and improving service quality. As part of this we will look to increase the role that competition can play in networks, where appropriate. We will also continue our work to ensure that consumers feel confident engaging in the market, supported by fast and reliable switching processes.

### **Key initiatives planned for 2015-16**

#### Market investigation

2.4. On 26 June 2014 we referred the energy market in Great Britain to the Competition and Markets Authority (CMA) for investigation. The statutory deadline for the investigation is 25 December 2015. In line with our statutory duties, we will provide the CMA with any appropriate information in our possession which relates to the scope of the investigation and will also provide any other assistance which the CMA requires in relation to the investigation.

#### Monitoring and enforcing under competition law

2.5. Alongside our sectoral powers, we will keep a strong focus on challenging anti-competitive behaviour, working closely with CMA and other sectoral regulators to develop and strengthen competition policy for the benefit of consumers now and in the future.

## Creating a level playing field for independent suppliers

2.6. As part of the government's Challenger Businesses initiative, in August 2014 DECC and Ofgem published an Action Plan<sup>4</sup> to support the entry and growth of independent or small energy suppliers. In 2015-16 we will continue to take action to improve our engagement and communication with suppliers and meet our Action Plan commitments in the areas of supplier rules and obligations, market governance and infrastructure, and engagement and policy design.

## Encouraging domestic consumer engagement

2.7. Consumer engagement in the market by switching tariff or supplier is an important factor in an effective competitive market. Our Retail Market Review reforms made the market simpler, clearer and fairer for consumers. It is important that consumers are made aware of these changes and feel confident that it is worth engaging in the market.

2.8. In April 2014 we launched our 'Be An Energy Shopper' campaign to help customers take control by helping them to understand their bills and take steps to find their best energy deals. Our promotional campaign has been very well received by the industry and consumer groups and tens of thousands of energy customers have visited our new website [www.goenergyshopping.co.uk](http://www.goenergyshopping.co.uk) for Ofgem's easy guide to getting a better deal. Our ambition is to build on this progress by reaching out to as many domestic energy customers as we can, and encourage them to "go energy shopping".

2.9. We will develop the project to move to next day switching, and commence work on this important area. Along with other measures, we will undertake a review of objections to switching. This will include whether the current arrangements could be improved so that consumers in debt are more easily able to get the best deal, while ensuring suppliers are able to take appropriate steps to have debt repaid.

2.10. As the smart meter rollout begins, we will step up the pace on regulatory change to make the market more efficient and competitive for consumers. In particular, we will lead work on consumer protection and empowerment in the transition to smart meters and continue to handle derogation requests<sup>5</sup> in relation to the Retail Market Review to facilitate the transition to a smarter energy market.

2.11. To make sure we offer an effective service to consumers we will also review our own customer contact functions.

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<sup>4</sup> Government's Challenger Businesses initiative  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/341310/Challenger\\_Businesses\\_-\\_Independent\\_Energy\\_Suppliers\\_FINAL\\_ACTION\\_PLAN.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/341310/Challenger_Businesses_-_Independent_Energy_Suppliers_FINAL_ACTION_PLAN.pdf)

<sup>5</sup> For more information on derogation requests companies can make please see:  
<https://www.ofgem.gov.uk/publications-and-updates/guidance-derogation-requests-domestic-retail-market-review-rmr-licence-conditions>

## Retail market developments

2.12. In summer 2015 we will publish our annual report on the state of retail energy markets. This will describe developments in the retail market since our 2014 State of the Market report. We will also look to understand the initial impact of our recent reforms of the wholesale and retail markets. This will allow us to keep these policies under review and take action if needed.

## Onshore network competition

2.13. We are consulting on proposals to increase the role of competitive tendering for transmission projects where it can drive efficiency. We consider that using tendering to select a party to construct and own some new onshore transmission assets is likely to create benefits for consumers. We want to apply this to new large assets that can be easily identified and separated from the surrounding network. Subject to consultation responses, in 2015-16 we will develop the design of the regime and associated proposals for changes to legislation and licences, working with DECC as appropriate.

## Competition in connections

2.14. By the end of 2014 we will set out the steps we will take to improve conditions for competition in the process of getting connected to the electricity distribution network. In 2015-16 we will implement any changes that we believe are necessary and we will continue to monitor the development of competition in this market.

## Offshore transmission

2.15. Through the offshore transmission competitive tender process we run to appoint Offshore Transmission Owners (OFTOs) we will also continue to support the offshore wind developments by bringing new capital into the offshore sector which can be used to support new investments. Our other main role is to regulate OFTOs to make sure they meet their obligations, including the 98% availability target for their transmission systems. By the end of 2014 we will have closed our first tender round, having successfully tendered £1.1 billion of offshore transmission assets, connecting over 2.1GW of electricity generated by offshore wind farms to the onshore grid. In 2015-16 we will work towards achieving financial close and licence grant for the remaining projects in our second and third tender rounds. We will also work closely with wind farm developers to identify the next round of projects that will go through the tendering process.

## Non-traditional business models

2.16. In our work to deliver the changes needed to support consumers in the future, we will focus our regulatory framework to enable innovation. Increasingly, we are seeing a range of non-traditional business models looking to enter the market,

some of which aim to provide consumer benefit through demand flexibility and reduction. We will engage more actively with these non-traditional businesses, including to test where our regulation might slow the pace of innovation. Alongside this, we will continue to work with the Community Energy sector, to help improve the prospects for local generation and supply. Our work is set in the wider context of building our capability to understand and assess uncertainties across the energy system.

## European wholesale markets

2.17. Our work will focus on monitoring the effectiveness of the market, ensuring compliance with licence obligations and, if necessary, taking action to tackle non-compliance or improve rules.

## 3. High Standards of Outputs and Protection

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3.1. Energy is an essential service, so consumers have an expectation of high standards when receiving both electricity and gas services. We think this is right and we expect electricity and gas companies to treat energy consumers fairly in everything they do. This means consumers should be protected by standards, and never disadvantaged by them.

3.2. We want to achieve a culture where electricity and gas companies treat energy consumers fairly and provide high-quality customer service. Where this is not the case, we step in. In 2013, we introduced enforceable Standards of Conduct for suppliers. This is a critical first step toward more reliance on regulation through general principles. We intend over time for such principles-based regulation to replace the more detailed and prescriptive standards that we currently use.

3.3. An important area of work is in ensuring vulnerable consumers receive the right protection. Two years ago we implemented our new approach to protecting vulnerable consumers. Instead of defining it solely according to particular characteristics, we base it on how people interact with the energy market: do their circumstances make it harder for them to look after their own interests? Are they likely to be worse off? This recognises that a person's circumstances can change over time.

3.4. We are keen to ensure compliance with rules and regulations across the board. Where this is not achieved, we have a suite of tools and enforcement powers we can use. In line with suppliers' Standard of Conduct licence obligations, we want to achieve a culture where businesses put energy consumers first and fulfil their obligations. Since we administer a number of government social and environmental schemes we are able to use our enforcement powers to make sure standards are maintained in this area. We also make sure we deliver government schemes in ways that promote consumer welfare.

### Key initiatives planned for 2015-16

#### Standards of Conduct

3.5. We will continue to engage with senior management within the energy suppliers to understand what they are doing to embed the Standards of Conduct into their businesses and to challenge them to improve their performance. We will monitor compliance with these standards and enforce if necessary.

#### Consumer vulnerability strategy

3.6. We will continue to develop and embed our consumer vulnerability strategy to reflect the wider policy context, drawing on our research and insight. Our programme for 2015-16 includes work on prepayment, protections for households which are off

the gas network, and promoting inclusive markets. We will support the ability of consumers to reduce their energy costs and promote stronger financial capability through Energy Best Deal.

## Consumer protection and customer service

3.7. Improvements in customer service will remain a core priority, with a resolute focus on improving suppliers' complaints handling performance and making sure that consumers have effective, accessible routes for redress including through the ombudsman. Achieving a satisfactory resolution for consumers whose money has not been returned from closed accounts is a key aim. We will continue to work with other regulators to understand the full impact of affordability pressures on households, and learn from other sectors to support progress on our commitment to make switching simpler and faster.

## Review of gas distribution network extensions

3.8. We are currently considering whether any changes are necessary to maximise the effectiveness of the fuel poor network extension scheme. We will conclude this review in 2015-16 and make the adjustments we consider to be appropriate.

## Monitoring network company standards

3.9. Under the RIIO framework mentioned in chapter one, we will monitor network companies' performance against the interruptions incentive and the broad measure of customer satisfaction. These customer satisfaction measures include, for example, network companies' performance in handling complaints. We have also introduced incentives to get the companies to improve the way that they handle connections requests and how they support vulnerable customers. We will monitor performance in these areas and through our incentive and penalty regime will look to drive improved standards.

## Third Party Intermediaries

3.10. We will take actions to promote the provision of good quality, trusted third party intermediary (TPI) services. This includes continuing to operate the Confidence Code for price comparison websites and look to extend its reach and profile in the market. Our aim is to protect the interests of consumers by giving them confidence that TPIS for energy-related services will treat them in a fair, appropriate and transparent manner and assist them effectively.

## Security of supply

3.11. We are committed to working with National Grid to ensure that they continue to have the tools necessary to meet high standards for security of supply. This work is particularly important to ensure that National Grid is able to meet the challenges resulting from tighter electricity margins during the mid-decade winters. As part of this work, we will continue to provide robust regulatory oversight of National Grid's

use of new balancing services (Supplemental Balancing Reserve and Demand Side Balancing Reserve) to ensure that they deliver value for money for consumers.

## Environmental schemes

3.12. In 2015-16 E-Serve will continue to monitor and enforce compliance by scheme participants and suppliers with the obligations that apply to them. This is vital for delivering sustainable electricity, protecting consumers and ensuring value for money.

3.13. Proactively detecting and preventing fraud is also a key area of our focus. We will continue to pursue enforcement action and liaise with prosecuting authorities where we find evidence of fraud.

3.14. Where we are a service provider we expect to uphold the high standards of customer service that we expect of industry.

## 4. Partnership with Government and Stakeholders

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4.1. We do not operate in a vacuum. For us to achieve a better deal for consumers, we engage with the government, consumer groups, industry and other stakeholders. We aim to make sure consumers get the greatest benefit from independent regulation. We listen and talk to government about how the energy market is working. If we think we need new powers to tackle an issue, we will ask for them. We have also been in dialogue with government about the new Strategy and Policy Statement (SPS). The SPS defines the roles of government and Ofgem and identifies strategic goals and policy outcomes that are wanted in the energy area (see annex 3). In addition to this we regularly appear before Parliamentary committees.

4.2. Our Government Affairs team works with politicians across Great Britain in Westminster, Holyrood and Cardiff Bay. We aim to keep politicians and their staff up-to-date with important developments in our work. Through briefings, events and other regular contact, we make sure they know about and understand the work we do to protect the interests of gas and electricity consumers.

4.3. Following the publication of the Smith Commission report on greater powers for Scotland, we will play a full and constructive role in the work to implement and support new powers for the Scottish Parliament. In particular we will, in cooperation with other key stakeholders, use our powers and expertise to put in place effective and robust industry and governance arrangements and to provide any necessary advice to support greater energy powers for the Scottish Parliament.

4.4. We are in constant dialogue with consumer groups, including those who represent the interest of small, medium and large businesses. Although we conduct our own consumer research and engagement, we also talk with consumer groups to make sure their concerns are heard. We also engage with a wide range of special interest groups.

4.5. We work with other economic regulators and the Competition and Markets Authority (CMA) through the UK Regulators Network (UKRN) and the UK Competition Network (UKCN). Through the UKRN we share learning and explore opportunities for improved understanding and coordination across sectors. In 2015-16 we intend to continue leadership of UKRN projects on consumer affordability and cross-sector infrastructure, as well as participating across other projects.

4.6. In 2015-16 E-Serve will continue to implement government policy for the regulation of clean energy schemes and social support. We will also work with government to make improvements to the renewable heat and electricity schemes we administer to make sure that they stimulate investment and encourage greater use of renewable technologies.

## Key initiatives planned for 2015-16

### Smart meter rollout

4.7. In early 2015 we will start scrutinising suppliers' plans to roll out smart meters by 2020 in accordance with government legislation. We will engage suppliers in a 'dry run' exercise and we will want to see that suppliers have robust plans in place to meet their annual milestone targets. These targets will be formal and binding from 2016 onwards.

4.8. We will also regulate suppliers' delivery of the arrangements government has put in place to engage consumers during the smart meter rollout. These include the delivery of Smart Energy GB and the Smart Metering Installation Code of Practice (SMICOP) obligations set out in licence conditions. We will also continue our observer role in the Smart Energy GB Board and SMICOP Panel.

### Smart Grid

4.9. Distribution networks will have to change considerably to cope with increased levels of intermittent and distributed generation and low carbon technologies such as electric vehicles. The challenge of moving to a Smart Grid is one that requires the involvement of a range of stakeholders across government, network companies and throughout the value chain. In doing this we will draw on the learning from the innovation fund for electricity distribution (Low Carbon Network Fund) projects which we have already funded. These projects have involved academics and other stakeholders across the industry. We will continue to chair the Smart Grid Forum jointly with DECC and look to play an influential role in the European debate around the regulatory and commercial arrangements in particular.

### Engaging effectively with European regulators

4.10. Ofgem plays a central role in the two European regulatory organisations: the Council of European Energy Regulators (CEER) and the Agency for the Cooperation of Energy Regulators (ACER). The effective partnerships which we've built through these two organisations allow us to influence the direction of European energy policy developments such that they benefit British consumers. These will be an ongoing feature of our work during 2015.

4.11. The recent change in the European Commission means we expect to see new policy initiatives, which we will seek to positively influence, regarding retail market competition and the creation of an Energy Union. We will also continue to work through ACER, CEER, and with neighbouring regulators, to make a competitive pan-European gas and electricity market a reality. We will do this by implementing new rules (in the form of European network codes) and focusing on the coordinated development of infrastructure. Importantly, we will also continue our work with a broad range of industry parties within Britain to ensure an understanding of the significant number of new initiatives and changes to existing GB market rules resulting from European led policy.

## Environmental schemes

4.12. E-Serve administers and delivers a range of social and environmental schemes on behalf of government, including the Domestic and Non-Domestic Renewable Heat Incentives, the Renewables Obligation, the Feed in Tariff, the Energy Companies Obligation, the Warm Home Discount and the Government Electricity Rebate. We do this in partnership with DECC.

4.13. As always, we will work alongside DECC to ensure that any changes they make to the schemes are implemented effectively and cost as little as possible. A memorandum of understanding we agreed with DECC in March 2013 helps us to identify ways to improve our relationship and increase the efficiency of the environmental schemes. We also work with a broad range of stakeholders, from scheme participants to suppliers and vulnerable consumers. We will continue to use meetings, consultations, workshops and surveys to keep stakeholders up to date on scheme developments and give them the opportunity to provide us with feedback.

## 5. Trust and Confidence

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5.1. For a competitive energy market to work, it needs a foundation of trust and confidence. It has become apparent in recent years that consumers are not happy. There have been big rises in energy bills at a time when household budgets are squeezed and businesses are struggling.

5.2. Our recognition of the scale of the problem lay behind our decision in 2013 to introduce some of the biggest reforms to the market since competition was introduced. We believe in better treatment, more straight-forward billing and more comprehensible choices to enhance customers' experiences. We consider that requiring suppliers to provide simpler tariff choices, clearer information and fairer treatment will help us restore consumer confidence. In other words a simpler, clearer and fairer energy market.

5.3. After we announced these reforms to address our concerns, we referred the energy market in Great Britain to the Competition and Markets Authority (CMA) for investigation (see chapter two). During 2015-16 we expect the CMA to complete its investigation, and in the run up to that we will continue to provide information and assistance to the CMA.

5.4. We are keen to build trust through increasing transparency of prices, costs profits and customer service in the energy market. Since 2009, we have required energy companies to report annually on their revenues, costs and profits, while separating their generation and supply activities. This is where we bring our expertise and understanding of the regulatory context to provide impartial and authoritative information. Since autumn 2014 we have published supplier complaints data, and we regularly publish information on how suppliers meet their social obligations. The transparency resulting from our 2009 reforms is key to enhancing trust. We want to make sure that consumers have confidence in the market and so are inspired to engage with it.

5.5. Although we have received good feedback from stakeholders in the last year, we want to continue to improve their trust and confidence in the schemes we deliver during the coming year.

### **Key initiatives planned for 2015-16**

#### Enhanced market monitoring

5.6. We will continue to monitor the functioning of the wholesale and retail energy markets. We will look to publish more regular indicators of market performance. We will also adopt a more proactive approach to monitoring suppliers' compliance with their licence obligations.

## Network price control reporting

5.7. We have amended the reporting requirements for RIIO<sup>6</sup>. We have already required the companies to publish more of their information and improve their communications with stakeholders. Following the first year of reporting for RIIO T1 and GD1 we are looking at the impact of this information, and whether stakeholders received adequate information. In addition, the Data Assurance Guidance (DAG) work will be fully reflected in the Licences from 1 April 2015. The DAG requires the companies to risk assess the information reported to the regulator and to demonstrate they have taken a proportionate approach to validating data they are submitting, improving timeliness and accuracy of reporting to the regulator.

5.8. In Offshore transmission we expect future tenders to lead to considerable savings for consumers. An independent report by the consultants CEPA and BDO recently assessed savings from the first tender round to be between £200 million and £400 million. It also indicated even greater potential savings from the second tender round.

5.9. We will focus on maintaining our stable investment and regulatory frameworks for investors in offshore transmission and clean energy. We will also work to improve the level of comparative information and commentary that we provide on our website and in the annual reports that we will publish, responding to demands from stakeholders for better information on the performance of network companies.

## Distribution losses and the environment

5.10. In 2015, we will commence our monitoring of the effectiveness of Distribution Network Operators (DNOs) loss reduction strategies. This will be helped by the DNOs' annual environmental reports which are targeted at external stakeholders.

## REMIT implementation

5.11. Wholesale market integrity and transparency remains an important focus for us. We will continue to monitor and investigate suspected breaches of the EU Regulation on wholesale energy market integrity and transparency (REMIT). We will take enforcement action where appropriate and, in the event we receive powers to enforce against criminal market behaviour, we will be implementing the appropriate procedures. We will continue to register market participants who are required to report information to the Agency for the Cooperation of Energy Regulators (ACER). We will be working closely with ACER and other EU regulators in the application of REMIT, for example in preparation for securely receiving the data that will be submitted to ACER, to share policy views and in discussing cross border cases. We will be engaging with market participants and persons professionally arranging transactions to ensure they are aware of their obligations under REMIT. Our regular

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<sup>6</sup> See chapter one, section 1.6 for an explanation of RIIO

dialogue with the Financial Conduct Authority (FCA) will also continue, given the close interdependencies between energy and financial markets.

## Liquidity report

5.12. We will publish our first annual assessment on the impact of Secure and Promote in summer 2015, alongside our report on the state of the retail energy markets (see chapter two). Secure and Promote was introduced as a special licence condition in the generation licences of the obligated parties to improve access to the wholesale electricity market and to ensure the market provides the products and price signals needed to compete effectively.

5.13. As part of the liquidity report, we will provide the first year of data from the key liquidity metrics and a summary of the feedback from stakeholders. The report will be an initial assessment of the impact of Secure and Promote on the wholesale electricity market and on the access of independent suppliers to the market. More complete data from monitoring in the following two years will allow us to publish our views on the impact of our reforms in the annual reports in 2016 and 2017.

## Security of supply

5.14. We will continue to monitor market fundamentals on a day to day basis and analyse potential implications of any market movements on security of supply of both gas and electricity. We will engage with DECC and National Grid to address any potential issues identified through our monitoring.

5.15. We will continue to monitor security of supply of both gas and electricity. We will ensure that our market arrangements are delivering secure supplies for GB consumers. We will also continue our work on the Electricity Capacity Assessment.

5.16. Following on from our publication of an Electricity Capacity Assessment in 2013 and 2014, and working closely with National Grid, we will continue our analytical work to understand the electricity security of supply outlook for the coming years.

## Wholesale market monitoring

5.17. We will monitor the effectiveness of the gas and electricity wholesale markets to deliver effective outcomes for consumers. We look at the markets ability to deliver security of supply, competitive outcomes and its ability to invest and innovate. We will also continue to monitor market participants' compliance with the relevant licence conditions and take appropriate enforcement action where necessary.

## Customer service monitoring

5.18. We will continue to monitor issues arising from regular reporting of complaints data, as well as reporting against supplier social obligations and guaranteed standards.

## Environmental schemes

5.19. In the coming year E-Serve will continue to improve trust and confidence in the schemes we deliver by making sure they are transparent and accountable. At the heart of this are good transaction and regulatory processes, combined with continuing our strong communication with our stakeholders. We will also improve the clean energy performance information we publish.

## 6. Efficiency and Effectiveness

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6.1. We are constantly reviewing the way we work and challenging ourselves to deliver the maximum outcomes for current and future energy consumers, whilst minimising the costs we impose on consumers and the industry. On a day to day level, this means we will ensure that we are allocating our resources to the areas of work which will have the biggest impact on consumer outcomes.

6.2. We set ourselves challenging budgetary targets to ensure that we are delivering value for money. Our budget for 2015-16 will be £3.0 million lower than last year, despite the scale and complexity of the initiatives we are planning to deliver. Our strategy is already shaping what we do. We have looked at our business and identified areas where we can improve the way we work and produce information to support more effective management. Better processes and information will also enable us to go further to demonstrate the benefits of the work we do. We will build on the good practice employed in our delivery arm, E-Serve and focus attention on business process improvement and operational performance management across Ofgem's activities through a small number of integrated projects.

6.3. In everything we do we must regard the principles of better regulation. This means that our activities must be transparent, accountable, proportionate, consistent and targeted only where action is needed. We have a duty to keep our regulatory functions under review and to make sure that, when we exercise those functions, we do not impose or maintain unnecessary burdens. We must publish an annual Simplification Plan to show what this means in practical terms. The Simplification Plan 2015-16 will be published alongside this Forward Work Programme in March 2015.

### Key initiatives planned for 2015-16

#### Ofgem strategic projects

6.4. Business process improvement is at the heart of our drive to gain organisational efficiencies in both our policy and regulatory functions. In 2015 we will launch projects which examine our business functions and develop an approach to corporate planning which integrates our strategic objectives, our efficiency aspirations and our performance against planned outcomes. This will provide us with better information on which to base future planning and identify opportunities to increase the quality and cost effectiveness of our work. Crucially it will allow us to make swift and effective prioritisation decisions.

6.5. A key initiative in 2015-16 will be to enhance our knowledge management, ensuring that we build our corporate knowledge, that information is easier to access, and key learnings are available to be applied to future work.

6.6. We will examine how we can achieve smarter working practices across our business and seek to use technology which reduces costs, achieves long term efficiencies and leads to an improved work life balance for staff.

## E-Serve operational excellence

6.7. In our delivery of environmental schemes, E-Serve's aim is to achieve delivery excellence in all that we do. We do this by seeking cost, quality and speed improvements. 2015-16 will be no different: we plan to make an overall 10% saving across the year, ensuring value for money for consumers and the industry.

6.8. These savings will come from improvements to our practices and processes, led by two key initiatives: the Continuous Improvement Programme (CIP) and the new Operational Excellence Forum. The CIP has been a great success since we launched it in October 2013, leading to a 13% saving against our budget in its first year. Our Operational Excellence Forum will build upon the CIP's success by finding ways to reduce transaction costs, cut overall spending and enhance the quality of service received by scheme participants.

6.9. We will work towards an improvement in productivity in excess of 20% across the Domestic and Non-Domestic Renewable Heat Incentive schemes. Similar productivity improvements of around 20% will be delivered by the Renewables Obligation scheme, whilst the Feed in Tariff team will deliver around a 10% cost reduction. Across our energy efficiency and social programmes we will also look to deliver around 10% cost reductions whilst continuing to maintain high levels of service.

## 7. Budgets and Spend

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### Funding

7.1. 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. We also receive a contribution from DEFRA to cover their proportion of the costs of running the headquarters building shared by Ofgem and DEFRA.

### Five year plan

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

**Figure 1: Ofgem's expenditure**

| £m                            | 2014-15<br>planned <sup>7</sup> | 2015-16     | 2016-17     | 2017-18     | 2018-19     | 2019-20     |
|-------------------------------|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Smarter Grids & Governance    | 18.7                            | 25.6        | 27.3        | 27.2        | 27.0        | 26.9        |
| Markets                       | 20.4                            | 18.7        | 20.0        | 19.9        | 19.8        | 19.7        |
| Sustainable Development       | 11.6                            | 11.2        | 12.0        | 11.9        | 11.8        | 11.8        |
| Scotland, Wales & the Regions | 1.7                             | 1.7         | 1.8         | 1.8         | 1.8         | 1.8         |
| Ofgem E-Serve                 | 37.6                            | 27.1        | 25.8        | 26.1        | 26.3        | 26.3        |
| Contingency                   | 0.0                             | 2.7         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Total</b>                  | <b>90.0</b>                     | <b>87.0</b> | <b>86.9</b> | <b>86.9</b> | <b>86.7</b> | <b>86.5</b> |

7.3. Included in these costs are an allocation of corporate overhead.

### Cost control regime

7.4. During the last ten years we have operated two five-year cost control regimes, both operating on the basis of RPI-3%.

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<sup>7</sup> As published in our Forward Work Programme 2014-15 which can be accessed here: <https://www.ofgem.gov.uk/publications-and-updates/draft-forward-work-programme-2014-15>

7.5. The first regime ran from April 2005 to March 2010 and saved a total of £11.9 million. A second five-year cost control regime is running from April 2010 to March 2015 and we anticipate savings of at least £12.5 million from this regime.

7.6. We will continue to target resources where they will have most effect on consumer outcomes and to set challenging budgetary targets. As compared to 2014-15, we have reduced our 2015-16 budget by £3.0 million to £87.0 million.

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

| <b>£m<br/>Rate Applied</b>            | <b>2010-11<br/>2.4%</b> | <b>2011-12<br/>4.8%</b> | <b>2012-13<br/>4.8%</b> | <b>2013-14<br/>3.1%</b> | <b>2014-15<br/>2.7%</b> |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Agreed year<br/>end carry over</b> |                         |                         |                         |                         | <b>£5.0</b>             |
| Baseline                              | £81.5                   | £81.0                   | £73.5                   | £79.9                   | £90.6                   |
| 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                    | £2.8                    | £2.4                    |
| Baseline +RPI                         | £83.5                   | £75.8                   | £82.4                   | £93.4                   | £93.0                   |
| Less X (3%)                           | (£2.5)                  | (£2.3)                  | (£2.5)                  | (£2.8)                  | (£2.8)                  |
| Budget Ceiling                        | £81.0                   | £73.5                   | £79.9                   | £90.6                   | £90.2                   |

7.7. RPI was determined as 2.4% for 2010-11; 4.8% for both 2011-12 and 2012-13; 3.1% for 2013-14 and 2.7% for 2014-15.

## Annex 1 – Deliverables 2015–16

### Regulation of Monopolies and Enabling Markets

| <b>Action</b>  | <b>Quarter Due</b> | <b>Division</b>                 |
|--|--------------------|---------------------------------|
| Publish new electricity System Operator Incentive Scheme (2015-2017)   | Q1                 | Markets                         |
| Publish replacement maintenance, forecasting and GHG emissions incentive for Gas System Operator (2015-2018) | Q1                 | Markets                         |
| Publish annual report into National Grid's performance on the Capacity Mechanism                             | Q1                 | Markets                         |
| Publish annual report on the operation of the Capacity Mechanism   | Q1                 | Markets                         |
| Issue Receipts for PMMS (Oct-Nov 2015)   | Q3                 | Markets                         |
| Decision on obligations for consumer empowerment and protection  | Q4                 | Markets/Sustainable Development |
| Publish proposals relating to supplier objections  | Q3                 | Sustainable Development         |
| Publish decisions on initial Cap and Floor project assessment for Greenlink, Viking Link, IFA2 and FAB       | Q1                 | SG and G Transmission           |
| Publish decision letter on enhanced System Operator licence changes  | Q2                 | SG and G Transmission           |
| Issue Connect and Manage letter to Secretary of State  | Q2                 | SG and G Transmission           |
| Complete Annual Iteration Process  | Q3                 | SG and G Transmission           |
| Publish decision on DPCR5 close out methodology  | Q2                 | SG and G Distribution           |
| Issue 2014-15 Interruptions Incentive Scheme Direction   | Q2                 | SG and G Distribution           |
| Publish RIIO-GD1 year 2 company reported actuals on website  | Q3                 | SG and G Distribution           |
| Publish end of DPCR5 review  | Q4                 | SG and G Distribution           |
| Publish RIIO-GD1 year 2 annual report  | Q4                 | SG and G Distribution           |

## Effective Competition

| Action  | Quarter Due | Division                |
|---|-------------|-------------------------|
| Issue the liquidity report  | Q2          | Markets                 |
| Publish consultation on extending competition in transmission tender framework            | Q3          | SG&G Transmission       |
| Publish State of the Market report 2015   | Q2          | Markets                 |
| Implementation of autorollover project remedies   | Q1          | Markets                 |
| Approval of new balancing services for winter 2015-16                                     | Q1          | Markets                 |
| Implement jointly with National Grid the plan to promote security of supply               | Q2          | Markets                 |
| Complete initial review of telephone services accessibility                               | Q1          | Sustainable Development |
| Complete next phase consultation on Priority Service Register                             | Q3          | Sustainable Development |
| Publish Social Obligation Report on debt, disconnection and prepayment                    | Q4          | Sustainable Development |
| Publish Adaptation report in response to second Adaptation Reporting Power by end of 2015 | Q3          | Sustainable Development |
| Publish regulatory report on Offshore Transmission Owner (OFTO) revenues                  | Q3          | Offshore Transmission   |

## Partnership

| Action  | Quarter Due | Division                |
|---|-------------|-------------------------|
| Complete consultation on Simpler Clearer Protections guide for advice providers | Q1          | Sustainable Development |

## Trust and Confidence

| Action  | Quarter Due | Division                |
|---|-------------|-------------------------|
| Publish the 2016-17 Forward Work Programme                          | Q4          | Corporate Functions     |
| Complete review of suppliers' direct debit practices                | Q4          | Sustainable Development |
| Publish Vulnerability Strategy update                               | Q4          | Sustainable Development |
| Publish the statutory Security of Supply report                     | Q3          | Markets                 |
| Publication of non-domestic consumer research (quantitative survey) | Q3          | Markets                 |

## Efficiency and Effectiveness

| Action   | Quarter Due | Division                |
|--|-------------|-------------------------|
| Complete REMIT Registration as required by REMIT | Q4          | Markets                 |
| Publish the 2014-15 Annual Report and Accounts   | Q2          | Corporate Functions     |
| Publish Simplification Plan 2016-17              | Q4          | Sustainable Development |

## E-Serve

| Action   | Quarter Due | Division                 |
|--|-------------|--------------------------|
| Complete annual report on the Domestic Renewable Heat Incentive (RHI) scheme     | Q2          | E-Serve Domestic RHI     |
| Complete annual report on the Non-Domestic Renewable Heat Incentive (RHI) scheme | Q2          | E-Serve Non-Domestic RHI |
| Complete annual report on the Renewables Obligation (RO) scheme                  | Q4          | E-Serve RO               |
| Complete annual report on the Feed-in-Tariffs (FIT) scheme                       | Q4          | E-Serve FIT              |
| Complete FIT annual levelisation process   | Q2          | E-Serve FIT              |
| Complete annual report on the Warm Home Discount (WHD) scheme                    | Q2          | E-Serve WHD              |
| Publish compliance progress reports against Energy Companies Obligation (ECO)    | Monthly     | E-Serve ECO              |
| Publish final determination report for Energy Companies Obligation 1 (ECO)       | Q2          | E-Serve ECO              |
| Complete annual report on Government Electricity Rebate (GER)                    | Q3          | E-Serve GER              |

## Annex 2 – Key Performance Indicators 2015–16

### Effective Competition

| <b>Metric</b>                    | <b>What is being measured</b>  | <b>Annual Target</b> | <b>Division</b>       |
|----------------------------------|--|----------------------|-----------------------|
| RMR Derogation requests          | Make decisions on RMR derogation requests within 60 working days of receiving a request (unless formal consultation is needed) | 90%                  | Markets               |
| Offshore Transmission processing | Licence grant within 70 days of commencement of Section 8a consultation  | 70 working days      | Offshore Transmission |
| Offshore Transmission processing | Preferred Bidder selection within 120 days of ITT submission (excluding Best And Final Offer)                                  | 120 working days     | Offshore Transmission |

### High standards of Outputs and Protection

| <b>Metric</b>        | <b>What is being measured</b>  | <b>Annual Target</b> | <b>Division</b>   |
|----------------------|--|----------------------|-------------------|
| Licence Applications | Make decisions on licence applications within 45 days  | 100%                 | SG&G Distribution |
| Code Modifications   | 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) and, where applicable, publish code modification Impact Assessment (or other Ofgem consultation) within 3 months of receiving the Final Modification Report. | 90%                  | SG&G Distribution |

## Trust and Confidence

| <b>Metric</b>     | <b>What is being measured</b>                                  | <b>Annual Target</b>                                   | <b>Division</b>         |
|-------------------|--|--|-------------------------|
| Customer Contacts | Time taken for first substantive response to customer contacts | 93% - 10 working days                                  | Sustainable Development |
| Whistle-blowers   | Time taken for first response to whistle-blower contacts       | 90% to receive initial engagement within 1 working day | Sustainable Development |

## E-Serve

| <b>Metric</b>                                      | <b>What is being measured</b>                                    | <b>Annual Target</b>   | <b>Division</b>      |
|--|--|--|----------------------|
| Domestic Renewable Heat Incentive (RHI) processing | Pay Domestic RHI payments on time                                | Pay 95% of payments within 5 working days of due payment date.                         | E-Serve Domestic RHI |
| Domestic Renewable Heat Incentive (RHI) processing | Applicants to have a decision within 30 working days             | 90% of customers to receive a decision within 30 working days of submitted application | E-Serve Domestic RHI |
| Domestic Renewable Heat Incentive (RHI) processing | Deliver high quality Customer Service to Domestic RHI applicants | Achieve a Net Promoter Score (NPS) of +50%   | E-Serve Domestic RHI |

| <b>Metric</b>  | <b>What is being measured</b>   | <b>Annual Target</b>  | <b>Division</b>          |
|--|---|---|--------------------------|
| Non-Domestic Renewable Heat Incentive (RHI) processing | Responses to email enquiries, and follow up with generators on outstanding issues with their applications for accreditation                                   | 90% within 10 working days  | E-Serve Non-Domestic RHI |
| Non-Domestic Renewable Heat Incentive (RHI) processing | Payments made following accurate quarterly periodic data submission   | 95% within 30 working days  | E-Serve Non-Domestic RHI |
| Non-Domestic Renewable Heat Incentive (RHI) processing | On-line application system availability during supported business hours of 08:00-17:30 Monday to Friday excluding bank holidays (excluding planned down time) | 99% availability  | E-Serve Non-Domestic RHI |
| Renewables Obligation (RO) processing                  | Issue the main batches of ROCs following the generators' reporting deadline of their output data  | 95% within 17 working days (Apr - Jun) 95% within 12 working days (July -Mar) | E-Serve RO               |
| Renewables Obligation (RO) processing                  | Follow up with the generators outstanding issues on their applications for accreditation  | 90% within 10 working days  | E-Serve RO               |
| Feed-in Tariff (FIT) processing                        | Follow up with the generators outstanding issues on their applications for accreditation  | 90% within 10 working days  | E-Serve FIT              |
| Feed-in Tariff (FIT) processing                        | Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers  | 95% within 22 working days  | E-Serve FIT              |
| Energy Companies Obligation (ECO) processing           | Publish monthly compliance progress reports against ECO obligations   | 100% within 28 days   | E-Serve ECO              |
| Warm Home Discount (WHD) processing                    | Respond to obligated party Warm Homes Discount schemes for approval   | 100% within 28 days   | E-Serve WHD              |

## Annex 3 – Government Strategy and Policy Statement

In Principles for Economic Regulation<sup>8</sup>, government committed to ensure that responsibilities are clearly divided between the government and regulators such as Ofgem, with decisions taken by the body that has the legitimacy, expertise and capability to arbitrate between the required trade-offs. To provide clarity on roles and responsibilities, the government committed to put in place a Strategy and Policy Statement (SPS) for each sector, which would provide context and guidance about priorities and required outcomes.

The Energy Act 2013 has introduced an SPS for Ofgem. We note that this may be designated during the consultation period for this Forward Work Programme. The SPS sets out the strategic priorities for government's energy policy and particular policy outcomes which are to be achieved as a result of the implementation of that policy. Subject to our principal objective duty, we are required to carry out our functions in the manner best calculated to further delivery of these policy outcomes:

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<sup>8</sup> Government Principles for Economic Regulation  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31623/11-795-principles-for-economic-regulation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31623/11-795-principles-for-economic-regulation.pdf)

- *A competitive GB and EU energy market framework for both domestic and business consumers in which:*
  - *Energy supplies are secure and resilient;*
  - *There is a high level of effective competition in retail and wholesale markets, undue barriers to entry and growth are addressed, and the market is attractive to a diverse range of investors;*
  - *Consumers can easily identify the best deals available to them, manage their energy consumption effectively and there are no unnecessary barriers to switching;*
  - *There are high standards of customer service;*
  - *There is transparency of energy prices and the factors that contribute to consumer bills;*
  - *Costs do not fall disproportionately on low income and vulnerable households and suppliers meet their obligations under licence conditions towards these consumers;*
  - *Low carbon energy is delivered at least cost to consumers; and*
  - *Market participants are appropriately incentivised to contribute towards system balancing, deliver reliable energy supplies and/or reliable energy demand management in order to keep prices down.*

- *An energy network infrastructure that is:*
  - *Planned and operated in a coherent, impartial and proportionate way which takes account of both present and future needs;*
  - *Delivered efficiently, using competitive drivers and innovation;*
  - *Timely and cost-reflective in connecting supply and domestic and commercial demand, now and in the future;*
  - *Attractive to a diverse range of investors and supports wider economic activity; and*
  - *Reliable, resilient, safe, sustainable and appropriately connected to other markets.*

(Note that these outcomes may change following Parliamentary debate)

Our deliverables contained in this programme have been framed in relation to the policy outcomes and we are required to report on delivery of the outcomes in our Annual Report.

## Annex 4 – Feedback Questionnaire

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 document?
3. Was the document easy to read and understand, could it have been better written?
4. To what extent did the document's conclusions provide a balanced view?
5. To what extent did the document make reasoned recommendations for improvement?
6. Do you have any further comments?

Please send your comments to:

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