



Forward Work Programme 2015-16

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Overview:

This Forward Work Programme outlines the projects we think will make the greatest difference to consumers in the coming financial year. A draft version was consulted on between December 2014 and February 2015. Responses have been considered and where appropriate the Forward Work Programme has been updated to provide clarification.

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Chairman's Foreword

Last year I said that we would review and set out Ofgem's corporate strategy for the coming years. We completed this work in December 2014 and published the strategy alongside our draft Forward Work Programme on which we have consulted extensively. Our strategic mission is to make a positive difference for energy consumers through independent economic regulation and the delivery of various government schemes. Making a difference for energy consumers means lower bills, reduced environmental damage, improved reliability and safety, better quality of service and benefits for society as a whole to the extent that we can influence these outcomes.

Our Forward Work Programme is divided into six themes, representing the outputs we deliver in support of our strategy: regulation, competition, standards, partnership, trust and confidence, and efficiency.

Achieving the right balance between regulation and competition is a constant concern for independent economic regulators and for the Gas and Electricity Markets Authority, the parent body of Ofgem, in particular. In June 2014 we referred the market to the Competition and Markets Authority (CMA) for a thorough market investigation. The CMA will deliver its initial findings in the early summer and its final report, which may lead to important changes to the market, in December. We will continue to furnish the CMA with whatever information it requires and to offer our own view of the workings of the energy market and await their report with interest.

We also want 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 some major new onshore transmission projects.

In December we published our final determinations for price controls for the electricity distribution companies from 2015-2023 (ED1). These decisions have been challenged by British Gas and by Northern Powergrid and will be reviewed by the CMA. We expect the CMA's decision (which is separate from their market investigation) to be published in October 2015.

We have seen an increasing number of enquiries about new and innovative business models that could potentially transform the energy market. I am keen that our regulation supports new market entry while providing appropriate protection to consumers. We recently launched a public discussion document on the potential regulatory implications of non-traditional business models and the risks and benefits to consumers, and will pursue further work on this in 2015-16.

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. During 2015-16 we will ensure 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.

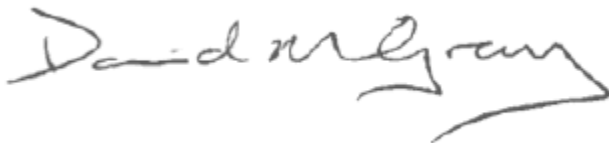
Our strategy makes clear that one of our most important functions as an independent economic regulator is to foster trust in the industry. Ultimately, trust in the industry will depend on an improved relationship between energy companies and their customers but we can contribute by providing timely and relevant information about the markets for which we are responsible and by maintaining a regulatory regime that is consistent and predictable. We will also continue to investigate suspected breaches of the rules of the market and hold companies to account where necessary.

Through our delivery arm, E-Serve, we are responsible for administering, delivering and enforcing obligations relating to a range of social and environmental schemes on behalf of the Department of Energy and Climate Change (DECC). We have reformed the governance of E-Serve and E-Serve now has its own board, which is better able to focus on its distinct challenges and opportunities. These schemes bring benefits to consumers and it is important that we deliver them economically, efficiently and effectively.

The control of our own costs is critical at a time when many consumers are struggling to pay their bills, and spending by public bodies everywhere is under pressure. Our budget for 2015-16 represents an absolute cut of £3.0m compared to the previous year, although we have used much of this saving to provide against the risk of high costs arising from the various reviews and legal challenges we are facing. This represents an underlying reduction of 7% excluding the cost of one-off strategic initiatives and inflation.

We aim to achieve this budget 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.

With a UK general election and the market investigation by the CMA, 2015-16 will be a pivotal year for the energy market and energy consumers. Against this background it is important that Ofgem continues to focus on delivering real benefits for consumers, including those in vulnerable situations. I am confident that we can succeed in addressing these challenges during the coming year.

A handwritten signature in black ink, appearing to read 'David Gray', with a stylized flourish at the end.

David Gray
Chairman

Introduction

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

We must use our resources and powers to make as much of a positive difference as we can. This means producing better outcomes for energy consumers. We do this through independent regulation and administering social and environmental schemes on behalf of government.

But independent regulation doesn't just involve setting and enforcing rules and regulations. It involves building trust and confidence in these so that consumers engage and companies invest. We also have a role in setting and enforcing the 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 want to achieve. 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 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.

In making a positive difference for consumers, we do not forget the importance of delivering 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. 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. We must

consider the interests of particular consumers, such as those who are disabled, sick, pensioners, people living in rural areas or on a low income. We will continue to develop and embed our consumer vulnerability strategy. We must also contribute to sustainable development, to take into account government guidance on social and environmental matters. 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 has more 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

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.

1. Regulation of Monopolies

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. In our view as an independent regulator, it would be wrong for us to initiate or pursue a policy where the principal aim is to achieve social or environmental outcomes which have the purpose of levying significant costs, or seeking significant redistribution of costs among consumers. Of course when we carry out our functions according to our duties more broadly, some of our decisions may have some redistributive impact even if that was not the primary purpose. In those circumstances we would seek to minimise these effects, for example on low income households.

1.4. 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 RIIO¹ 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)

1.5. EMR went live in August 2014 and we are now successfully 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. We received NGET's business plan for EMR early this year and will consult on revenues, incentives and outputs with a view to having those in place by the start of financial year 2016-17. We have also been monitoring the behaviour of EMR participants and taking enforcement action where appropriate.

1.6. We took ownership of the Capacity Market rules in January 2015 and are preparing to consult on the first set of changes to those rules. By delivering our

¹ See chapter one, section 1.7 for an explanation of RIIO

roles, 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.

Network price controls

1.7. 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 is 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.

1.8. 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.

1.9. 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 established 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.

1.10. It is important to ensure that we and other economic regulators are enabling investors to engage in sectors and minimising any barriers that might exist solely due to differences in regimes between sectors. We will continue to lead the UK Regulators Network (UKRN) cross-sector infrastructure project, working with other regulators to establish the nature and extent of any problems in interactions between network sectors.

1.11. In late 2014-15, British Gas and Northern Powergrid appealed to the Competition and Markets Authority (CMA) against our RIIO-ED1 price control decision. We believe that our decision delivers the right balance between ensuring value for money for consumers and investment for a reliable network. Our plans will reduce electricity distribution costs for energy customers while improving network reliability. We stand by our decision and will work with the CMA as it considers the two appeals during 2015-16.

Electricity interconnectors and strategic investments

1.12. 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.

Enhanced system operator

1.13. 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. We encourage the SO and DNOs to continue to work collaboratively to ensure that the SO understands and considers the impacts on and from distribution systems when managing the transmission system. We will implement these proposals in 2015.

System operator incentives

1.14. 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 NGET and NGG's performance against these incentives to ensure that they are delivering value for money for consumers.

Network innovation

1.15. 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 consumers have already funded.

Shetland

1.16. 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 cross subsidised by the mainland customers. We will ensure that the potential for innovative solutions on the islands are fully explored in this process.

Data and Communications Company

1.17. 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

1.18. 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, networks and supply. Our new Flexibility project² recognises the need for us to take a holistic approach to system flexibility, which looks at the potential interactions between new and traditional sources of flexibility and how these sources are used by different parties.

1.19. In summer 2015 we will publish the flexibility strategy. It will build on the work already done, and set out our role in facilitating the development of a flexible electricity system that efficiently uses new flexibility sources. We anticipate that the strategy will explain the actions we plan to take to increase the uptake of these resources and include a prioritised work-plan to ensure delivery of the strategy. In developing our thinking we will work closely with stakeholders from across the energy sector, including DECC and European institutions.

Governance review

1.20. From our experience we are aware of the many challenges involved in implementing changes to the industry framework and of the additional complexity that may be introduced by new European laws. Many such changes will be needed in a number of key areas in the coming years. We are planning to consult in the coming months, to review the reforms we have already introduced³ and to consider if 'governance' issues faced across industry are impacting delivery of change and result in barriers to entry. We also note that in February 2015, the Competition and

² See the letter announcing the start of the project here - <https://www.ofgem.gov.uk/ofgem-publications/92669/flexibilityprojectopenletterjan2015.pdf>

³ Through our Code Governance Review (CGR) and CGR Phase 2: <https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work/code-governance-review>

Markets Authority identified this as a potential issue in its most recent report⁴ following our Market Investigation Reference.

Network compliance and enforcement

1.21. As well as setting rules and regulations it is also important to ensure companies comply with these rules.

1.22. We completed our Enforcement Review last year to increase impact and efficiency in our enforcement action, the benefits of which will be delivered in the new cases we progress moving forward. 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. Our vision is underpinned by strategic enforcement objectives to deliver credible deterrence, ensure visible and meaningful consequences for businesses that fail consumers and do not comply, and achieve the greatest positive impact by targeting enforcement resources and powers.

Ongoing activities

1.23. 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.

1.24. 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.

⁴ Competition and Markets Authority – Energy market investigation updated issues statement https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/404867/Updated_Issues_Statement.pdf

2. Effective Competition

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

2.2. Following our assessment of the state of competition in the energy market, on 26 June 2014 we referred the energy market in Great Britain to the Competition and Markets Authority (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 it can benefit 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 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. The CMA investigation could produce remedies that would require us to change elements of this Forward Work Programme. We have anticipated this and built flexibility into our plans so we are able to iteratively respond to any CMA findings.

Onshore network competition

2.5. 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.

Retail market developments

2.6. In summer 2015 we will publish our annual report on the state of retail energy markets. It will look at how well the market is working to deliver the five strategic outcomes that we said we want to achieve for consumers. This will describe developments in the retail market since our 2014 State of the Market report and will consider the initial impact of our recent reforms of retail markets. This will allow us to keep these policies under review and take action if needed.

Creating a level playing field for independent suppliers

2.7. As part of the government's Challenger Businesses initiative, in August 2014 DECC and Ofgem published an Action Plan⁵ 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.

Non-traditional business models

2.8. 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 organisations using non-traditional business models looking to enter the market, some of which aim to provide consumer benefits, for example through demand flexibility and reduction. In February 2015 we published a discussion paper on non-traditional business models⁶. Our aim in doing this is to engage more actively with these innovative organisations, including to test where our regulation might slow the pace of future market transformation. Our engagement on this issue will flow into 2015-16. By summer 2015 we will publish responses to the discussion paper and outline the next steps we plan to take in this emerging area. We will engage more actively with these non-traditional businesses, including to test where our regulation might slow down 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.

⁵ 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

⁶ See our non-traditional business model discussion paper here <https://www.ofgem.gov.uk/publications-and-updates/non-traditional-business-models-supporting-transformative-change-energy-market>

Offshore transmission

2.9. 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. In December 2014 we completed the first tender round of the Offshore Transmission Owner (OFTO), having successfully tendered £1.1 billion of offshore transmission assets, connecting 1.5 GW of 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.

Competition in connections

2.10. At the end of 2014-15 we published the findings of our review of the electricity connections market and consulted on our proposed remedies. In 2015-16, following consultation on our proposed remedies, we will implement any changes that we believe are necessary and we will continue to monitor the development of competition in this market.

Monitoring and enforcing under competition law

2.11. Alongside our sectoral powers, we will keep a strong focus on challenging anti-competitive behaviour, working closely with the CMA and other sectoral regulators through the UK Competition Network to develop and strengthen competition policy for the benefit of consumers now and in the future, as well as investigating possible anti-competitive behaviour in energy markets.

Encouraging domestic consumer engagement

2.12. Consumer engagement in the market through 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. To help support this, we contributed to the UK Regulators Network comparative report on understanding barriers to switching across sectors. We will participate with other regulators in a further phase of this work later in 2015-16 to examine the role of intermediaries in innovation. We will be working to establish a model for regular publication of key indicators on each suppliers' customer service performance. This is intended to help inform switching decisions by allowing customers to compare suppliers' performance.

2.13. 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 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”.

Safe and efficient switching

2.14. It is vital that energy consumers can easily, and with confidence, change their energy supplier. This switching process underpins an effective energy market where competition benefits consumers. We propose to lead a work programme to implement reliable, next-day switching by 2019. Industry workgroups will start later in 2015 to establish the high-level, ‘blueprint’ design for next-day switching. Following the recent call for evidence, we will also decide whether to pursue reforms to the arrangements by which suppliers may object to customers switching. A key consideration in this decision will be 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.

2.15. 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 requests⁷ in relation to the Retail Market Review to facilitate the transition to a smarter energy market.

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

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.

2.18. In 2014-15 we implemented the gas Significant Code Review (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.

2.19. This year also saw us publish our final policy decision for reform of electricity cash out arrangements⁸ which will support efficiency in balancing and supply. We

⁷ 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>

⁸ 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>

decided against initial sharpening of cash out prices in the 2014-15 winter after taking industry feedback into consideration.

2.20. 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.

European codes

2.21. We will continue our work on the European Network Codes, a suite of binding European laws which promote competition, efficient use of transmission capacity, 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 also involve managing multiple changes to existing GB industry arrangements, licences and legislation where necessary.

2.22. Ofgem has recently worked with industry to streamline opportunities for engagement on European regulatory issues, including network codes. We will continue to keep this approach under review and to ensure changes are clearly communicated, that parties have opportunities to engage with the process of developing policy at European level and that the changes to GB frameworks required to implement European laws are coordinated and effectively delivered.

3. High Standards of Outputs and Protection

3.1. Energy is an essential service, so consumers rightly expect high standards when dealing with electricity and gas companies. 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.

3.2. We want to achieve a culture where electricity and gas companies treat energy consumers fairly and provide high-quality customer service. If they don't, 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. Over time, we want such principles-based regulation to replace the more detailed and prescriptive standards that we currently use. We recognise this presents opportunities and challenges for industry and ourselves and are committed to engaging with stakeholders to ensure this can be achieved in the interests of consumers.

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. For those that don't comply, we have tools and enforcement powers we can use. In line with suppliers' Standards of Conduct licence obligations, we want to achieve a culture where businesses put energy consumers first and act in line with 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. We also make sure we deliver government schemes in ways that promote consumer welfare.

Key initiatives planned for 2015-16

Standards of Conduct and Principles-based regulation

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. We will also be engaging stakeholders on moving towards more principles-based regulation.

Compliance and enforcement

3.6. We will complete the current suite of open investigations and progress new and ongoing cases across the range of our powers, including enforcing licence conditions, competition law, and the Regulation on Wholesale Energy Markets Integrity and Transparency (REMIT).

3.7. We will investigate issues of concern according to our prioritisation criteria. We also have specific annual enforcement priorities which enable us to target action on specific areas and issues in the market⁹, in line with our Forward Work Programme. We are considering the most appropriate enforcement priorities for the year ahead, and these will be decided by the Authority in spring 2015.

3.8. We will host our third annual Enforcement Conference in summer 2015 to share perspectives on enforcement and compliance with our stakeholders, including industry and consumer groups. We will progress our ongoing Compliance project and 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, as well as considering how these might evolve further in the context of a move towards more principles-based regulation.

Consumer vulnerability strategy

3.9. Our consumer vulnerability strategy was published in July 2013 following extensive consultation. Key to our strategy is a move away from reliance on blanket categories such as 'disabled' or 'pensioner' to define vulnerability. We recognise that vulnerability can also be temporary. For example, consumers can become vulnerable due to mental health problems arising following a bereavement or unemployment. The overarching aims of our Strategy are to i) protect and empower consumers in vulnerable situations – so as to reduce the likelihood and impact of vulnerability and ii) ensure all consumers can access market benefits.

3.10. The Strategy outlines our general approach to tackling vulnerability, and the approach we expect energy companies to take to safeguard and meet the needs of disabled people. 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 prioritises work on pre-payment, 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 our successful partnership with the Citizens Advice Energy Best Deal. We will be putting in place a new regime for the Debt Assignment Protocol to reduce barriers to switching for indebted pre-payment customers. We will consult on new draft licence conditions for Priority Service Register to ensure those customers with additional safety or information needs are provided with appropriate services.

⁹ Our enforcement guidelines can be found here <https://www.ofgem.gov.uk/publications-and-updates/enforcement-guidelines>

We will complete a review of the accessibility of phone-based services and the customer experience, especially for consumers in vulnerable situations.

Consumer protection and customer service

3.11. Improvements in customer service will remain a core priority, with a resolute focus on improving suppliers' complaints handling performance. We will be asking suppliers for an update on their progress on implementing measures to improve complaints handling and customer service more widely, and will repeat our research into customer satisfaction with suppliers' complaints handling. Building on the complaints data suppliers publish quarterly, we intend to publish service indicators to inform switching decisions by allowing customers to compare suppliers' performance. We will complete our initial review of telephone accessibility services and publish our findings on pre-payment meter removal charges. In Q2 of 2015-16 we will also publish our Social Obligations Report that will cover debt, disconnection and pre-payment issues.

3.12. We will make sure that consumers have effective, accessible routes for redress including through an Energy Ombudsman. We will be implementing the requirements of the Alternative Dispute Resolution Directive on redress, and will be undertaking a review of the current Energy Ombudsman.

3.13. Last year we identified that suppliers' processes and approach to returning credit balances when a customer closed an account were flawed, leaving many consumers out of pocket. Achieving a satisfactory resolution for consumers whose money has not yet been returned from closed accounts is a key aim. We plan to implement reforms to the Guaranteed and Overall Standards of Performance. The reforms will simplify the requirements on suppliers whilst providing appropriate protection for consumers in key areas of service and increasing the amount of compensation suppliers must pay if they fail to meet the new standards. We will continue to work with other regulators to understand the full impact of affordability pressures on households, including through continued leadership of the UK Regulators Network affordability project. In 2015-16 there will be two further phases of this project: modelling the factors likely to affect household bills over the next ten years, and consideration of better alignment of vulnerability strategies across sectors. We will also learn from other sectors to support progress on our commitment to make switching simpler and faster.

Review of gas distribution network extensions

3.14. 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

3.15. 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 and will look to drive improved standards. We will include information on companies' performance in these areas as part of the annual reports we publish.

Third Party Intermediaries

3.16. Trusted third party intermediary (TPI) services, allowing consumers to easily compare energy tariffs, are essential to help consumers engage in the market. We will take actions to promote the provision of good quality TPI services. This includes continuing to operate the Confidence Code for price comparison websites and looking 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. To help strengthen our understanding of challenges in this sector, we will work with other regulators including through the UK Regulators Network engagement and switching programme, to examine emerging developments in the role of intermediaries. Through this work we will look to identify opportunities to improve market participation for consumers, including those less able to engage.

Security of supply

3.17. 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

3.18. In 2015-16 we 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. For example, under the Warm Home Discount scheme we ensure that domestic energy suppliers are meeting their obligations by providing direct and indirect support arrangements to fuel poor customers. This is helping around two million vulnerable consumers a year, through the provision of electricity bill rebates, discounted tariffs and indirect support for low income consumers. Under the Energy Companies Obligation we've also worked hard to ensure only eligible energy efficiency measures are allowed. This has included reviews of Hard to Treat Cavities and measures carried over from previous schemes, the findings of which are helping to drive improvements in installation quality for consumers. Our administration of the Government Electricity Rebate (GER) scheme will also continue to help ensure that consumers' bills are lowered. We will monitor suppliers' compliance with their obligations, and where they don't comply, we will take enforcement action where appropriate. During the first year the rebate has been provided to 99.4% of eligible households. Our renewable heat and electricity schemes also rigorously audit

compliance by scheme participants. This ensures that only those applicants that meet our high standards are accredited.

3.19. By administering the schemes efficiently and effectively and by providing input into DECC's ongoing development of the schemes, we are making a positive difference for consumers in vulnerable situations.

3.20. 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.

3.21. Where we are a service provider we expect to uphold the high standards of customer service that we expect of industry and will work with industry to ensure that our guidance is accessible and easy to interpret.

4. Partnership with Government and Stakeholders

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. In addition to this we regularly appear before Parliamentary committees.

4.2. Our External Relations team works with politicians across Great Britain in Westminster, Holyrood and Cardiff Bay. We 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. Since the Smith Commission report on greater powers for Scotland was published, we are playing 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 establish strong industry and governance arrangements, and give advice to support greater energy powers for the Scottish Parliament.

4.4. We are in constant dialogue with consumer groups, those who represent the interests of households, small, medium and large businesses, as well as with interest groups. We conduct our own research, and draw on others, to understand the attitudes, motivations, concerns and behaviours of consumers, and to test policy thinking. We draw on this insight to inform and shape our actions. We also talk regularly with consumer representative groups and interest groups to make sure their concerns are heard. We do this through more formal arrangements which we have established, such as our user groups for small, medium and large business users and our Sustainable Development Advisory Group. We also have less formal regular engagement with organisations such as Which?, Citizens Advice and Citizens Advice Scotland as well as other representative organisations. We place high value on this dialogue and are committed to maintaining it, and to exploring ways to improve on it. Where we can, we look to work in direct partnership to deliver improved outcomes for consumers, such as the successful partnership we have with Citizens Advice on Energy Best Deal.

4.5. We work with other economic regulators through the UK Regulators Network (UKRN) and collaborate with other regulators across a range of shared activities. In 2014-15 we led two of UKRN's high-profile projects, on cross-sector infrastructure development, and work on understanding affordability pressures on households. We will continue to lead these projects in 2015-16. The next phase of the infrastructure project will continue to how networks interact, and develop proposals for change if necessary. In the second phase of the affordability project, we will work closely with other regulators to examine the factors likely to affect household bills in the next ten years. Following this, a further tranche of work will consider how regulators can better align and improve how we tackle the area of consumer vulnerability.

4.6. As well as leading these two projects, we will participate in all projects in the UKRN work programme 2015-16. Our expertise will make a positive and substantial contribution as UKRN moves from the initial stock-take phase to the point where its projects begin to make a difference to regulatory policy.

4.7. We also work with other regulators and the Competition and Markets Authority (CMA) through the UK Competition Network (UKCN), to promote stronger competition across the economy for the benefit of consumers and to prevent anti-competitive behaviour in the regulated industries.

4.8. 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 so that they stimulate investment and encourage greater use of renewable technologies.

Key initiatives planned for 2015-16

Smart meter rollout

4.9. In 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.

4.10. Ofgem will continue to work with Network Operators, including through the Smart Grid Forum, to maximise the benefits to the consumer of using smart meters. 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

4.11. 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 consumers have already funded. These projects have involved academics and other stakeholders across the industry. We will continue to ensure that the findings of the Low Carbon Network Fund are properly disseminated and feed into policy development and evaluation. 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

4.12. 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.

4.13. 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.

Electricity Market Reform (EMR)

4.14. We have worked closely with DECC and the EMR delivery partners (for example National Grid Electricity Transmission and the Low Carbon Contracts Company) to contribute to the smooth running of EMR by advising on the development of legislation and taking on, and successfully discharging, key EMR delivery roles.

Network charges

4.15. We recognise that some areas have higher network costs resulting in regional variations in the prices paid by customers. This reflects the costs of running each network in different geographies. Suppliers face these costs in the first instance and determine how they are charged to customers. We will publish a report to inform public debate on network charging in the summer. Any decision to make changes would be a matter for government as well as raising issues for us as the regulator.

Environmental schemes

4.16. 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 (ECO), the Warm Home Discount (WHD) and the Government Electricity Rebate. We do this in partnership with DECC.

4.17. The work we are doing is helping vulnerable and fuel poor consumers. Under ECO we have approved over 1 million measures to date, such as insulation and heating packages, which have benefitted low income and vulnerable households. These energy efficiency measures have helped to contribute to the general reduction

in energy demand in recent years. Every year around 2 million vulnerable consumers are also benefitting from the Warm Home Discount scheme, through the provision of electricity bill rebates, discounted tariffs and indirect support for low income consumers. This is all helping to address fuel poverty.

4.18. 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

5.1. For a competitive energy market to work, it needs a foundation of trust and confidence. But 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. We recognised the scale of the problem, and in 2013 decided to introduce some of the biggest reforms to the market since competition was introduced. We believe in better treatment, more straightforward 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, creating 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 obligations in our annual social obligations reports. We will be working to establish a model for regular publication of key indicators on each supplier's customer service performance. This is intended to help inform switching decisions by allowing customers to compare suppliers' performance. 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 and risk-based approach to monitoring suppliers' compliance with their licence obligations to ensure consumers are protected and benefit from efficient, well-functioning energy markets. We will also focus on embedding a structured process to monitor consumer outcomes under the Standards

of Conduct to ensure that suppliers are complying with their obligations to treat consumers fairly. We are prepared to take enforcement action where necessary.

Network price control reporting

5.7. We have amended the reporting requirements for RIIO¹⁰. 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 build trust and confidence in the market through ensuring that the EU Regulation on wholesale energy market integrity and transparency (REMIT) is complied with. To this end, we will be engaging with market participants and persons professionally arranging transactions to raise awareness of their obligations under REMIT, publish further guidance where needed and actively monitor the market. Where there are suspected breaches, we will investigate and take enforcement action where appropriate. We want to ensure that markets are working properly and improve stakeholder confidence that people are not able to

¹⁰ See chapter one, section 1.7 for an explanation of RIIO

abuse the system. Our markets have ties to other European energy markets and financial markets, so we are working closely with the Financial Conduct Authority, other European regulators, and the Agency for the Cooperation of Energy Regulators (ACER). Meanwhile, we will continue to register market participants who are required to report information to ACER and work closely with ACER and other European regulators, for example in preparation for securely receiving the data that will be submitted to ACER, to discuss cross border cases and to share policy views to enable consistent application across Europe.

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. This analysis will take into account a number of different sensitivities, including potential contribution of interconnectors at times of tight margins. We will also continue to work with other regulators on responses to network resilience issues where appropriate.

Customer service monitoring

5.17. We will continue to monitor issues arising from regular reporting of complaints data, as well as reporting against supplier social obligations and guaranteed standards. We will be working to establish a model for regular publication

of key indicators on each supplier's customer service. This will help to improve consumers' trust and confidence in the energy market.

Environmental schemes

5.18. 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 currently publish a wealth of information on our website¹¹, including scheme annual reports and supplier compliance reports. However, we will look at how we can improve the clean energy performance information we publish over the coming year.

¹¹ For example, see our energy market infographic guides here:
<https://www.ofgem.gov.uk/news-media/energy-market-facts-figures>

6. Efficiency and Effectiveness

6.1. We are constantly reviewing the way we work and challenging ourselves to deliver the maximum outcomes for current and future energy consumers, while minimising the costs we impose on consumers and the industry. Day to day, this means ensuring that we allocate our resources to the areas of work which will have the greatest 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 allow 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 them, we do not impose or maintain unnecessary burdens. We publish an annual Simplification Plan to show what this means in practical terms.

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. To inform this, we will consider ways in which we could be more transparent about the costs and benefits of our regulation. 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 effective prioritisation decisions and speed up decision making.

6.5. Knowledge is one of Ofgem's key assets and therefore a key internal transformation initiative in 2015-16 will be the enhancement of our knowledge management culture, capabilities and processes. This will address a wide range of related factors with the aim of ensuring that we build our body of corporate knowledge, that information across the organisation is easier to retrieve and access, and key learnings are available to be applied to future work.

6.6. Alongside improvements in knowledge management we will also simultaneously look to improve our data management and operational processes. This work will include the streamlining of the development and use of our industry information requests, helping ensure that our internal data sharing arrangements help us mitigate the burdens that our requests place on the sector.

6.7. This will, alongside other demands, require the organisation to move to more agile technological and functional operations over the medium term. Therefore in 2015-16 we will start the process of examining 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.

6.8. We will also actively seek opportunities to work with other economic regulators, through UK Regulators Network and UK Competition Network, to achieve benefits of learning from each other and explore efficiencies in ways of working. In partnership with other regulators, we will promote the benefits of economic regulation.

E-Serve operational excellence

6.9. 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.

6.10. 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.

6.11. 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

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 planned ¹²	2015-16 ¹³	2016-17	2017-18	2018-19	2019-20
Electricity Transmission and SG&G Distribution	18.7	26.6	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	26.8	25.8	26.1	26.3	26.3
Contingency	0.0	2.0	0.0	0.0	0.0	0.0
Underlying total	90.0	87.0	86.9	86.9	86.7	86.5
Potential legal challenges and appeals (ring-fenced)		2.5				
Total	90.0	89.5	86.9	86.9	86.7	86.5

7.3. Included in these costs is an allocation of corporate overhead. For 2015-16 our underlying budget is £3.0m lower than last year. These costs represent our estimated future expenditure. Due to potential legal challenges and appeals proceedings we have ring-fenced an additional £2.5m contingency to cover the risk that costs are higher than we expect.

¹² 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>

¹³ For 2015-16, a reorganisation of activities took place between Electricity Transmission, SG&G Distribution and Ofgem E-Serve.

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 minus 3%.

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. Last year was the final year of our five-year RPI minus 3% cost control framework. We aim to replace this with a further longer-term framework and will be making proposals to government to that effect.

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

Figure 2: Ofgem's RPI-3% calculation

£m Rate Applied	2010-11 2.4%	2011-12 4.8%	2012-13 4.8%	2013-14 3.1%	2014-15 2.7%
Agreed year end carry over					£5.0
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

7.8. 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

Action	Quarter Due	Division
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
Publish consultation to review code governance reforms	Q1	SG and G Distribution
Publish flexibility strategy	Q2	SG and G Distribution
Publish decisions on initial Cap and Floor project assessment for Greenlink, Viking Link, IFA2 and FAB	Q2	Electricity Transmission
Publish decision letter on enhanced System Operator licence changes	Q2	Electricity Transmission
Publish final proposals on improving cross-sector infrastructure interactions (UKRN deliverable)	Q2	Electricity 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
Issue Connect and Manage letter to Secretary of State	Q3	Electricity Transmission
Complete Annual Iteration Process	Q3	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
Implementation of auto rollover project remedies	Q1	Markets
Publish consultation response to non-traditional business models discussion paper	Q2	Sustainable Development
Publish State of the Market report 2015	Q2	Markets
Issue the liquidity report	Q2	Markets
Publish consultation on extending competition in transmission tender framework	Q3	Electricity Transmission
Publish Adaptation report in response to second Adaptation Reporting Power by end of 2015	Q3	Sustainable Development
Publish update relating to supplier objections	Q3	Sustainable Development
Publish regulatory report on Offshore Transmission Owner (OFTO) revenues	Q3	Electricity Transmission
Decision on obligations for consumer empowerment and protection	Q4	Markets/Sustainable Development

High Standards of Outputs and Protection

Action	Quarter Due	Division
Complete initial review of telephone services accessibility	Q1	Sustainable Development
Publish findings and next steps on pre-payment meter removal charges	Q1	Sustainable Development
Approval of new balancing services for winter 2015-16	Q1	Markets
Publish Social Obligation Report on debt, disconnection and pre-payment	Q2	Sustainable Development
Publish cross-sector assessment of future bill impacts (UKRN deliverable)	Q2	Sustainable Development

Consult on new draft licence conditions for Priority Service Register following Spring 2015 update on policy	Q3	Sustainable Development
Publish vulnerability strategy update	Q4	Sustainable Development
Publish update on aligning vulnerability strategies (UKRN deliverable)	Q4	Sustainable Development

Partnership

Action	Quarter Due	Division
Report on regional distribution charges	Q2	SG and G Distribution
Complete consultation on Simpler Clearer Protections guide on pre-payment meters for advice providers	Q4	Sustainable Development

Trust and Confidence

Action	Quarter Due	Division
Publish compliance progress reports against Energy Companies Obligation (ECO)	Monthly	E-Serve
Establish model for regular publication of key indicators on each supplier's customer service	Q1	Sustainable Development
Complete annual report on the Domestic Renewable Heat Incentive (RHI) scheme	Q2	E-Serve
Complete annual report on the Non-Domestic Renewable Heat Incentive (RHI) scheme	Q2	E-Serve
Complete FIT annual levelisation process	Q2	E-Serve
Complete annual report on the Warm Home Discount (WHD) scheme	Q2	E-Serve
Publish final determination report for Energy Companies Obligation 1 (ECO)	Q2	E-Serve

Publish wholesale market indicators report	Q3	Markets
Publish non-domestic consumer research (quantitative survey)	Q3	Markets
Complete annual report on Government Electricity Rebate (GER)	Q3	E-Serve
Publish the 2016-17 Forward Work Programme	Q4	Corporate Functions
Complete annual report on the Feed-in-Tariffs (FIT) scheme	Q4	E-Serve
Complete annual report on the Renewables Obligation (RO) scheme	Q4	E-Serve

Efficiency and Effectiveness

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

Annex 2 – Key Performance Indicators 2015–16

Effective Competition

Metric	What is being measured	Annual Target	Division
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

Metric	What is being measured	Annual Target	Division
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
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 Renewable Heat Incentive (RHI) processing	Deliver high quality Customer Service to Domestic RHI applicants	Achieve a Net Promoter Score (NPS) of +50%	E-Serve
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 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
Renewables Obligation (RO) processing	Follow up with the generators outstanding issues on their applications for accreditation	90% within 10 working days	E-Serve
Feed-in Tariff (FIT) processing	Follow up with the generators outstanding issues on their applications for accreditation	90% within 10 working days	E-Serve
Warm Home Discount (WHD) processing	Respond to obligated party Warm Homes Discount schemes for approval	100% within 28 days	E-Serve

Trust and Confidence

Metric	What is being measured	Annual Target	Division
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
Energy Companies Obligation (ECO) processing	Publish monthly compliance progress reports against ECO obligations	100% within 28 days	E-Serve

Efficiency and Effectiveness

Metric	What is being measured	Annual Target	Division
Non-Domestic Renewable Heat Incentive (RHI) processing	Payments made following accurate quarterly periodic data submission	95% within 30 working days	E-Serve
Domestic Renewable Heat Incentive (RHI) processing	Timely Domestic RHI payments	Pay 95% of payments within 5 working days of due payment date.	E-Serve
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
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