

Simplification Plan 2015-16

Plan

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Overview:

Finding ways to improve how we regulate is an essential part of what we do. We have a legal duty to keep our activities under review and to publish an annual Simplification Plan, explaining what we intend to do to reduce or remove regulatory requirements which have become burdensome. We interpret this duty widely, to include ideas for how we might improve our effectiveness or make our processes more efficient. This is our Simplification Plan 2015-16.

Context

Ofgem is the Office of Gas and Electricity Markets, which is governed by the Gas and Electricity Markets Authority.

Our priority is to protect and make a positive difference for energy consumers. We promote value for money, security of energy supplies, and sustainability for present and future consumers. We do this through the supervision and development of markets, promotion of effective competition, regulation of networks and delivery of government energy efficiency schemes.

We work with government, consumer bodies, the energy industry, European partners and other stakeholders to ensure that we deliver our duties and focus on areas where we can have most effect. We do this within a legal framework determined by the UK government and European Union. More details about our statutory duties can be found at: <https://www.ofgem.gov.uk//publications-and-updates/powers-and-duties-gema>

The principles of better regulation shape our activities, so that we deliver our functions in ways that are transparent, accountable, proportionate, consistent and targeted only where action is needed. The legislation under which we operate also enables us to take into consideration any other principles which represent best regulatory practice.

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 burdens which we consider have become unnecessary. We must publish an annual statement to show what this means in practice. That annual statement is our Simplification Plan.

Associated documents

Strategy

<https://www.ofgem.gov.uk//publications-and-updates/corporate-strategy>

Forward Work Programme 2015-16

<https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-2015-16>

Simplification Plan 2014-15

<https://www.ofgem.gov.uk/publications-and-updates/simplification-plan-2014-15>

Transparency of Ofgem data – a Statement of our Policy

<https://www.ofgem.gov.uk//about-us/transparency>

UKRN work programme 2015-16

http://www.ukrn.org.uk/?page_id=76

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Introduction

Ofgem's core purpose is to make a positive difference for energy consumers. To be able to do this well, we need to make the most of our resources and our powers. In December 2014 we published our Strategy, to help us focus more sharply on the difference we can make for consumers, and to articulate the outcomes we intend to achieve and how we will achieve those outcomes.

We have now published our Forward Work Programme (FWP) for 2015-16 to set out in more detail the actions we will pursue to begin to deliver those outcomes. The FWP contains our key commitments and deliverables for the year ahead. This Simplification Plan is another core element of our corporate business planning. Our legal duties require us to publish an annual statement setting out what we have done and what we intend to do to remove burdens that we consider have become unnecessary.

The Simplification Plan also provides an opportunity to review and promote our approach to better regulation and highlight where our commitments have the potential to drive efficiency or enable innovation. We have decided for 2015-16 to publish the Simplification Plan alongside the FWP. This makes it easier to emphasise how our corporate commitments support best regulatory practice and provides stakeholders with a straightforward overview of our corporate planning.

As we pursue the commitments in this Plan it is important to recognise that our determination to drive effectiveness and reduce burdens where we can is not limited to the initiatives in this Plan and is not defined by publication of the Plan as an annual event. The principles whereby our activities should be transparent, accountable, proportionate, consistent and targeted only where action is needed are a consideration in everything we do. Through the year we may undertake further actions that demonstrate these principles and we want an ongoing conversation with stakeholders on ideas to ensure that the ways we deliver our duties have regard to the importance of the principles of better regulation.

Our Strategy notes that our powers and duties cannot stay fixed at a point in time. This Simplification Plan shows some of the ways that we review how we work. While it is ultimately for Parliament to ensure our powers remain effective, we will continue to scrutinise what we do and how we do it, to understand how best to deliver for consumers.

We are always interested in your views on our better regulation work and in ideas for how we could reduce burdens. Please send any comments or suggestions on this to Mark Wagstaff, our Better Regulation Manager mark.wagstaff@ofgem.gov.uk

1. Commitments for 2015-16

Chapter Summary

This chapter explains what we aim to do to support our better regulation duties in 2015-16.

Commitments for 2015-16

1.1. In this year's Simplification Plan we continue to focus on areas of work that should help us improve how we regulate and make good use of resources. We will maintain our emphasis on better coordination of how our work affects independent suppliers and generators, non-traditional business models and the increasingly diverse range of organisations seeking access to the market. As last year's Plan noted, many areas of our work engage with these bodies to some extent and we are conscious of the need for more active management of the interactions between these workstreams. We will also consider how best to take forward findings from our discussion paper on non-traditional business models.¹

1.2. The challenges faced by the energy sector are unprecedented both in terms of number and required pace of reforms. We are aware that many of the initiatives undertaken by policy makers, both at home and abroad, will need to be given effect though changes to the already large and complex systems and processes of industry parties, often competing for the same resource. We therefore welcome initiatives such as the Change Overview Board (COB), which aims to provide strategic industry change portfolio planning and prioritisation. COB has been effective in raising awareness of the scale and scope of challenges, through tools such as the Gas Central Services Change Horizon. We will continue to work with the COB and other industry groups not simply to raise awareness of forthcoming change, but to fulfil the intention of managing and prioritising industry change in a manner that is more coordinated, efficient and mutually beneficial to all stakeholders.

1.3. We continue to work closely with other European regulators and with the industry to ensure timely and proportionate implementation of European Network Codes. We are also planning to consult on potential code governance reforms, building on the reforms introduced by our Code Governance Reviews.²

1.4. Alongside industry change, we want to make sure that the companies we regulate treat their customers fairly and deliver the high standards that customers should expect from an essential service. We recognise that the best way to achieve

¹ <https://www.ofgem.gov.uk/publications-and-updates/non-traditional-business-models-supporting-transformative-change-energy-market>

² <https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work/code-governance-review>

this is not always through detailed rules, which is why we introduced Standards of Conduct, noted in a previous Simplification Plan as a way to reduce our reliance on prescriptive rules while enabling space for flexibility and innovation.³ This year, we aim to explore how we might move over time to greater reliance on general principles rather than detailed rules. Principles-based regulation has potential to give support to the simplification agenda.

1.5. We know that the scope and extent of our regulation can have long-term impacts on the sector. Our Impact Assessment guidance requires us to think widely about the implications of what we do.⁴ However, we know there is scope to be more transparent about the costs and benefits of our regulation and how these change with each intervention. Our Strategy suggests we could explore how we might do this and we will consider options as part of our ongoing work on organisational key performance indicators.

1.6. Delivery with the pace and purpose required by our Strategy means that we have to focus on how we work and how we manage the information we collect and hold. We are committed to improve our data management and operational processes, and ensure that we have the right arrangements to share data internally, to help mitigate the demands we make on industry in particular through Information Requests. We will look at further ways to strengthen our Impact Assessment processes, including a renewed focus on internal quality assurance to meet our Strategy commitments on provision of authoritative, evidenced data. We will continue to consider transparency and accountability in our work, including our approach to consultation.

1.7. Our FWP signals a more proactive approach to working with other regulators, through the UK Regulators Network (UKRN) and bilaterally. The initial year of UKRN has delivered significant products such as the cross-sector investor guide⁵ and stocktake report on household affordability pressures.⁶ In 2015-16 we will begin to look at the possibilities to deliver change to how we work through effective cross-sector approaches. This includes through the specific commitments in the UKRN work programme 2015-16⁷. We will also actively seek out other joint and bilateral approaches, that could deliver better value for consumers, building on the success of ventures such as the cross-sector regulator procurement framework. The initial three-year term of the framework started in September 2011 and up to February 2014 Ofgem had made considerable savings through improved offers and discounts on rates. We will embed joint working in our policy development and business activities.

³ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-simplification-plan-2012-13>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/impact-assessment-guidance>

⁵ <http://www.ukrn.org.uk/?p=371>

⁶ <http://www.ukrn.org.uk/?p=465>

⁷ http://www.ukrn.org.uk/?page_id=76

Commitments for 2015-16	
Initiative	Commitment
Independent suppliers and generators / non-traditional business models / innovative solutions	We will explore how to achieve more streamlined coordination in our work with non-traditional and smaller businesses, and innovative business models. We will look for opportunities to simplify our processes where we can, and strengthen access for new entrants
Code governance	We will consider whether code governance impacts delivery of change
Principles-based regulation	We will explore how we might move over time to greater reliance on general principles of behaviour rather than detailed rules.
Costs and benefits of regulation	We will consider ways in which we could be more transparent about the costs and benefits of our regulation as part of work on our KPIs
Ofgem information management	We will improve our data management and streamline internal processes to mitigate burdens in particular around Information Requests
Working with other regulators	We will actively seek opportunities to work collaboratively with other regulators and we will embed joint working in our processes wherever possible

Links to Forward Work Programme

1.8. This document is published alongside our Forward Work Programme 2015-16 (FWP)⁸ which details the initiatives we intend to pursue to achieve the consumer outcomes that are central to our strategic approach to regulation. The Simplification Plan does not duplicate the FWP and nor does it extend our commitments beyond those set out in the FWP. An important purpose of the Simplification Plan is to highlight those areas of our work where the potential exists to remove burdens which have become unnecessary, and to explain how we will achieve our aims through pursuing greater efficiency and innovation in our work.

1.9. As the principles of better regulation inform every aspect of what we do, many of the initiatives and activities described in the FWP have process improvement or streamlining embedded in their aims or design. The table below highlights some aspects of our work where the impact of those principles can readily be seen.

Regulation of monopolies and enabling markets

European network codes	Implementation in a proportionate and timely manner. Working with industry and other European regulators to streamline opportunities for engagement
Interconnectors	Cap and floor regime – transparent process supporting security of supply at good value to consumers
Network Innovation Competition	£81m available for innovation projects in electricity transmission and distribution with the potential to deliver significant financial and environmental benefits to electricity customers
Demand side flexibility	Flexibility Project – coherent approach across traditional and

⁸ <https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-2015-16>

	innovative sources of flexibility. Strategy to be published summer 2015. Close working with industry, DECC, Europe
Code governance	Consultation on impacts of industry arrangements on delivery of change and on new entry, growth and competition
Compliance	Progress Compliance Project and assess whether we have the right suite of tools and powers to deliver credible deterrence and engender compliant behaviour

Effective competition

Domestic consumer engagement	Participate in further phase of UKRN work on engagement and switching, to examine innovation in intermediaries
Annual report on the state of the retail energy market report	Publish second annual report on the state of retail energy markets, assessing how well the market is working to deliver our five strategic consumer outcomes
Independent suppliers	Support government's Challenger Business Action Plan and continue to take action to improve engagement and meet Action Plan commitments
Non-traditional business models	Publish responses to February discussion paper and outline the next steps we plan to take in this emerging area
Community Energy	Continue to work with the Community Energy sector to help improve the prospects for local generation and supply

High standards of outputs and protection

Principles-based regulation	Engage stakeholders on moving towards principles-based regulation
Consumer protection and customer service	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
Consumer protection and customer service	Implement reforms to the Guaranteed and Overall Standards of Performance to simplify the requirements on suppliers whilst providing appropriate protection for consumers in key areas of service
Consumer protection and customer service	UKRN affordability project further phases – modelling household bill impacts, and potential to explore greater alignment of vulnerability strategies cross-sector
Monitoring network company standards	RIIO framework customer satisfaction measures including complaints handling
Third Party Intermediaries	UKRN engagement and switching project – next phase on the role of innovation in intermediaries
Environmental schemes	Drive continued efficiency and effectiveness in administration including through clear and accessible guidance

Partnership with government and stakeholders

UKRN work programme 2015-16	Continued leadership of projects and continued commitment across all UKRN activities to help deliver consistent, efficient regulation cross-sector
UKCN	Continued work with CMA and other regulators with concurrent powers to promote stronger competition across regulated sectors for the benefit of consumers
Engaging effectively with European regulators	Positive influencing of pan-European energy policy through ACER and CEER including coordinated implementation of European Network Codes

Trust and confidence

Reputational regulation	Publication of customer service indicators to inform switching decisions. Continued focus on transparency and provision of impartial, authoritative information including Consolidated Segmental Statements, complaints data, Social Obligations Reporting
Data Assurance Guidance	Requirements on network companies to risk assess information provided to Ofgem and demonstrate a proportionate approach to validating data, to improve accuracy and timeliness
Offshore transmission data	Work to improve the level of comparative information and commentary we publish
REMIT implementation	Work closely with ACER and other European regulators to ensure consistent, effective implementation. Engage with market participants to make sure they are aware of their



	obligations. Continue work with FCA on interdependencies between energy and financial markets
Liquidity Report	First annual publication of key liquidity metrics to assess impact of the Secure and Promote licence condition on the wholesale electricity market and access of independent suppliers to the market
E-Serve	Look to improve the clean energy performance information we publish

Efficiency and effectiveness

Business planning	Develop an approach to corporate planning to integrate our strategic objectives, efficiency aspirations and performance against outcomes
Information requests	Improve our data management and operational processes to streamline development and use of information requests
Smarter working	Reduced cost through better use of technology
E-Serve delivery	Cost, quality and speed improvements

2. Update on 2014-15 commitments

Chapter Summary

This chapter reports on the progress we have made to deliver our commitments in the Simplification Plan 2014-15

Scope of our commitments

2.1. Simplification Plan 2014-15 was issued in June 2014. In the nine months since then, we have made progress in all areas with some significant developments. An important aim of the Simplification Plan is to highlight enduring changes. It would be counterproductive to achieve a commitment for one year only and then return to a more burdensome or less efficient approach.

2.2. It is for this reason that our Simplification Plan commitments are an important aspect, but only one aspect, of the impact of our better regulation duties on our work. The first table in the previous chapter shows how we aim to reduce burdens and improve efficiency across a broad range of our activities. In the Simplification Plan 2014-15 we charted the progress of commitments in some of our largest initiatives over a number of years, to demonstrate our focus on delivering enduring change to ensure that our regulation continues to be fit for purpose. These changes become embedded in our business as usual, ensuring that the principles of better regulation continue to inform our work beyond the commitments we make in the Simplification Plan in any given year.

2.3. Progress on our 2014-15 commitments is shown in the table below.

Progress update on commitments for 2014-15		
Initiative	Commitment	Progress update
Independent suppliers and generators	We will undertake a whole-organisation piece of work to understand how we might improve our engagement and better coordinate aspects of our work with independent suppliers and generators	<ul style="list-style-type: none"> In February 2015 we published a discussion paper on non-traditional business models (NTBMs). This is the start of longer-term engagement to better understand the drivers motivating these organisations, consumer benefits and risks, and how regulation may impact on these organisations

		<ul style="list-style-type: none"> • In August 2014 we and DECC launched the Action Plan for Challenger Businesses (Independent Energy Suppliers) setting out commitments to respond to a range of concerns • We have undertaken internal mapping to understand the extent of our engagement with the wide and diverse cohort of bodies working on a range of localised, innovative business models and solutions
'Licence Lite'	<p>We will publish updated guidance on a means of relieving aspects of the electricity supply licence to reduce direct burdens, subject to appropriate commercial arrangements and regulatory approval. In certain circumstances, this may facilitate new entry for smaller, independent and community-based organisations</p>	<ul style="list-style-type: none"> • From October to December 2014 we consulted on revised guidance to SLC 11.3 to address potential barriers faced by distributed energy providers and aspiring suppliers in complying with those elements of the licence which involve high costs or high levels of technical proficiency (the provision known as 'Licence Lite') • In October 2014 we held a workshop enabling stakeholders to discuss the proposed revised guidance with an expert panel • We have continued to engage closely with the initial cohort of 'Licence Lite' applicants
Compliance	<p>We will continue engagement with stakeholders on compliance and actively consider what we need to do to support this</p>	<ul style="list-style-type: none"> • Phase one of the project focused on improving the transparency of our compliance approach, discussed in the open letter published in March 2014⁹ • We have continued to test our proposals, to examine how they fit

⁹ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-regulatory-compliance>

		<p>for smaller suppliers</p> <ul style="list-style-type: none"> • We have held workshops on debt and on complaints handling for smaller suppliers • We engaged with stakeholders on the compliance project at the Enforcement Information Exchange in December 2014 • Phase two of the project will focus on developing tools and systems to support our compliance work • This includes providing greater clarity on who to contact • For independent suppliers we now have a dedicated page on our website¹⁰
Cross-sector infrastructure investment	We will work with other economic regulators to develop and implement regulatory outputs in relation to multi-sector investment	<ul style="list-style-type: none"> • We have led the high-profile UKRN project on cross-sector infrastructure since the project's inception • In November 2014 UKRN published its initial report on cross-sector infrastructure interactions, highlighting areas for further consideration • UKRN published its cross-sector investor guide in December 2014 explaining the drivers of investment needs in five regulated sectors
E-Serve continuous improvement	We will continue to explore the scope to streamline processes in the environmental programmes	<ul style="list-style-type: none"> • Since it launched in December 2013 the E-Serve Continuous Improvement Programme has

¹⁰ <https://www.ofgem.gov.uk/about-us/how-we-engage/engaging-industry/independent-energy-suppliers>



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<p>programme and Offshore transmission</p>	<p>we deliver for government, including building on the ECO reporting simplification initiative. We will continue to refine the tender process for offshore transmission, focused on saving time and costs for all parties</p>	<p>achieved a 13% saving against budget in its first year</p> <ul style="list-style-type: none">• E-Serve Operational Excellence Forum continues to find ways to reduce transaction costs• In December 2014 we completed the first round of tenders for Offshore Transmission Owners (OFTOs) tendering £1.1bn of offshore transmission assets• We have strengthened linkages between the offshore and onshore transmission regimes to develop greater coherence of approach through our Integrated Transmission Planning and Regulation (ITPR) project
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3. Better regulation across our work

Chapter Summary

This chapter describes the wider context of our better regulation work.

Our statutory duties

3.1. Our principal objective is to protect the interests of existing and future consumers. Beyond this overriding aim, the law gives us a broad range of other duties, including having regard to the interests of particular groups of consumers, securing a diverse and viable long-term energy supply, securing that licence holders are able to finance their activities, and the promotion of competition where we consider that would best protect the interests of consumers.

3.2. These statutory duties guide and shape our decision making and in carrying out any of our functions we must also have regard to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only where action is needed (the principles of better regulation). Alongside these well-established principles, we must also have regard to any other principles that we consider represent best regulatory practice. This means that the principles of better regulation and our consideration of best regulatory practice should inform everything that we do.

3.3. We also have a duty to keep our activities under review and to publish this annual Simplification Plan, setting out our aims to reduce burdens and embed best regulatory practice in the year ahead. Additionally, we have statutory duties in relation to carrying out impact assessments on our activities. These duties are explained in our Impact Assessment Guidance.¹¹

Our Strategy

3.4. In December 2014 we published our Strategy, to set out how we intend to make the most of our resources and our powers, in regulating an essential service that is relied on by virtually all of the 26 million households and businesses in GB.¹² Our Strategy articulates our five consumer outcomes:

- Lower bills than would otherwise have been the case
- Reduced environmental damage both now and in the future
- Improved reliability and safety

¹¹ <https://www.ofgem.gov.uk/publications-and-updates/impact-assessment-guidance>

¹² Regulation of the electricity and gas system in Northern Ireland is the responsibility of the Northern Ireland Authority for Utility Regulation, usually known as the Utility Regulator. Ofgem works with the Utility Regulator on matters of shared interest.

- Better quality of service, appropriate for an essential service
- Benefits for society as a whole including support for those struggling to pay their bills

3.5. Wherever possible, our work must balance these five consumer outcomes. Our Strategy also describes how we will deliver these outcomes through six outputs:

- Regulation of monopolies
- Effective competition
- High standards of outputs and protection
- Partnership with government and stakeholders
- Trust and confidence
- Efficiency and effectiveness

3.6. These are the outputs around which we have developed the commitments and deliverables in our FWP.

3.7. Our Strategy and the ways in which we intend to achieve our strategic priorities highlight the importance of independent economic regulation, working in accordance with our statutory duties. Making sure that stakeholders are clear about who we are, what our purpose is and what we will achieve reflects best regulatory practice. It enables a shared, transparent understanding of our role, our values and what stakeholders can expect from us. We helped embed this understanding in a stakeholder event held in January 2015, attended by representatives from the energy industry, consumer bodies and the investor community. To support transparency, we published key messages from this event.¹³

Strategic Transformation Programme

3.8. To make sure that we can deliver our Strategy and provide assurance that our regulation is fit to meet future challenges, we are implementing an internal Strategic Transformation Programme (STP) of eleven projects, addressing how we work across a broad range of areas. While this work is internally focused, it is scoped and intended to support and strengthen delivery of our strategic priorities.

DECC Strategy and Policy Statement

3.9. The Energy Act 2013 introduces a Strategy and Policy Statement (SPS) for Ofgem. When designated by Parliament, the SPS will make clear the policy outcomes which Ofgem must achieve to support the government's priorities for the energy sector. Compliance with the SPS is an important addition to our statutory duties and we will make sure that in achieving the policy outcomes, we will continue to have regard to our statutory duties in relation to best regulatory practice.

¹³ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-our-strategy>

Ofgem in Europe

3.10. As the FWP makes clear we work closely with European energy regulators and European institutions to help guide policy and shape outcomes in accordance with our duties, including our commitment to better regulation. For example, we are working to ensure that implementation of European Network Codes is achieved through effective coordination with a focus on clear communication and stakeholder engagement. We also work with other regulators on specific issues, for example with FCA towards consistency in approach to enforcement of REMIT-type provisions.

Working with other regulators

3.11. We have made a strong contribution to UKRN during its initial year, successfully leading the high-profile projects on cross-sector infrastructure and on household affordability pressures. We are firmly committed to meaningful, ongoing collaboration with other regulators, which has the potential to deliver consistent, effective and good value solutions for consumers across a number of sectors. We recognise that delivery of our statutory duties can be strengthened through working with others. We will continue to play an active role in UKRN through 2015-16.

3.12. We are a concurrent regulator for competition and consumer protection law. We have worked closely with CMA and other concurrent regulators to develop the UK Competition Network (UKCN) and remain committed to the promotion of effective competition where this can benefit consumers by driving down costs and improving service quality.

