

## **Minutes of a Meeting of the Gas and Electricity Markets Authority**

**Thursday, 11 June 2015 at 8.15 am**

**Ofgem, 9 Millbank, London SW1P 3GE**

### **Minutes of the Authority Meeting held in May 2015**

1. The minutes of the meeting held on 14 May 2015 were agreed.

### **Matters arising from the minutes of the previous meeting**

2. It was noted that discussions with DECC on systems operation development were continuing.

### **Introductory remarks by the Chairman**

3. The Chairman noted that declarations of interest were recorded from a Member whose institution was in receipt of some funding from the energy industry; and from another Member who was a non-executive director of the Low Carbon Contracts Company.
4. The Chairman reported on an initial meeting, with the Chief Executive, with the Secretary of State. He had also attended the recent triennial meeting of the World Forum for Energy Regulation, for which the theme had been "smarter regulation". The meeting had been attended by senior energy regulators from a wide range of jurisdictions.

### **Reports by the Chief Executive and the Group Finance Director**

5. The Chief Executive reported on meetings and correspondence with senior industry representatives and other stakeholders. He noted that the Authority would be publishing for consultation a list of proposed changes to the Capacity Market Rules (for which the Authority had taken responsibility at the beginning of 2015) later in the month. The changes were intended to simplify participation in the market for certain categories of generators.
6. There was a discussion of the progress of the RIIO-ED1 appeals to the Competition and Markets Authority. It was noted also that decisions would need to be taken over the next three months on applications by the operators in respect of certain re-openers under RIIO-GD1 and RIIO-T1.
7. The Group Finance Director reported on financial performance for the year to date. Total staff numbers had fallen below 1,000 but IT expenditure was under particular scrutiny. He had also held initial discussions with HM Treasury on a revised financial framework for the Authority. He would revert to this issue at the next meeting of the Authority.

8. There was also a report on progress on narrowing down options for future office accommodation for the Authority in London.

### **Annual Report of the Audit and Risk Assurance Committee to the Authority for the year ended 31 March 2015**

9. The Authority received the Annual Report of the Audit and Risk Assurance Committee (ARAC). It was noted that the NAO had indicated that they anticipated making an unqualified report on the Annual Accounts and that Deloitte, the Authority's outsourced internal auditor, had stated that their work allowed them to conclude that there was reasonable assurance that the Authority had an appropriate system of internal control.
10. It was noted that ARAC received regular reports on implementation of recommendations of internal audit investigations and that the Chair of ARAC would alert the Authority in the event that lack of progress in implementing recommendations gave rise to any material concern. The Chairman recalled that the primary responsibility for ensuring that internal audit recommendations were implemented within agreed timescales lay with line management.
11. The Authority noted the Report.

### **Annual Report and Accounts 2014-15**

12. The Authority considered a near final draft of the Annual Report and Accounts for 2014/15, which had been reviewed by ARAC. A number of minor comments would be incorporated in the final version. The Authority thanked the Associate Director Finance and Risk Management and his team for their work in completing the Accounts, noting that the NAO had complimented them on the efficiency of the process.
13. The Authority delegated to the Chairman approval of the final version of the Report and Accounts, to include any amendments agreed with Keith Lough in his capacity as Chair of ARAC, and noted that it was intended that the Report and Accounts would be signed by the Chief Executive, in his capacity as Accounting Officer, later that week.

### **Off-Gas Grid – customer issues**

14. The Authority considered a paper seeking guidance on the approach to be taken in a paper to Government on a range of options for possible action relating to customer detriment issues in non-gas markets. The paper was being prepared in fulfilment of a commitment to the Energy and Climate Change Select Committee made earlier in the year.
15. It was noted that there were various categories of off-gas grid customers. Work was being undertaken separately on issues relating to customers who

relied on electric heating, in respect of supplies to whom the Authority had regulatory powers and duties. For off-gas grid customers who relied on oil, LPG or solid fuel heating or District Heating schemes, there were widely differing issues. District Heating customers (of whom there might be rapidly increasing numbers) had no ability to switch supplier, so a monopoly regulatory approach might be one of a number of options if Government wished to provide them with some protection. There would, however, in some case also be interactions with renewable energy support schemes that would need to be taken into consideration.

16. Oil, LPG or solid fuel customers in principle had choices of supplier available, but choices might be limited in many rural locations and there were issues of transparency and high cost compared with gas heating. Different approaches would be necessary here if Government wished to afford vulnerable customers in these fuel groups some protection. The Authority had no current role, and no relevant technical expertise, in relation to these markets.
17. It was noted that it would be for Government to make any decision to give Ofgem any responsibilities in this area. Any such decision would be likely to have considerable resource implications.
18. The Authority agreed to complete the research necessary to identify the principal options. A draft paper would then be produced for discussion with DECC officials.

### **Competition and Markets Authority (CMA) Energy Market Investigation: update ahead of Provisional Findings**

19. The Authority considered a paper reviewing actions being undertaken in support of the CMA Energy Market Investigation and setting out proposed lines of activity in preparation for, and following, the publication of the CMA's Provisional Findings and (if applicable) draft Remedies Notice.
20. The Authority noted that a further paper would be submitted to their next meeting commenting on the CMA's Provisional Findings (assuming they had been issued in sufficient time to enable a paper to be prepared) and setting out initial thoughts on lines of response to the Provisional Findings and any draft Remedies Notice.
21. The Authority endorsed the proposed approach set out in the paper.

### **Assessment of Grid's capacity outlook**

22. The Authority considered a paper proposing publication of a short report setting out the Authority's commentary on the near term outlook within National Grid's latest Future Energy Scenarios (FES), which were to be

published the following month. There were continuing discussions with DECC and National Grid on a number of issues relating to the FES.

23. While it appeared likely that margins would continue to be relatively tight over the next three winters, it was noted that there was uncertainty around the near term outlook and that there were several upside sensitivities around National Grid's forecasting. In particular, interconnector inflows and plant availability could be higher than reflected in National Grid's scenarios if prices reflected the tight margins in the GB system. There was also uncertainty around demand and a continuation of the recent downward trend would provide a more positive near term outlook than presented in the FES. It was recognised, however, that the linkage between GDP movements and demand was less clear than had been the case in the past. It was noted also that the response of the system to temporary voltage reductions (and the impact of voltage reductions on some substantial customer groups) might also now be more difficult to predict as a result of substantial changes in the technical characteristics of some segments of demand.
24. The Authority agreed to publish a commentary on the Scenarios simultaneously with their publication by National Grid. The commentary would take into account the points raised in discussion, and in subsequent discussions with National Grid and DECC.

#### **Proposed extension of Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) due to outlook uncertainty**

25. The Authority considered a paper reviewing NGET's current intention to consult on extending and/or amending the SBR and DSBR services. Implementation of any extension beyond 2016-17 would be dependent on the Authority's approval of funding arrangements.
26. The Authority recognised that there was a case for considering extending the SBR and DSBR into 2017-18. The Authority agreed to support NGET's plans to consult on the extension of the SBR and DSBR and noted that firm proposals were expected to be presented to their September meeting.

#### **E-Serve Board update and Annual Report to the Authority, 21014-15**

27. The Authority received a presentation summarising the activities of E-Serve over the past four months and the whole of 2014-15 and priorities for the next four months.
28. It was noted that E-Serve had achieved a 13 per cent. saving against budget for 2014-15 while satisfactorily meeting the demands of administering new schemes and dealing with substantial peaks in demand in advance of subsidy depressions in several schemes. The total

transaction run rate had substantially exceeded budget and the average cost per transaction was substantially below budget. It was noteworthy, for example, that more applications had been received and processed under the Non-Domestic Renewable Heat Incentive during 2014-15 than from launch in 2011 to March 2014.

29. E-Serve had met 93 per cent. of its Key Performance Indicators for the year. Staff turnover had, however, been substantially above target; recruitment activity was being re-focussed towards candidates who were more likely to remain in E-Serve for longer periods but the buoyant employment market in London posed continuing challenges. Efforts were also being made to improve the skills and motivation of junior managers.
30. There was a discussion of future accommodation plans for E-Serve against the background of the Authority's forthcoming vacation of 9 Millbank.
31. Turning to the current financial year, activity so far was broadly on track, with the objective of securing a further significant saving on budget. KPIs were being moved towards evaluation on a rolling 12 month basis to enable more representative evaluation of trends. A number of significant changes to schemes would need to be handled over the coming months.
32. There was a discussion of E-Serve's procedures for identifying and managing difficult decisions. It was noted that, in general, difficult decisions taken so far and closed out had not led to subsequent problems, although there was one current issue where a dispute over the interpretation of legislation might result in a judicial review application
33. The Authority noted the presentation and endorsed the priorities for the next four months.

### **Health and Safety Review**

34. The Authority considered a paper summarising the Authority's health and safety responsibilities and policies and health and safety training arrangements.
35. The Authority noted that the health and safety policy was reviewed every two years unless there was a change in legislation or a change in processes or procedures that warranted an earlier review. The next regular review would be carried out in July 2015.
36. It was noted that the management of stress and the promotion of wellbeing was a responsibility of the Human Relations function. A number of initiatives were being taken in this area; these would be described in the next report of the HR function to the Authority.

37. The Authority noted the paper and agreed that a similar paper should be considered by the Authority annually.

**Sarah Harrison**

38. The Authority congratulated Sarah Harrison on her forthcoming appointment as Chief Executive of the Gambling Commission, noting that the July meeting would be her final meeting as a Member of the Authority.

**Date of next meeting**

39. The next Authority meeting would be on **Thursday, 9 July** at Millbank. There would be a full day "Awayday" session at Millbank on 8 July.

**Those present**

David Gray  
Dermot Nolan  
David Fisk  
Paul Grout  
Sarah Harrison  
Nicola Hodson  
Jim Keohane  
Keith Lough  
Andrew Wright

(For paragraphs 1- 26

**Those attending**

Martin Crouch  
Rachel Fletcher  
Maxine Frerk  
Chris Poulton

**Others present**

David Ashbourne	(Legal Adviser to the Authority)
Peter Jones	(Secretary to the Authority)
Simon Crine	(Director of Communications)
Mark Wiltsher	(Associate Director of Communications, paragraphs 1 – 11 and 14 - 26)
Tim Webb	(Paragraphs 19 - 20)
Andrea Baildon	(Senior Legal Adviser, paragraphs 14 - 39)

***For specific agenda items***

<b>Name</b>	<b>Subject</b>	<b>Paragraphs</b>
Paul Heseltine	Annual Report and Accounts	12 - 13
Paul Branston	Off-Gas Grid: customer issues	14 - 18
Sarah Brooks	" "	" "
Philip Cullum	" "	" "
Carola Geist-Divver	" "	" "
Emma Gibson	" "	" "
Chris McDermott	" "	" "
Lisa O'Brien	" "	" "
Emma Burns	CMA Market Investigation: update	19 - 20
Clémence Hermann	" "	" "
Paul Huffer	" "	" "
Emma Kelso	" "	" "
Anjali Mehta	" "	" "
Stanislav Petrov	" "	" "
Phil Slarks	" "	" "
Jonathan Spence	" "	" "
Leonardo Costa	Assessment of Grid's capacity outlook and proposed extension of SBR and DBSR due to outlook uncertainty	22 - 26
Emma Kelso	" "	" "
Christos Kolokathis	" "	" "
Chris Lock	" "	" "
Kristian Marr	" "	" "
Philippa Pickford	" "	" "
James Soundraraju	" "	" "
Alex Waddington	" "	" "
Sukhinder Lalli	Proposed extension of SBR and DBSR due to outlook uncertainty	25 - 26
Caroline Selman	" "	" "
David Fletcher	E-Serve Board update and Annual Report	27 - 33
Charles Hargreaves	" "	" "
James Robinson	" "	" "
Cathryn Scott	" "	" "
Edmund Ward	" "	" "