

Minutes of a Meeting of the Gas and Electricity Markets Authority

Thursday, 9 July 2015 at 8.15 am

Ofgem, 9 Millbank, London SW1P 3GE

Minutes of the Authority Meeting held in June 2015

1. The minutes of the meeting held on 11 June 2015 were agreed subject to an amendment which was noted.

Introductory remarks by the Chairman

2. 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.
3. The Chairman reported that Nicola Hodson would be joining the E-Serve Board with effect from its first meeting after the Summer.
4. The Chairman reported on recent meetings with senior civil servants. He had also attended a meeting of Chairs of the members of the UK Regulatory Network and a two day conference of the Infrastructure Forum.

Reports by the Chief Executive and the Group Finance Director

5. The Chief Executive reported on meetings with Ministers in Whitehall and Scotland and meetings and correspondence with senior industry representatives and other stakeholders. He reported on developments in current enforcement cases.
6. It was noted that wholesale gas and electricity prices for winter 2015/16 were now at the lowest winter level since 2010. The rolling annual retail customer switching rate for both electricity and gas had started to increase over the period March-May.
7. The Group Finance Director reported on financial performance for the year to date. Overall expenditure was generally on track and headcount was below phased budget in all but one Division. The activity-based costing initiative was producing some interesting results; further refinement was needed in some areas but some useful insights into possible areas of focus for efficiency savings were beginning to emerge.
8. It was noted that it might be necessary to re-allocate some budgetary allocations to accommodate high priority work arising as a result of the remedies emerging from the Competition and Markets Authority (CMA) inquiry.

9. There was also a further update on progress on developing options for future office accommodation for the Authority in London.

Supplier guaranteed and overall standards of performance

10. The Authority considered a paper seeking agreement to make the Electricity and Gas (Standards of Performance) (Suppliers) Regulations 2015 and to revoke the existing supplier Overall Standards of Performance. It was noted that implementation of the new standards and revocation of the existing Overall Standards would result in some reduction in the regulatory burden on suppliers.
11. The Authority agreed to make the Electricity and Gas (Standards of Performance) (Suppliers) Regulations 2015 and to revoke the existing supplier Overall Standards of Performance and authorised the Chief Executive to authenticate the application of the Authority's seal to the Statutory Instrument and to authorise the revocation of the existing supplier Overall Standards of Performance.

Offshore Competitive Tender Regulations 2015

12. The Authority considered a paper recommending making updated tender regulations for the offshore tender process and proposing revised governance arrangements for the tender process to reflect the updated regulations.
13. The Authority approved making the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015, approved the proposed offshore transmission tender governance arrangements and authorised any Member of the Authority to authenticate application of the Authority's seal to the Regulations.

CMA Energy Market Investigation

14. The Authority discussed the Competition and Markets Authority's (CMA's) Notice of Provisional Findings, Summary of the Provisional Findings Report and Notice of Possible Remedies (Remedies Notice) for their Energy Market Investigation, which had been published earlier in the week.
15. There was a lengthy discussion of the Summary and Remedies Notice. It was noted that the Remedies Notice typically sought views on a wide range of possible remedies, many of which were described in outline only at this stage, and that the final remedies package was typically less extensive and more tightly defined.
16. It was agreed that the Ofgem team would offer to work closely with CMA officials to develop a package of more detailed remedies that was fully self-

consistent and practicable to implement, drawing, where appropriate, on experience in considering similar issues in the past.

17. After further discussion, the Authority welcomed the conclusions of the summary documents, noted that extensive supporting analysis would be published later in the week in the full Provisional Findings Report and agreed that more developed briefing on certain key issues should be provided by correspondence in advance of Authority representatives' next formal hearing with the CMA at the end of July.

Retail Energy Markets in 2015 Report

18. The Authority considered a paper summarising the proposed focus and content of the Retail Energy Markets in 2015 report, which it was proposed should be published later in the year.
19. It was noted that the data on which the report would be based had already been made available to the CMA Energy Markets Inquiry. It was agreed that great care needed to be taken to ensure that this report was not confused with the Authority's response to the CMA Provisional Findings, nor should it cut across those findings.
20. The Authority requested that the content and presentation of the report should be reviewed in detail over the course of the Summer and delegated to the Chief Executive approval of a final version for publication, with a Wholesale Markets Report, in early Autumn. It was also agreed that Ofgem should begin to publish quarterly indicators of trends in both the retail and wholesale markets

Milford Haven pipeline project ex-post efficiency review

21. The Authority considered a paper reviewing the results of the ex post efficiency review of National Grid Gas Transmission's (NGGT's) Milford Haven pipeline project which had been completed in 2012/13. The review had been undertaken following the conclusion of NGGT's own post-completion review in 2013/14.
22. The Chairman recalled that he had been the executive member of the Authority with responsibility for gas transmission at the time when the project had first been considered. There had been considerable pressure to undertake and complete the project rapidly because of significant concerns over gas security of supply.
23. It was noted that the project had eventually been completed at a cost of £1.15 billion (in 2009/10 prices), £241 million higher than previous expenditure forecasts and allowances (which had already included a provision for £86 million of logged up costs in excess of the TPCR4 final

proposal level). NGGT had attributed the overspend to wet weather conditions, protestors and onerous consenting.

24. The review had identified potential savings of up to £200 million with the benefit of hindsight but confirmed that NGGT had exerted efforts to deliver the capacity obligation in a timely manner.
25. In the light of these conclusions, the Authority agreed to consult on the provisional determination that it was consistent with the framework of allowances and incentives set in TPCR4 that the treatment of the overspend to date was appropriate and should be maintained. This would have the effect that the £86 million of logged up costs would be treated as efficient but that 25% of the TPCR4 overspend after allowing these costs would not be allowed as NGGT revenue, with no further increase or reduction to revenues or allowances.

Electricity Transmission Division update report

26. The Authority received a presentation summarising Electricity Transmission Division's activities over the past four months and the Division's expected priorities over the next four months. It was noted that the Division had already achieved its budgeted headcount reduction for the year but that external delays to major project timetables were imposing increasing pressures on resources. The integration of Offshore Transmission staff into the enlarged Division had generally gone well.
27. Consultation responses on the proposal not to award a cap and floor regime to the Greenlink interconnector project suggested that there had been changes in relevant factors that could be significant. Having previously endorsed the interconnector cap and floor decision-making framework, the Authority delegated to the Senior Partner, Electricity Transmission the decision on whether to award a cap and floor regime to Greenlink, which would follow a further consultation taking account of these new factors. The Authority noted ongoing work in relation to the IFA interconnector's approach to demonstrating compliance with relevant European legislation on use of revenues and looked forward to an update on its resolution.
28. There was an update on the progress of the TransmiT judicial review and a discussion of the courses that might be open to the Authority. The Authority authorised the Chief Executive to take the decision as to whether to appeal in the event of an adverse decision.
29. The Authority noted the presentation and endorsed the priorities for the next four months.

Smarter Grids and Governance Division update report

30. The Authority received a presentation summarising Smarter Grids and Governance Division's activities over the past four months and the Division's expected priorities over the next six months. It was noted that staff numbers had fallen below budget more rapidly than planned.
31. Most key deliverables for the past four months had been achieved, although publication of a strategy and workplan for the cross-divisional system flexibility project would be delayed until later in the Summer to allow for co-ordination with DECC and a recommendation to the Authority on the decision on the Gas Transmission Charging Review had been delayed because of a late change in the EU Network Codes.
32. There was an update on the progress of the ED1 appeals to the CMA, the provisional findings of which were expected to be published at the end of July.
33. The Division had been examining the cost reflectivity of regional network charges in retail energy bills, with a view to publishing a factual report in September. The report would also review the geographical distribution of vulnerable consumers, to provide a basis for assessing the impact of network charges on relative numbers of vulnerable consumers in different locations.
34. There was a discussion of claims under the RIIO uncertainty mechanism first windows, with particular emphasis on claims for the cost of protecting installations designated as Critical National Infrastructure. It was agreed that an update would be provided to the Authority in September, following consultation, and noted that this was one of a number of areas where there was a need for transparency over the cost to consumers of national policy decisions.
35. The Authority noted the presentation and endorsed the priorities for the next four months.

Report of the Europe Committee

36. The Authority noted the report of the meeting of the Europe Committee held on 23 June.

Report of the Audit and Risk Advisory Committee

37. The Authority noted the report of the meeting of the Audit and Risk Advisory Committee held on 10 June.

Sarah Harrison

38. The Authority thanked Sarah Harrison for her outstanding service as a Member of the Authority in various executive roles since 2005, and previously as a senior executive, and extended their good wishes for success in her new role as Chief Executive of the Gambling Commission.

Date of next meeting

39. The next Authority meeting would be on **Thursday, 17 September** at Millbank. There would be additional briefing sessions on the afternoon of 16 September.

Those present

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

(For paragraphs 1-13 and 16-39)

Those attending

Martin Crouch
Rachel Fletcher
Maxine Frerk
Chris Poulton
Anthony Pygram

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 - 29)
Brenda Tanis (Paragraphs 14 - 25)

For specific agenda items

Name	Subject	Paragraphs
Jonathan Blagrove	Supplier guaranteed and overall standards of performance	10- 11
Philip Cullum	" "	" "
Carola Geist-Divver	" "	" "
Jonathan Amos	CMA Energy Market Investigation	14 - 17
Neil Barnes	" "	" "
Martin Bell	" "	" "
Emma Burns	" "	" "
Rob Church	" "	" "
Monica Gandolfi	" "	" "
Rachel Hay	" "	" "
Paul Huffer	" "	" "
Emma Kelso	" "	" "
Stephanie Lomax	" "	" "
Anjli Mehta	" "	" "
Maureen Paul	" "	" "
Graham Reeve	" "	" "
Phil Slarks	" "	" "
Jonathan Spence	" "	" "
Meghna Tegwari	" "	" "
Neil Barnes	Retail Energy Markets 2015 Report	18- 20
Rob Church	" "	" "
Monica Gandolfi	" "	" "
Paul Huffer	" "	" "
Stephanie Lomax	" "	" "
Maureen Paul	" "	" "
Graham Reeve	" "	" "
Jonathan Spence	" "	" "
Paul Branston	Milford Haven pipeline project ex-post efficiency review	21 - 25
Jennie Griffiths	" "	" "
Bogdan Kowalewicz	" "	" "
Andrew Lam	" "	" "
Stathis Mokkalas	" "	" "
Steve Beel	Electricity Transmission update report	26 - 29
Kerste Berge	" "	" "
Jon Parker	" "	" "
Declan Tomany	" "	" "
Paul Branston	SG&G update report	30 - 35
Andy Burgess	" "	" "
Mick Watson	" "	" "

