



## About us

**We are the independent GB energy regulator, working to protect the interests of current and future energy consumers.**

Our core purpose is to ensure that all consumers can get good value and service from the energy market.

In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change while protecting consumers.

We will ensure that Ofgem operates as an efficient organisation, driven by skilled and empowered staff that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.

### **Note on preparations for the planned UK withdrawal from the European Union (EU)**

Ofgem will work closely with government throughout the period until Britain exits the EU to provide advice and support. Our objective is ensuring that the legal and regulatory framework applying to the energy industry is clear and stable, that appropriate contingency planning is undertaken where required, and that there are no 'operability' issues on the day Britain leaves the EU.

As well as government, we will work with the system operator, interconnector owners, traders,

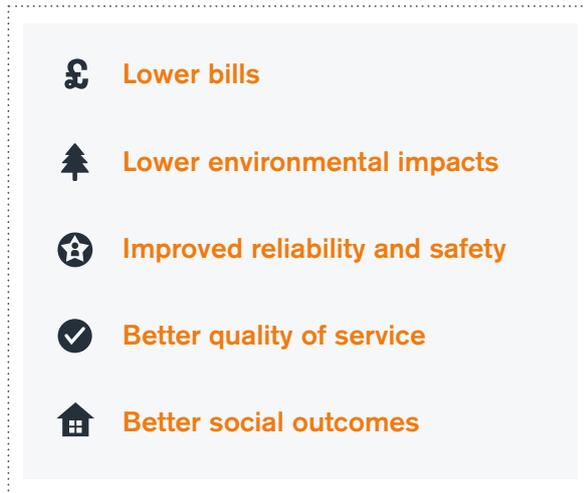
industry code administrators and market participants throughout this period and will seek to be as clear as we can about the scale of change to the regulatory framework which is likely to be required and the processes that will be in place for managing this change (recognising that the outcome of negotiations may not be known for part of this period).

We will also continue to play our part in European institutions, such as ACER and CEER, to shape policies in the interests of British customers. The development of negotiations may affect a number of projects across Ofgem, and we will adapt the scope of EU exit-related work as necessary.



# Our forward work programme

Our core purpose shapes the work that we do to protect consumers and ensure they benefit from:



**Our Forward Work Programme is published annually and sets out the work we think will deliver these outcomes and make the greatest difference to consumers.**

For 2018-19 we have set out a strategic view of how our planned activities (the 'what') link to the consumer outcomes we seek to influence (the 'why'). We have also incorporated our business simplification activities and operating conditions, demonstrating how we are improving our effectiveness and making our processes more efficient.

We consulted on a draft version of our forward work programme between November 2017 and February 2018. This document reflects wider changes since November 2017 and the responses received during the consultation. The responses we received are available on our website.



## CEO foreword

### Welcome to our final Forward Work Programme for 2018-19.

We consulted on the draft from November 2017 to February 2018, and held events for stakeholders in London, Cardiff and Glasgow to hear what they thought of our ambitions. We received more responses than ever before, and importantly, from a more diverse range of stakeholders. The responses helped to improve the final Work Programme and will be used to inform our ongoing delivery throughout 2018-19.

So I'd like to say thank you to everyone who took part in these events, and to those who gave us their responses. They were very valuable.

This year's work plan covers our broad ideas on the direction the energy market is heading in and how we ensure they enhance consumers' interests.

We will step up our important role as protector of consumers – especially the disengaged and vulnerable – by making the market simpler, fairer and more competitive. We recognise the need to make the market work effectively for everyone.

We have already extended price protection to another one million vulnerable consumers in early 2018, and at the time of writing, the Domestic Gas and Electricity (Tariff Cap) Bill is progressing through Parliament. We will implement this wider price cap as soon as we can after it receives Royal Assent.

We will continue to manage the government's environmental schemes, and prepare for the next RIIO price control. We recently published our framework consultation for RIIO-2, which is expected to result in lower returns for energy network companies and significant savings for consumers.

I've also talked a lot about accelerated change and how we must make sure consumers benefit from what will be a radically different energy market.

This is why we're willing to consider major changes, such as the review of the supplier hub model and the targeted charging review, which will alter the building blocks of the future energy market (smart meters and faster switching) while removing the obstacles preventing them from becoming reality.

We're also asking ourselves what the role of a regulator should and could be, how we keep pace with change, and how and where we can make a real difference.

Internally, we're managing our activity smarter and more effectively. Our Glasgow team moved into a modern office in 2017, and in London we're moving to a more cost-efficient office in Canary Wharf.

This work programme is about articulating the most important things we want industry to do to help consumers, and how we'll work together to achieve them.



**Dermot Nolan**  
Chief executive officer, Ofgem



### In 2018-19 our key priorities are:

#### **Enabling a better functioning retail market**

Our aim is a retail market that works for all consumers, where competition constrains prices, drives efficiency and delivers the range of services and products that customers need. Key to this is delivering a quality customer service and meeting the specific needs of people in vulnerable circumstances.

#### **Facilitating change in the energy system**

The need to reduce carbon emissions, technological advancements and greater digitalisation are changing the way energy is produced, generated, transported, stored and supplied to consumers. This means the energy system is in transition to one that is lower carbon, more decentralised, more flexible, more dynamic and responsive. Our aim is to facilitate this transition so consumers benefit.

#### **Ensuring network companies deliver for consumers in a changing system**

In responding to the transition above, the way we manage and run the regulation of the networks will need to change to respond to and reflect the wider system changes across the sector.

#### **Identifying opportunities and managing long-term risk on behalf of consumers**

Our primary role is to protect consumers' interests. Within a highly uncertain, changing energy system this means preventing consumer harm through our core regulatory role and market monitoring, compliance and enforcement. We will manage longer-term risks and identify where consumer benefits can be realised through our horizon-scanning and consumer research, and by maintaining our industry-specialist skills.



# 1. Enabling a better functioning retail market

## What we aim to achieve

**Our ambition is a retail market that works for all consumers. This is a market where competition constrains prices, drives efficiency and delivers the range of services and products that customers need. It is a market where disengaged customers are also able to share these competition benefits.**

Success also involves delivering a quality customer service, as energy is an essential service, and where possible, the specific needs of people in vulnerable circumstances are identified and met by suppliers and other market participants.

The current market is working well for customers willing and able to change supplier or tariff to get a good deal, but the 60% of domestic consumers who are on default tariffs are not benefitting from this competition.

The market is also not working for many small businesses who face similar issues to householders in engaging in the market. While there are signs of improvement in service standards and in the treatment of vulnerable consumers, this still falls short of our expectations.

We are seeing a growing number of new suppliers and energy-related businesses, many with new business models and new technology applications. These product and service innovations are helping households reduce their energy consumption, manage their energy costs and receive rewards for providing flexibility to the energy system. They are also taking the hassle out of searching the market. Our aim is to ensure consumers benefit from this innovation while protecting them from new risks that might emerge.

## How we will achieve it

**There are four aspects to our work in achieving a better functioning retail market:**

### Introducing temporary price protections

We will build on our existing safeguard tariffs for prepayment customers and vulnerable customers who receive the Warm Homes Discount to introduce a tariff cap for all households on default deals, when legislation is passed.

This will protect customers where the market isn't working. If the necessary legislation for the tariff cap does not allow it to be introduced this winter, we will instead extend the existing safeguard tariff to a wider group of vulnerable customers. In parallel, we will work with industry to put in place smart metering and the other conditions for a better functioning market ahead of protections being scaled back or removed altogether.



### Consumer outcomes

**Lower consumer bills** - Disengaged, vulnerable domestic consumers will receive lower bills for the same level of consumption, as will a larger proportion of domestic consumers, subject to legislation (currently before Parliament).



### Key activities in 2018-19

**Make amendments** to supplier licence conditions and design appropriate tariff cap and safeguard tariff calculation methodologies.



## Improving retail market conduct

The licence and our interactions with suppliers should drive the conduct and service standards that energy consumers expect. We will be vigilant to ensure that service standards do not decline with the introduction of price regulation. This vigilance will also provide the context for considering any future work to ensure appropriate conduct of intermediaries and other new energy services businesses. We will take swift and effective action to reprimand energy companies where they do not meet their obligations to consumers.



### Consumer outcomes

**All consumers receive the standard of service expected given energy is a necessity.**



### Key activities in 2018-19

**We will update our 2013 Consumer Vulnerability Strategy:** This is intended to clarify our strategy for the next few years as the energy market transitions to smarter technologies and new business models. The focus will be on measuring and tracking impacts so that consumers in vulnerable situations are not left behind and experience the positive effects of market change. We will take a whole systems approach, ensuring suppliers and network companies properly discharge their obligations to vulnerable consumers.

**Future Retail Regulation project:** Enabling innovation in the way suppliers communicate with their customers by removing unnecessary prescriptive rules and relying more on enforceable principles. We will conclude our work in this area in 2018-19 and hold suppliers to account for delivering good outcomes under these changes.

**Reviewing the approach to licensing suppliers:** Customers have benefitted from the competitive pressure caused by new suppliers entering the energy market, driving prices down and service quality up. We will review our approach to licensing suppliers to ensure appropriate protections are in place against poor customer service and financial instability.



## Implementing new systems to support customer choice and innovation

We will facilitate vigorous and disruptive competition to provide customers with the energy services they need. Barriers may arise in the licence, industry codes or in supplier practices. Fundamental changes in the design of the retail market may be needed to unlock the full consumer benefits from smart metering, and in particular the data it provides, and new technology, and to allow price protections to be lifted.

### Consumer outcomes

**Consumers receive lower bills and better service.** Competition brings forward products that help reduce environmental damage.

### Key activities in 2018-19

**Future supply market arrangements:** We will work to remove barriers to innovation and consider the case for shorter-term changes and more fundamental reforms in the longer term, including whether and how to open up the retail market to a broader range of parties than just suppliers. As part of this work, we will explore new default arrangements that could replace the default tariff cap, and what consumer protection framework is needed in the future. This initiative will provide important input to our review of the approach to licensing suppliers.

**Access to customer data:** We will reform the way that data can be accessed across the sector, in particular to make it easy for customers to share their data securely with third parties.

## Engaging more consumers in energy

We will do all we can to encourage people to engage in the market and specifically to take the hassle out of switching. We will work with the industry to put in place a new reliable, faster switching system and to maximise the rollout of smart meters by 2020. Both are key components of an effective retail market.

### Consumer outcomes

**Consumers can access lower bills, and engage with better and new services in the market.** Demand side engagement helps reduce environmental damage.



### Key activities in 2018-19

**Faster, more reliable switching programme:** Continuing our programme to fundamentally reform and harmonise gas and electricity switching to a reliable next-day process

**Better data, better switching project:** Creating stronger incentives on suppliers to improve their data and other processes to improve switching reliability, including through introducing a compensation regime, alongside publishing data on individual suppliers' switching performance.

**Prompts to engage and Check your Energy Deal (CYED) service** – We will continue to trial and implement new information and services to help consumers engage in the market. This will include a pilot of cheaper market offers communications, the rollout of the customer database and extension of the Check Your Energy Deal (CYED) trial, and trialling opt-in collective switching. We will link this work up with our broader initiative on providing easy access to customer data.





## 2. Facilitating change in the energy system

### What we aim to achieve

**The way energy is produced, generated, transported, stored and supplied to consumers is changing. The drive to reduce carbon emissions and the deployment of new technologies mean the energy system is in transition to one that is lower carbon, more flexible, more dynamic and responsive.**

Government policies mean we are also likely to see consumers using energy in new ways to reduce carbon emissions in heat and transport. In particular, changes in the way we heat our homes and the growth and deployment of electric vehicles could have significant implications for both the gas and electricity systems.

At the same time, we are seeing new and potentially disruptive business models entering the market and new applications being deployed in homes and businesses. Some of these are based on new energy technologies, some are focused on local communities, and others are building on innovative use of information technology. The energy system must continue to meet the essential needs of consumers for affordable, secure gas and electricity supplies. As the system transitions to a more sustainable future, these requirements must not be compromised.

These changes are presenting both challenges and opportunities. The key is to develop a more flexible, responsive and efficient system, so consumers benefit fully.

We have an important role to play in ensuring the critical infrastructure and the right regulatory framework is in place to facilitate this transition. For example, the networks that transport electricity and gas around Great Britain are fundamental to ensuring security of supply and in keeping energy costs down. They also have a significant role to play in decarbonisation of the energy system. They ensure that new, low carbon sources of power have access to the grid, support new forms of demand (such as electric vehicles) and the decarbonisation of the gas supply, and ensure that all network companies can transport and manage energy efficiently.

It is Ofgem's role to make sure the regulations and market rules that govern industry keep pace with these system changes. Electricity arrangements that were designed for a system with passive demand and large-scale, centrally-dispatched power stations and gas arrangements designed for very different flows of natural gas than we see today will need to evolve.





## How we will achieve it

**There are three aspects to our work in facilitating and accelerating the transition to a smarter, lower-carbon and more flexible energy system:**

### Evolving future arrangements

In 2018-19 we will continue our work to ensure future network regulation, charging, access and wholesale markets evolve, to accommodate a wide range of future outcomes and consistent with any changes to retail market arrangements (See chapter 1). This will recognise the significant uncertainty about future policy, technology, consumer and economic circumstances.

We will take forward these activities alongside continuing our efforts on existing programmes of work and our core regulatory responsibilities. We will focus on whole system coordination through close cooperation with industry (including the ENA, National Grid and the ADE), UK Government (BEIS) and other EU stakeholders to help deliver lower costs, better services, access to flexibility markets and proportionate protections.



### Consumer outcomes

**Enhanced system security, lower costs associated with reduced system and network costs, better quality of service and lower environmental impacts.**



### Key activities in 2018-19

**Smart systems and Flexibility Plan** – We will continue our joint work (with government) to deliver the 29 actions in the Plan on removal of barriers to new technology, support for smart homes and businesses, and delivery of markets that work for flexibility. This includes clarifying existing obligations on network companies for maintaining economic, efficient and coordinated networks, and introducing a modified generation licence for storage and the application of existing unbundling rules to storage in the summer.

**Access reform and forward-looking charging** – More efficient use and development of the networks through policy decisions, methodologies, code modifications/licence changes and potentially legislation. We will consult on initial proposals for reform on access arrangements and forward-looking charges in the summer of 2018, and will set out our proposed future actions as part of that.

**Future Electricity SO** – We will continue to design and implement the arrangements for a new Electricity System Operator (ESO) within National Grid Group. We are in the process of finalising the licensing arrangements of the new ESO to go live in April 2019. In April 2018 we implemented a new, innovative incentive scheme for the ESO to ensure it focuses on supporting the long-term changes in electricity system. We will continue to incorporate stakeholder feedback on how the scheme is performing to inform the design of a cohesive incentives and price control regime from 2021.

**Code Governance Reform** – to improve the functioning of the industry code arrangements, including by developing a 'strategic direction' to guide code panels and code administrators on priorities and coordinated working, and the establishment of a cross-code oversight board. In order to focus on the most urgent areas of our FWP, we will not be progressing this work until the end of the coming year.



### Key activities in 2018-19

**Brexit preparedness** – We will continue our joint programme of work (Ofgem/BEIS/industry) to ensure that frameworks are updated to reflect GB's future status outside the European Union and to minimise disruptions with neighbouring regulators and cross-border trading.

**Innovation Link** – we want to encourage the conditions for innovation in the energy system, as we see this as key to bringing forward and realising benefits for consumers. Our role in this will be to support innovators and actively remove barriers to innovation. Our Innovation Link is a key part of this, offering a 'one stop shop' to businesses looking to introduce innovative services and providing fast, frank feedback on the regulatory framework. Our regulatory sandbox, the first in the world for energy, offers businesses that are facing a regulatory barrier the possibility to trial innovative services without facing the full force of regulation. In 2018-19 we will continue adapting our services offered to innovators in the Link and use our learnings to shape future regulation and policy.

**Preparing for Electric Vehicles** – The widespread adoption of electric vehicles offer both huge opportunities and potential challenges for the energy system, many aspects of which cut across our work with Access Reform and Innovation Link. We are working with a range of stakeholders to ensure benefits are realised, including a joint Ofgem/BEIS/OLEV working group to proactively identify and manage any immediate issues.

**Engaging with Local energy** – Local energy continues to be a focus for us, especially where it brings more choice for consumers and more competition to the market. Engagement will continue through our Innovation Link and core connections team to ensure that there is a level playing field for new business models.



## Network charging and cost-recovery

More intermittent and distributed generation and new technology have given rise to a changing distribution of the recovery of the residual costs of operating the electricity network. In 2018-19 we will continue our targeted charging review to address this issue so that distortions are reduced and system users receive fairer treatment.

The changing pattern of energy generation is also leading to more constraints on electricity transmission and distribution networks, and we intend to develop proposals in 2018-19 in order to drive more efficient use of the network and better investment decisions.

In order to enable input from a wide range of stakeholders, and ensure that they have accessible, up-to-date information on the projects above and other charging issues, we will continue to work through the Charging Futures Forum which we established last year.

### Consumer outcomes

**Fairer costs; lower costs associated with faster connection times**

### Key activities in 2018-19

**Targeted charging review** – We are continuing our review of residual electricity charges with the aim of reducing distortions from the forward-looking network charges and achieving a fair recovery of these charges. If we decide changes are needed, we will consult on a minded-to decision in the second half of 2018, and will direct industry participants to raise code modifications which will enact this decision by April 2020.

**Gas Charging Review** – we will continue to support industry in taking forward the conclusion of the Gas Transmission Charging Review and the implementation of the Gas Tariff European Network Code to ensure charges for access to and use of the gas network provide the right incentives to market participants, and are fair and minimise distortions in light of significant structural changes to the gas network. This will include publication of our decision on industry code modifications relating to the Gas Tariff European Network Code. We plan to reach a decision on changes to the gas charging arrangements by Q1 2019.



## Putting in place the critical smart infrastructure and arrangements

Currently, most domestic and non-domestic energy usage is 'settled' on a non-half-hourly basis, preventing suppliers from being exposed to the true cost of their customers' usage and removing incentives to help consumers shift their

consumption to cheaper periods. Building on the platform of smart metering, settlement reform (currently being looked at in a Significant Code Review<sup>1</sup>) is expected to promote innovation and competition, provide the conditions for effective demand-side response (DSR) and improve the efficiency of the settlement process.

### Consumer outcomes

**Improved consumer engagement and switching experience;  
Short-term consumer benefits from demand-shifting, long-term benefits from avoided investments**

#### Key activities in 2018-19

**Continuation of our work to regulate the DCC and monitor the rollout of smart metering** – we will undertake the annual price control and continue to scrutinise suppliers' rollout plans, progress against annual milestones and quality of service during installations.

**Half-hourly settlement** – We will be taking forward the Significant Code Review in 2018-19, and will publish our settlement reform Outline Business Case. We will be progressing work towards a new Target Operating Model (TOM) for market-wide half-hourly settlement, and a decision on the implementation timescales for the reforms by the second half of 2019.



<sup>1</sup> The Smart Meters Bill includes provisions that would give Ofgem the means to progress these reforms more effectively than through an SCR. If after the Bill's Parliamentary passage (and Royal Assent) these powers are available, we would expect to stop the SCR and use the new powers for the remainder of the process.



## 3. Ensuring network companies deliver for consumers in a changing system – RIIO and the wider competitive regime

### What we aim to achieve

**The networks that transport electricity and gas around the UK form the backbone of our overall energy system. They are fundamental to ensuring security of supply and in keeping energy costs down.**

Equally, the UK electricity and gas networks have a significant role to play in decarbonisation of the energy system – through ensuring that new, low carbon sources of energy have access to the grid, supporting new forms of demand (such as electric vehicles), and ensuring all network companies can transport and manage energy safely and efficiently, including new forms of decarbonised gas (such as biogas and hydrogen).

Network companies are natural monopolies, meaning they are not subject to the kinds of competitive pressure observable in other markets. However, the costs of developing and operating

these networks also form part of the bills consumers pay, and the scope for investment in new network capacity still has the potential to cost billions of pounds. As the regulator, we must ensure these monopoly services deliver best value to consumers. This is increasingly important in a world where the future for the energy system, and therefore the networks that support it, becomes ever more uncertain.

In responding to the transition in Chapter 2, the way we manage and run the regulation of the networks will need to change to respond to and reflect the wider system changes across the sector. In particular, Ofgem will need to work with the network companies to ensure that the most efficient solutions are adopted – this may be traditional network investment, or may involve greater use of more flexible services/ technologies, such as demand-side response or storage. This will apply to both the electricity and gas networks.

### How we will achieve it

**Our approach consists of two broad parts:**

- Through price controls, setting and administering the outputs monopoly network companies must achieve and revenue they collect in doing so - ensuring cost effective funding to deliver outputs valued by consumers.
- Driving competition into parts of the network where this is most suitable – through tenders to build and run sections of the network and encouraging competition in connections through the electricity and gas distribution networks.



## Regulating monopoly network companies

Our approach to regulating monopoly energy networks is the RIIO framework (Revenues = Incentives + Innovation + Outputs). The RIIO price controls set the maximum allowed revenues for the companies that own and run the electricity and gas networks.

Through RIIO, network operators have a set of network-specific outputs, to ensure they are delivering what their customers need, and what consumers value. These outputs reflect the consumer outcomes in our strategy. Some of the outputs the companies have to deliver are financially incentivised, some are reputational. They cover safety, reliability, customer satisfaction, conditions for connection, environmental and social requirements. Some incentives apply to all sectors, for example the independent annual assessments of how the network companies engage with their stakeholders, others only apply to specific sectors.

In administering the existing set of price controls (RIIO1), Ofgem will continue to monitor network company financial performance and performance against outputs. We will also assess adjusting allowed expenditure, and any impact this may have on outputs, through uncertainty mechanisms case by case. Our aim is to follow the rules of the existing price controls and maintain the right balance between consumer and investor interests.

The process for designing the new set of price controls (RIIO2) is already underway, and was launched with the RIIO2 Open Letter in July 2017. We have now published our proposals for the new regulatory framework (March 2018), which sets out the parameters that apply across all network sectors in this early round (electricity and gas transmission and gas distribution). We are working closely with each network sector and wider stakeholders to apply the RIIO approach in more detail. Over the course of 2018, we expect to finalise the overall approach and detail how this applies to each sector.

### Consumer outcomes

**Ensuring outputs reflect changes to government policy and any new requirements from consumers**

**Increased innovation and ambition among network operators**

**Faster progress towards a lower carbon, smart and flexible network**

### Key activities in 2018-19

**Conclude the RIIO second phase** Framework Consultation in Q1 2018, with a decision in summer 2018.

**Uncertainty Mechanisms:** We will issue decisions on allowances associated with various cost categories that were uncertain at the time of setting the RIIO1 price controls.

**Incentives:** We will continue to administer the package of financial and reputational incentive mechanisms put in place to ensure the efficient delivery of outputs for current and future consumers.

**Mid-Period Review (MPR) decision on the current electricity distribution price control (RIIO-ED1):** In Q1 2018 we will issue our decision on whether to proceed with an MPR and, if required, we will initiate the process for making changes to outputs.

**Annual Network Innovation Competition (NIC)** – Running the NIC to identify the next tranche of projects with the most potential to deliver low carbon and consumer benefits.



## Driving competition where suitable

Energy networks are natural monopolies and wherever possible we will identify opportunities to deliver competition or competitive-like forces. This enables us to more easily deliver and demonstrate value for money. Principally this can be through using competition in identifying an owner or developer of a particular network, or through using competition between networks where there is a case for them to operate as part of a market. Over the years, we have pioneered using competition in the ownership of new networks through the offshore transmission owner (OFTO) regime. We will continue to run tenders for OFTOs and ensure that the existing arrangements deliver good value for money for consumers.

We will also progress our plans for introducing similar arrangements for the delivery of major onshore transmission investments. In 2017, we set out an approach to Hinkley, where we sought to drive more competitive tension into the build of new onshore transmission assets. We will apply these alternative models to other new transmission projects as they are taken forward.

As well as moving energy around the country, networks also enable us to connect to wider and deeper pools of energy in other markets, such as through electricity interconnectors to neighbouring countries. Such interconnectors are self-financing as they enable wider gains from trading energy and can offer ancillary services which have value for our own energy system. In this area we have promoted competition between the owners of interconnectors, to ensure we deliver the optimal levels of new investment in the most efficient way. Combined with our cap and floor regulatory model, this is bringing forward major new investment and will help transform the future of UK and European energy. Ofgem will continue to work with European regulators, in the context of our leaving the EU, to support the development of interconnectors. Over the course of 2018, Ofgem will assess the need for further cap/floor windows and assess the efficacy of the existing regime.

## Consumer outcomes

**Enabling government targets for renewables and increased security of supply**

**Increased investment in GB energy networks**

**Greater competitive pressures within monopoly systems, leading to increased consumer value**



### Key activities in 2018-19

**Development of** alternative competition models for onshore transmission networks

**Continue to** run competitive tenders for the ownership, operation and maintenance of offshore transmission links through the OFTO regime. We are conducting a review of our tender process for the OFTO regime and will consult on changes to improve the regime through 2018-19. Any changes arising from this will be implemented in time for the launch of Tender Round 6

**Begin a** review of the cap and floor interconnector regime to determine if further application rounds are desirable.



## 4. Identifying opportunities and managing long-term risk on behalf of consumers

### What we aim to achieve

Our primary role is to protect consumers' interests. Within a highly uncertain, changing energy system, this means identifying opportunities for consumer benefit and preventing consumer harm through our core regulatory role and proactive market monitoring, compliance and enforcement activities.<sup>1</sup>

We will also seek to manage longer-term risks through horizon-scanning, research into developing risks/opportunities, and by maintaining our industry-specialist skills.

Our core regulatory role includes retail and wholesale market monitoring (taken forward through our REMIT and security of supply work), and the administration of rules for the capacity market, management of industry processes (network connections and access rules, code and licensing changes) and (where necessary) compliance and enforcement action to ensure that energy companies continue to operate efficiently, reliably and in the interests of consumers. New priorities which may emerge in 2018-19 include regulation of heat networks and adapting our approach and frameworks to accommodate greater uptake of electric vehicles (EVs). We will update our work programme accordingly for these and other emerging areas.



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<sup>1</sup> Under the Competition Act 1998, the Authority has concurrent powers with the Competition and Markets Authority to apply and enforce (including via imposing financial penalties) EU and UK law prohibitions on the abuse of a dominant position and anti-competitive agreements.



## How we will achieve it

There are three main aspects to our work in managing risk on behalf of consumers. We will take forward these activities alongside continuing our efforts on existing programmes of work set out in chapters 1-3.

### Proactively engaging, monitoring and managing markets

We aim to identify opportunities for consumer benefit and prevent consumer harm through our market monitoring, compliance and enforcement activities. This involves building our market intelligence but also understanding the changing nature of the sector and service requirements from consumers (research), and taking action where standards fall below where they should (enforcement).

#### Consumer outcomes

- Prevention of consumer harm
- Improved supplier-consumer relationship
- Timely and proportionate redress for consumers

#### Key activities in 2018-19

**We will ensure** the appropriate volume of capacity is procured in capacity auctions, monitor auction performance and ensure beneficial changes to capacity market rules are implemented.

**We will also** proactively monitor market conduct and take enforcement action as needed, and implement changes as required to market rules – particularly those that help smaller, more flexible market participants.

**We will monitor** and investigate potential breaches of REMIT and the Standard Licence Conditions.

**To make our compliance and enforcement activity more transparent, we will:**

**Organise an** annual compliance and enforcement conference

**Publish an** overview of enforcement investigations covering the main consumer outcomes and lessons we have learned

**Publish documents on** themes emerging from our compliance and enforcement activity



## Maintaining and enhancing our industry-specialist skills and capabilities

Our core, day-to-day business activities include our compliance monitoring, enforcement, policy development and security of supply assessments. These functions – which are key to us performing our role of managing risk on behalf of consumers – are mostly delivered by the teams working on policy areas.

However, new challenges and the need to maintain our industry-specialist skills mean that we will be taking forward a range of capability-building activities in 2018-19. These build on our existing work on quality assurance, impact assessments and evaluations<sup>2</sup>, and are intended to ensure that we are fit for the future while maintaining our focus on protecting the interests of consumers.

### Consumer outcomes

#### Professional, agile and capable industry regulator

#### Key activities in 2018-19

**Many of the** energy companies regulated by Ofgem have engineering at their core, and technology will be a major driver of change in the transition to a low-carbon future. Enhancing our technical abilities will let us better support the industry through this transition, and ensure technological change benefits consumers. It will enable us to better challenge the investment plans of network operators, helping consumers get a low-cost, reliable, and high-quality service. We will develop a Centre of Excellence for Engineering and Technology in Ofgem, building capability by recruiting staff from an engineering and technology background.

**Introduction of** professional competency frameworks and flexible resourcing to enable agile working among our staff.

**We are preparing** to undertake the role of joint Competent Authority with BEIS under the new Network and Information Systems Regulations 2018, which will come into force in May 2018. Ofgem's role will be to ensure operators of essential services in the downstream gas and electricity sector take appropriate measures to manage security risks to their computer systems, which includes resilience to cyber attack. Ofgem will have powers to take enforcement action if operators do not comply with these requirements. Ofgem will build capability to undertake this role and look for expertise from the industry to help design an appropriate regulatory framework.

<sup>2</sup> Please see **Reducing Regulatory Burdens** section



## Continuing to provide an authoritative source of analysis and thought leadership

Building on our consumer insights and horizon-scanning work, in 2018-19 we will take forward a range of research into future energy system developments. Alongside our core work on energy trends and indicators, this will provide key insights and feed into our future strategy and policy development.

### Consumer outcomes

**Informed public and stakeholder debate, helping to develop policies that work in the interests of consumers**

### Key activities in 2018-19

**State of the Market Report 2018-19** – This will provide an assessment of how well the energy market is working for consumers in terms of competition, affordability, decarbonisation, and security of supply. This is supported through our Data Portal and key indicators such as the supplier cost index and the consolidated segmental statements.

**Establishing a dedicated Research Hub** to communicate our research interests and help drive research collaborations with industry and academia. This will involve delivering research outputs (including behavioural trials and consumer research) and cross-sectoral research areas such as decarbonising the transport sector.

**Continuing our quality assurance**, impact assessment and evaluation work to ensure all our decisions are underpinned by robust, transparent analysis.





# Ofgem delivery of renewable energy and social schemes

Ofgem administers renewable energy and social schemes on behalf of government. Our expertise lies in designing, setting up and delivering large-scale programmes in the sustainable energy sector. These support the government in meeting its commitment to help reduce carbon emissions, improve energy efficiency, and reduce fuel poverty.

Over the next few years we expect external changes in that some of the schemes we run are closing to new

applicants, though we will continue to administer them, ensuring that those already on the schemes continue to comply with the rules. In 2017-18 we invested in improving customer satisfaction and upgrading IT systems. These improvements will continue to pay dividends in future. As per our commitment in the 2017-18 Forward Work Programme, we publish our customer satisfaction scores on our website for transparency, so that we can be open about how our customers feel about our service.

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## Delivery Focus

In the immediate future our key focus will be on our core role of scheme delivery. To do this we will look to improve both our efficiency and effectiveness. We need to find the most cost-effective ways for delivering our services to our customers and stakeholders and make sure we take robust decisions and manage our risks.

**To do this we have a two-year strategic plan of work covering three main areas:**

### Assurance

We are strengthening our controls and improving our risk management. This includes applying government best practice, building on the 'three lines of defence' assurance model, enabling stronger oversight of our external partners, and introducing a quality management system based on ISO 9001 principles.

### Technology

We are looking at our technology tools to make sure they are the best ones for the job. We will be looking for opportunities to use IT to automate areas of our work to generate savings and reduce error, and we will be improving the way we use our data to gain better analytical insights and help us fight fraud.

### People and skills

We want to make sure we have the right staff in the right place with the right expertise. We are building centres of excellence, working across the organisation, which will increase delivery standards. We are also moving more of our operational roles to Glasgow to reduce our costs, and to benefit the taxpayer.

Together these actions should drive savings of circa £5m of costs over the next two years and will deliver stronger administration, protecting taxpayer and energy billpayer money. They will put the dedicated teams delivering renewable energy and social schemes on a strong footing to react positively to any changes in the longer term.



# Delivery of renewable energy and social schemes – scheme status and consumer outcomes

Scheme Status	Scheme lifetime					Outcomes for consumers
	2018-19	2019-20	2020-21	2021-22	2021 and beyond	
Continuing	Domestic Renewable Heat Incentive (Domestic RHI) - 7yr scheme lifetime					Addressing climate change by increasing the uptake of renewable heat in the domestic and non-domestic sectors
	Non-Domestic Renewable Heat Incentive (Non-Domestic RHI) - 20yr scheme lifetime					
	Renewable Energy Guarantees of Origin (REGOs) - scheme derives from EU law so may be affected by Brexit					Growth in renewables (increased availability and lower costs) by underpinning market and consumer confidence
	Offtaker of Last Resort					System resilience - Protects consumers in case of market failure
Extension to existing scheme (or new scheme development)	Energy Company Obligation (ECO)					Delivering greater uptake of energy efficiency measures (addressing climate and fuel poverty objectives) helping to reduce consumers' bills and protecting vulnerable consumers
	Warm Home Discount (WHD)					Driving decreases in fuel poverty and improvements in protection for vulnerable consumers
Open to 2019 Future arrangements in development	Feed-in Tariff					Addressing climate change targets by increasing the uptake of renewable electricity in the domestic sector
Closed to new applicants	Renewables Obligation (RO)					Supporting and de-risking the rollout of renewables, including non-mature technologies
	N.I. Non-Domestic Renewable Heat Incentive	20 year scheme lifetime (for most existing participants)				Addressing climate change by increasing the uptake of renewable heat in the non-domestic sectors
Closed	Climate Change Levy (CCL)					Encourages non-domestic energy users to increase energy efficiency and reduce carbon emissions



## Reducing regulatory burdens

Under the Regulatory Enforcement and Sanctions Act 2008, we have a statutory duty to keep our activities under review and publish an annual statement setting out what we have done and what we intend to do to reduce regulatory burdens. We interpret our duty widely to include both improving our policies and programmes, as well as making our processes more efficient.

Where possible, we plan and deliver work collaboratively. Examples include our work with

industry on whole system coordination, influencing academic research alignment through our Research Hub, and partnering with BEIS on consumer engagement activity (price protections and smart metering). We are also clear over where we expect others to take a lead – such as industry taking forward our Future Retail Regulation reforms.

We have a number of ongoing Simplification Plan commitments (2016-18) and an update on these is below, alongside our planned activities in 2018-19.

Activity	Update on 2017-18 progress	2018-19 Simplification Plan activities	Why are we doing this? Industry and consumer outcomes
<b>Information requests</b>	During 2017-18 we implemented a project to improve our handling of Requests for Information (RFIs), leading to the introduction of new policy and guidance, and automated requests logs to avoid duplication.	We will build on the RFI work to consider further opportunities for simplifying and streamlining our internal 'data architecture'.	Reduced burden on industry; smarter, more efficient processes
<b>Supply licence monitoring and compliance support</b>	In 2017-18 we continued our collaborations with Citizens Advice and the Ombudsman, and enhanced our knowledge of and contacts with new and existing suppliers, to improve our monitoring of supplier conduct and share intelligence.	We will continue this information and intelligence sharing activity in 2018-19, and also seek to build wider links with charities and other relevant consumer bodies.	Ensuring consumers can engage confidently in the market by keeping a close eye on supplier conduct
<b>Business Impact Target</b>	In June 2017 we submitted our Business Impact Report, which included assessments of all identified measures and activity. We received green ratings from Government for our work.	Ongoing identification of the impacts of our work on businesses through our impact assessment process.	Better understanding of how our work affects businesses, enabling us to make better-informed decisions



Activity	Update on 2017-18 progress	2018-19 Simplification Plan activities	Why are we doing this? Industry and consumer outcomes
<b>Impact assessment and our performance</b>	Implementation of improved processes, initiatives and capability has ensured our decision-making is underpinned by robust analysis. We have also engaged with the academic community to improve our analytical methodologies and benefit from academic peer review.	As well as continuing with last year's initiatives, we are progressing with our programme of quality assurance of business-critical models. This is part of our work to fully implement the recommendations of the Macpherson review of model quality assurance. We continue to strengthen our analytical capability by putting in place measures to attract, develop and retain high quality analysts.	More robust, transparent and peer-reviewed evidence underpinning our decisions, and improving consumer outcomes.
<b>Quality analysis</b>	During 2017-18, we successfully launched the Future Insights Programme, designed to stimulate engagement with a wide range of internal and external stakeholders, and deliver key insights into future policy aspects. We also continued to provide a robust source of energy system data (industry, environment and consumers) via our Data Portal.	We intend to consolidate our Future Insights, horizon-scanning and academic liaison work into a dedicated Research Hub function, in combination with developing our work on behavioural insights and consumer research	Better awareness of evidence and research among policymakers, helping to deliver better policies
<b>Innovation</b>	During 2017-18 our Innovation Link evolved three specific services: fast, frank feedback (advisory), a regulatory 'sandbox' (controlled environment for innovative ideas) and outreach to new innovator markets.	We will finalise the sandbox outcomes and translate insights into our core activities.	Helping innovators navigate the regulatory system and, if selected for the sandbox, to undertake commercial trials in a controlled environment
<b>Stakeholder engagement</b>	We successfully launched our new external consultation policy in 2017-18, with a view to consulting in a 'smarter' way. We have also delivered stakeholder sessions linked to our Future Insights programme.	We have already reduced the number of our consultations from 103 to 80, and are continuing efforts to make our stakeholder engagement accessible, less burdensome and more representative.	More, different and better stakeholder engagement, leading to more representative policymaking.



Activity	Update on 2017-18 progress	2018-19 Simplification Plan activities	Why are we doing this? Industry and consumer outcomes
<b>Social and environmental scheme delivery</b>	During 2017-18 we concluded our Operational Excellence programme and saw investments in systems to improve customer satisfaction and IT facilities.	Our 2017-18 investments will deliver clear benefits in 2018-19. We publish our customer satisfaction scores on our website for transparency so that we can be open about how our customers feel about our service.	Improved delivery efficiency, robust public administration and increased customer satisfaction
<b>Code governance</b>	During 2017-18 we responded to the CMA findings on code governance and built on the reforms introduced through our earlier Code Governance Review.	In due course, we intend to publish a 'strategic direction' and establish a consultative board to oversee implementation of reforms.	Strategic changes to reduce and remove distortions to incentives, barriers to entry and innovation
<b>Work with other regulators</b>	UK Regulators Network provides the structure for regulators to consider common issues and policy projects with relevance across utility, financial and transport sectors. During 2017-18 we participated in nine sub-groups and three joint research projects, and chaired the Network.	We will continue to collaborate and share lessons/approaches with other regulators. We will also continue to chair UKRN in 2018-19.	Promoting better outcomes in economic regulation for consumers and the economy
<b>Future retail regulation</b>	During 2017-18 we made changes to the supply licence, guidance documents and associated rules to move more towards a principles-based approach.	In 2018-19 we will focus on reforming the rules relating to how suppliers communicate with their customers.	Better outcomes from consumers associated with 'future-proofed' regulation and suppliers taking more responsibility for service and protections.
<b>Switching programme</b>	Good progress has been made across the programme in 2017-18 with our Blueprint Consultation and impact assessment nearing completion	We will continue to put in place a new switching process for domestic and business customers that is, first and foremost reliable, and also fast and cost-effective. We are currently defining the new switching arrangements and the systems to support them.	Encouraging more consumers to engage with switching and experience a fast, robust and positive process



# Our finances

We are now halfway through our cost control framework agreed with government. This will give a reduction of 15% in real terms over five years. As with 2017-18, any unexpected adjustments to this expenditure will be subject to HM Treasury approval.

Financial resources will reduce in 2018-19 but this is expected to be offset in part by our revised

accommodation plans and the respective rent savings, and reductions in the scope of work required for E-Serve schemes. The full savings achieved by our accommodation plan will be realised in future years. Our operating budget will be broadly consistent between 2018-19 and 2020-21.

£m	Planned 2017-18	2018-19	2019-20	2020-21
<b>Total expenditure</b>	<b>£87.8</b>	<b>£83.9</b>	<b>£82.0</b>	<b>£82.0</b>

