

**ofgem**

Making a positive difference  
for energy consumers



# ForwardWorkProgramme

Consultation 2019-2021

## Who we are

**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 secure good value services 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' experience and the operation of energy systems and markets.

## Consultation overview

This consultation document sets out our **draft Forward Work Programme** for the extended period of **2019-21**. We welcome your views on how we will ensure that all consumers receive fair, competitive services from the energy market.

Given the complexity, pace of change and uncertainty facing the energy sector, it is **important that as the GB energy regulator, we provide a clear statement of intent and forward vision**, so that industry and consumers understand the actions we plan to carry out and the outcomes we seek to deliver.

Recognising the longer-term and continuing nature of our work, this work programme covers a two-year period (2019-21). In line with our statutory obligations, we will refresh the work programme next year.

**Unforeseen priorities may arise from time to time, which will require us to make in-year changes.**

Where these arise, we will signal any changes clearly and we will also refresh our Forward Work Programme next year to reflect changing conditions and priorities.

This document details our planned activities around **four key priorities** that demonstrate how we will deliver positive outcomes for consumers.

We have also set out how we intend to simplify our **regulatory approach**<sup>1</sup> with the aim of reducing burdens, and operating in a more efficient and effective way.

As the independent GB energy regulator, our priorities are informed by our **core purpose and principal objective to protect the interests of current and future consumers**. It is also important that our work aligns with others, so as to achieve the greatest possible benefits for consumers. To this end, we have reflected in the plan where we are working in partnership with others, including Government.

This consultation document is a representation of our planned work at this stage, and we will continue to refine our thinking and prioritisation during 2018/19, including paying close attention to consultation responses.

Please respond to this draft Forward Work Programme consultation **by noon on Friday, 15 February 2019**, by emailing your response to [FWP@Ofgem.gov.uk](mailto:FWP@Ofgem.gov.uk). Unless you ask us not to, we will publish responses on our website. We will publish our final Forward Work Programme 2019-21 before the start of the new financial year.

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<sup>1</sup> Fulfilling our statutory duty under the Regulatory Enforcement and Sanctions Act 2008

## CEO foreword

### Welcome to our Forward Work Programme for 2019-21.

In developing our plan, we focussed on the principles that guide both our long-term strategy and our day-to-day work: protection, competition, and innovation. In order for our Forward Work Programme to more closely reflect the long-term nature of our work, we have decided to publish a plan which extends two years ahead rather than one year as has been the case previously. This should give more visibility to stakeholders about our work going forward and help them to engage with us more effectively. To this end in January we will be holding our first “Ofgem energy conference” to help set out our longer-term strategy, and to consult on this document. We hope you can join us to contribute to our strategy for energy in the future.

On 1 January 2019 the default tariff price cap will come into effect. The price cap means that 11 million households on poor value deals will pay a fairer price for their energy, and be protected from overcharging. This is part of our wider programme of work, set out in this document, to ensure the retail markets work for all consumers, including the most vulnerable. Early next year we will publish our new consumer vulnerability strategy setting out how to bring about further positive impacts for consumers in vulnerable situations.

This document also outlines our plan to help smaller businesses secure a better deal. We will be taking steps during the next year to ensure smaller businesses benefit from a more competitive retail market and experience adequate levels of protection.

I have been saying for a number of years the energy system is changing rapidly. We expect these changes to accelerate over the next two years. Over this period a number of long term programmes we have been working on, such as faster and more reliable switching, electricity settlement reform and smart metering, will be implemented and start delivering significant benefits for consumers and the wider market.

Our reforms to network charging arrangements and system regulations will help keep costs down as we make the energy transition.

We are finalising our approach to the next round of price controls (RIIO-2), as well as ensuring the current network price controls continue to deliver innovation, value for money and system security for consumers. Over the coming years, this approach will improve outcomes for all consumers and deliver a resilient, cost-effective network which is fit for the future.

We will continue to work closely with Government and all stakeholders to ensure there is a regulatory framework that works after EU exit. We are ready to act quickly as necessary to make the process as smooth as possible and avoid disruption.

Our E-Serve directorate will continue to deliver a diverse array of renewable energy and social schemes on behalf of the governments that we work with. In this work, we will continue to focus on protecting consumers’ interests, while also ensuring public money is managed effectively and efficiently.

As an organisation, Ofgem has continued to evolve to become more efficient and effective in protecting consumers. In April we put in place a new streamlined organisational structure and also moved our London office to a new, more cost efficient office in Canary Wharf. We are now reaping the benefits of smarter, joined up working.

I’m also delighted to welcome our new Chair, Martin Cave, as well as Ann Robinson and Lynne Embleton, who have also recently joined the Authority. We also welcome Mary Starks, our new Executive Director for Consumers and Markets, and Euan McVicar, our new General Counsel.

I look forward to working with you all over the next two years, and beyond, to deliver this exciting programme of work that we are confident will deliver benefits for all consumers.

**Dermot Nolan**

Chief executive officer, Ofgem

# Our Forward Work Programme

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

-  **Lower bills**
-  **Lower environmental impacts**
-  **Improved reliability and safety**
-  **Better quality of service**
-  **Better social outcomes**

Our Forward Work Programme sets out how we plan to use our resources to make the greatest positive difference to consumers. For the 2019-21 period, 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 into the main body of our Forward Work Programme, helping to demonstrate how we are reducing industry burdens, improving our effectiveness and making our processes more efficient.



For the period 2019-21, our key priorities are:

### 1. Making retail markets work for all

We want to see a market that delivers good outcomes for all consumers – whether or not they engage and make active decisions to change their supplier or tariff. We will introduce the necessary protections for vulnerable customers and for micro-businesses, to secure good outcomes from the market. Over time, we will seek to increase levels of customer engagement. We want the energy market to be one where participants have good levels of financial resilience and offer all customers a level of care befitting an essential service.

### 2. Enabling future markets and system arrangements

We will continue to implement key programmes, such as electricity settlement reform and will work closely with Government to support the roll-out of smart metering. We will also work with Government to continue to evolve regulation to support future decarbonisation of heat and transport and to make any further changes needed to enable future markets and system arrangements. We will evaluate the activities and arrangements of system operators, including at distribution level, and consider if further changes are needed, alongside our ongoing work to reform network access and charging rules.

### 3. Network preparedness and performance

At a time of significant change for regulated networks, we will work to make network companies deliver system security, innovation and value for money for consumers. We aim to do this by effective administration of existing price controls (RIIO-1), as well as finalising our overall approach to the new set of price controls (RIIO-2) and introducing more competition in network activities. Together, this can improve outcomes for consumers and deliver a resilient, cost-effective network, fit for the future.

### 4. Excellence in statutory and core functions

To support improved outcomes for consumers, we will strive for excellence in delivery of our statutory duties and core functions – these include market monitoring, ensuring effective licensing and market arrangements and robust compliance and enforcement. They also include the efficient and cost-effective delivery of renewable energy and social schemes, which help reduce carbon emissions and fuel poverty, and improve energy efficiency. More broadly, we will make our systems, processes and our use of resources as efficient and effective as possible.

#### UK planned withdrawal from the European Union

**In addition to these four key priorities, we have a further overarching priority, to respond to the United Kingdom's (UK) planned withdrawal from the European Union (EU). The aim of this work is to ensure that the UK has a clear and robust regulatory framework in place for the energy sector.**

During 2018/19, we have worked with the Government and key stakeholders including the

system operator, interconnector owners, industry code administrators and market participants, as part of preparations for the UK's withdrawal from the EU.

At the time of publication of this consultation, the legal text of the Withdrawal Agreement reached by the UK Government with the EU is awaiting ratification. We will, during the course of the consultation, continue to adapt the scope of our work to respond to developments as necessary.

# 1. Making retail markets work for all

## What we aim to achieve

**Consumers engage with the energy system first and foremost through the retail market. We want to see a significant improvement in terms of value for money for consumers, overall customer satisfaction and market functioning.**

The introduction of the Price Cap (on 1 January 2019) is the start, rather than the end of this transformation. While those consumers who have not switched will have their prices capped to prevent over charging by suppliers, a range of competitive tariffs still exist in the market and we want it to be as easy as possible for consumers to find the best deal. At the same time, we will be vigilant in terms of supplier performance, and ensure that the introduction of price protections does not lead to a reduction in supplier standards of conduct or customer service.

In terms of market functioning, we have seen a number of suppliers exit the market in 2018. While this is to be expected in a properly functioning market, we will conclude our review of our approach to licensing and regulating suppliers to raise standards around financial resilience and customer service.

Smaller businesses experience many of the same issues as domestic consumers. We will take steps to better understand the issues faced by micro-businesses, and ensure that they are able to access a competitive retail market and have adequate levels of protection.

We will focus on the needs of consumers in vulnerable circumstances across our work in retail markets and in our network reform proposals.



## How we plan to achieve it

There are **two aspects** of our work to making retail markets work for all.

### A. Improving current licensing arrangements to protect consumers and ensure that regulatory burdens are proportionate

During this period, we plan to continue our review of the supplier licensing arrangements, to assess whether they are driving robust customer service, and contain appropriate safeguards relating to the financial health of suppliers, to ensure that consumers are protected from potential supplier failure. We plan to implement and embed changes resulting from the first phase of this review, relating to the licence application process. We will also continue to develop detailed proposals to implement for the next phase, which will consider the ongoing licensing arrangements for suppliers operating in the market and arrangements around market exit.

We will conduct a strategic review of the microbusiness retail market to understand the market challenges and consumer experience at each key stage of the customer journey. The review will identify the case for short and medium-term actions that will complement other work while minimising burdens. Our work will focus on ensuring microbusiness needs and preferences are met by the market, that they have the tools to easily navigate the market and access competitive offerings, and are adequately protected where necessary.

Our supplier licensing review will ensure there are appropriate checks and balances on suppliers entering and operating in the market and for existing licensees, while our micro-business review aims to identify opportunities to reduce bills for consumers, without adding unnecessary burdens.



### Consumer outcomes

**Lower bills, better quality of service, improved social outcomes**



### Key activities across 2019-21

**Supplier licensing review** – Continue to introduce changes to raise standards around financial resilience and customer service, by mid-2020

**Strategic review of the micro-business retail market** – Understand market challenges and consumer experience, and identify the case for short and medium-term actions, by March 2021

**B. Understanding where consumers' needs are not being met and developing effective policy solutions to address them**

Where consumers' needs are not being met - and this is not because of supplier action which is dealt with through compliance or enforcement activity - wider policy solutions may be needed.

To address this, we plan to finalise development and start implementation of our new consumer vulnerability strategy, to deliver positive impacts for consumers in vulnerable situations. This will link to our wider network price control work, and that of wider government.

We will consider what we can do to improve customer engagement - using the information we have gained from research and trials - and consider how to help consumers engage in new ways in response to changes in the energy system. We plan to use data services to provide opportunities for the market to engage with customers who have been on standard variable tariffs for three years or more.

We will work with the industry to design and implement midata in the energy sector. This will enable consumers to share their data quickly and easily with accredited third parties, which will promote consumer engagement and drive innovation and competition in the market.

We will continue our leadership of the cross-industry programme to develop faster, more reliable switching arrangements. As part of the programme, we will introduce the second wave of Guaranteed Standards around switching so customers receive automatic compensation for any problems with their switches, such as delays.

 **Consumer outcomes**

**Lower bills, better quality of service, improved social outcomes**

 **Key activities across 2019-21**

**Development of vulnerability and consumer policy** – Publish the consumer vulnerability report by July 2019 and bring forward a new best-in-class strategy to address the needs of all consumers, particularly the vulnerable, by August 2019

**Midata in the energy sector** – Work with BEIS and industry to help consumers to better engage with the market through data-driven solutions, through the design and implementation of a new midata standard, by October 2019

**Data services for disengaged consumers** – Target consumers through data to reduce barriers to effective engagement by October 2019, to ensure obligations are met on an ongoing basis

**Energy market challenge** – Work with BEIS and industry to test up to eight innovative products and / or services to improve consumer engagement, by August 2020

**Switching Programme** – Improve consumers' experience of switching, leading to greater engagement in the retail energy market, by designing and implementing a new switching process that is reliable, fast and cost-effective, by Summer 2021

## 2. Enabling future markets and system arrangements

### What we aim to achieve

**The energy system is undergoing rapid changes - both from a planned perspective to achieve carbon reduction and manage increased diversity of energy sources - but also from more disruptive forces such as new business models, new technological applications and the increasing digitalisation of consumer data.**

As the GB regulator, we have a responsibility to enable innovations that work in the consumer interest (both in terms of delivering direct consumer value and reducing system costs), while maintaining a focus on fair allocation of costs, consumer protections and system security. Such innovations include those that deliver consumer value directly, and those that reduce overall system costs.

We will encourage innovation and maintain protections and security by ensuring that the regulations and market rules which govern industry keep pace with market developments, as well as ensuring the critical infrastructure that enables many of these innovations is delivered in a timely manner.



## How we plan to achieve it

There are **four aspects** of our work to enabling future markets and system arrangements. We also set out how we intend to simplify our processes and reduce regulatory burdens.

**A. Implementing new systems and rules for a smarter, more flexible energy system** – Putting in place the foundations for a future energy market, while delivering benefits to current consumers.

'Foundation' programmes are needed to enable the full benefits of technological change and support the move to a more flexible, future energy system, which supports consumers in greater levels of engagement and allows closer matching of supply and demand.

We will continue to support the Government with its programme to roll-out smart metering to all domestic and smaller non-domestic premises and will hold suppliers to account for meeting their obligations, including delivery of a positive customer experience. We will also continue to regulate and monitor the activity of the Data Communications Company (DCC), to ensure it is providing effective support to the roll-out and value for money.

Stronger price signals will help to incentivise new products and services, helping consumers to engage with the market and control their energy demand more effectively. To achieve this, we will conclude our electricity settlement reform project and make decisions on the design of, and implementation approach and timetable for, new mandatory electricity settlement arrangements.

Our goal for this work on new systems and engagement is to drive a better quality of service for consumers, as well as lowering bills.

 **Consumer outcomes**

**Lower bills, better quality of service, improved social outcomes**



### Key activities across 2019-21

**Supplier oversight and policy: smart meter compliance** – Hold suppliers to account for the roll out of smart metering and for delivery of a positive consumer experience (ongoing)

**Electricity settlement reform** – Scope out, consult on and decide upon market-wide new arrangements for half-hourly electricity settlement, in the second half of 2019

**DCC compliance, including price control** – Support the efficient and effective roll out of smart metering, by improving DCC performance and efficiency (ongoing)

**DCC price control review** – Design improvements to the price control, to better match DCC operations post-mass rollout, and to deliver improved performance and lower costs from the DCC, by Spring 2021

## **B. Working with innovators and stakeholders to develop sustainable energy solutions and systems for future consumers**

We consider that consumers will not be able to benefit fully from the changes to the energy system without key changes to the design of the market.

Within the retail space, Ofgem is conducting a joint review with Government of the design of the retail energy market. We will identify reforms to ensure that the market design is fit for the future, and places the needs of consumers at the heart of the energy system. This will help promote competition and drive innovation, while ensuring that consumers benefit from changes and remain protected from harm. This review will identify ways to unlock additional benefits from the energy transition, by enabling greater system efficiency, which will reduce consumer costs, support decarbonisation and improve security of supply.

The Domestic Gas and Electricity (Price Cap) Act 2018 sets out that the cap must come to an end no later than 2023. Our review will identify appropriate protections for all consumers in the post-price cap world. To inform this, we plan to carry out consumer trials, including of new protections for people who do not actively choose an energy supplier.

Looking across the energy system, we are working with other regulators and Government to ensure we have the right regulatory framework to support the decarbonisation of heat and transport. The decarbonisation of heat remains at a relatively early stage, whereas we have seen a significant increase in initiatives to increase the take up of electric vehicles.

We will ensure that our regulation enables innovation, provides certainty to encourage investment and allocates costs fairly. This will help the system accommodate changes to heat and transport while minimising the overall cost to consumers. Our immediate priorities include factoring the potential impacts of increased numbers of electric vehicles into our reviews of access and network charging (see next section), and plans for the RIIO-2 framework for regulating the system and network companies. We are playing an active role in the Government's Electric Vehicle Energy Task Force and we will work with BEIS on the regulation of heat networks if called upon to do so.

Local energy also has the potential to be an important area of change. We will enable innovation and remove barriers to decentralisation where that meets consumer needs.

Innovation business models are likely to be a key route to more sustainable and affordable energy solutions. We plan to continue to support the work of innovators in the energy market, through our Innovation Link, to assist them to navigate today's regulation, as well as looking at how regulations can be adapted to better support new services that benefit consumers.

Given the challenges facing the energy system, we expect data to play an increasingly important role in the future. Together with BEIS and Innovate UK, we have launched an Energy Data Taskforce, run by the Energy Systems Catapult. The focus of the Taskforce is on improving data flows to optimise the operation of the energy system. This is due to conclude in the first half of 2019 and we will consider and act on its findings.





## Consumer outcomes

Lower bills, lower environmental impacts, improved reliability and safety, better quality of service



### Key activities across 2019-21

**Joint review of codes and code governance** – Consider options with BEIS for improving existing arrangements to deliver a revised regulatory framework, capable of delivering the changes that will be required to move to a clean, smart, and consumer led energy system, by Summer 2019

**Review of future retail market design** – Review the current retail market arrangements and recommend reforms to ensure that the market design is fit for the future and puts the needs of consumers at the heart of the energy system, by March 2020

**Supporting innovators** – Provide support on energy regulation to businesses looking to launch new products, services or business models through Ofgem's 'one stop shop' – the Innovation Link (ongoing)

**Decarbonising energy** – Ensure appropriate regulatory responses to the future challenges of decarbonising transport (including electric vehicles) and decarbonising heat (including the regulation of heat networks - if requested) (ongoing)

**Decentralising energy** – Ensure appropriate regulatory responses to the future challenges of decentralising energy systems, including through engagement with local and community energy schemes (ongoing)

**Energy data** – Consider and act on the findings of the Energy Taskforce



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### **C. Developing improved network access, charging, system operation and wholesale market arrangements to enable efficient future energy markets**

The system is changing rapidly, which means we have to look again at the signals being sent to network users, how network costs are recovered, the role of network owners and operators, and how these different aspects of regulation interact.

We have recently published a consultation on our proposals for reforming residual electricity network charges and some of the other embedded benefits through our targeted charging review. We will carefully consider these responses and other market developments and plan to make a final decision later in 2019.

Alongside this we are initiating an electricity network access review, which will explore the signals being sent to those accessing the network. We want to ensure electricity networks are used efficiently and flexibly, and have the right signals for future investment. This will help consumers benefit from new technologies and services while avoiding unnecessary costs on energy bills in general.

The gas network presents different challenges. Over-capacity on the gas transmission system raises questions about the suitability of the current charging methodology, whilst the EU Tariff Code will introduce new requirements on gas charging methodologies. We will continue to work with National Grid and the gas industry to deliver an efficient, compliant regime.

An efficient system in a more flexible, decentralised world needs efficient, coordinated system operation. A new, legally separate electricity system operator (ESO) will be established within National Grid from April 2019. We expect this change to put the electricity system operator in a better position to respond to and help facilitate the transformation of the system. In the run up to the ESO's new price control in April 2021, we will refine its principles-based incentives regime, with the help of our independent panel and stakeholder feedback.

We will also actively evaluate and provide views on developments at distribution level. Electricity distribution network operators are becoming more active in managing their networks as a system and they and third parties are looking at and trialling the best way to do this - particularly as flexibility markets develop. We will look at whether we need to intervene or support initiatives now, as well as develop the policy framework for the RIIO-2 price control. In the meantime, we have been clear that all network and system operators need to share information, signal their needs clearly, act as neutral market facilitators and work together to facilitate whole system coordination.

These are not isolated pockets of work. Across the system, we will be assessing developments and potential conflicts of interests. We will be carefully considering how well the structures of all the system operators are responding to and facilitating the current and future needs of the system, and delivering benefits for consumers. In doing this, we will consider whether further changes are needed.



## Consumer outcomes

Lower bills, lower environmental impacts, better quality of service



### Key activities across 2019-21

**Electricity network access reform** – Develop, consult on and publish direction on reforms to network access and forward-looking charging arrangements by September 2020, with implementation of changes from April 2022

**Targeted charging review** – Consult on proposals for reform of residual electricity network charges and other embedded benefits and reach a final decision on these proposals in 2019

**Gas charging review** – Work with National Grid and the gas industry to deliver an efficient, compliant regime (ongoing)

**System operation reforms** – Evaluate developments in transmission and distribution system operators and consider whether further reforms are necessary to effectively support system developments and current and developing markets, including flexibility markets (ongoing)

**Secure and promote review** – Assess the effectiveness of the market making obligation in the light of anticipated market restructuring, continue to monitor liquidity and consider potential action to support liquidity if evidence suggests this would be in the interest of consumers (ongoing)



**D. System stability and security** – Working with key partners to develop and influence effective policy solutions to provide a stable energy market

Our aim is to ensure that the impacts of the UK's withdrawal from the EU on the energy system and energy markets are managed appropriately, to ensure continued stability and security. We have been working closely with central Government and industry to ensure that the regulatory structure continues to work effectively after withdrawal and that the impact of EU Exit on issues such as cross-border energy flows and trading is understood. This important work will continue throughout 2019-21, as the final position in the negotiation is agreed and implemented.

In relation to the GB Capacity Mechanism, we will be completing our ongoing five-year review of the Capacity Market Rules.

We will also be supporting Government in addressing the implications of the recent judgement of the European General Court annulling the European Commission's state aid clearance of the GB Capacity Market.

We will also continue to work with partners with the aim of ensuring that there is an effective Black Start framework in place, to ensure energy can be appropriately restored to homes and businesses in the event of system failure.

We will continue to develop and implement our regulatory framework for the joint Network and Information Security (NIS) Regulation Board, alongside BEIS.

By effectively engaging and planning with key partners, we intend to improve the stability of the UK regulatory environment and energy system for all consumers.



## Consumer outcomes

**Lower network bills, lower environmental impacts, improved reliability and safety**



### Key activities across 2019-21

**EU exit implementation** – Work with Government and industry to ensure the regulatory structure (legislation, licences and codes) continues to function appropriately after the UK's withdrawal from the EU and that impacts on consumers are identified and mitigated (ongoing)

**Capacity Mechanism** – Complete the five-year review of Capacity Market Rules by July 2019, making appropriate changes to the Rules, handling disputes which have been escalated following the Delivery Body disputes process and monitoring the operation of the Capacity Market. Work with Government to manage the impact of the recent suspension of the Capacity Market and ensure appropriate frameworks are in place to support security of supply.

**Gas Flexibility/Security of Supply** – Work with Government to understand potential risks to gas security of supply and consider the role played by gas flexibility and the interaction between power and gas markets

**Black Start** – Assist BEIS to develop a Black Start restoration standard, and, if appropriate, implement the standard via licence modifications (in development)

**NIS Regulation** – Monitor, evaluate and report on how energy companies keep networks secure and consumer data safe through our joint Competent Authority role (ongoing)

## Reducing burdens

### What we will have implemented by the end of 2018/19

We have made good progress against planned activities for 2018/19, with multiple procurements underway for the systems and activities to deliver the **new switching arrangements**. We have also progressed implementation of the new regulatory framework (Retail Energy Code) required for industry governance. Overall, these activities help to build the foundation for faster, more reliable consumer switching.

Our **Future Retail Regulation** project is due to be completed in December 2018, with changes to how energy suppliers communicate with their customers going live in early 2019. This will result in a more principles-based approach to regulating suppliers and lead to better outcomes for consumers, with suppliers taking more responsibility for treating customers fairly in the way that they communicate with them.

In order **to assist innovators in navigating the regulatory framework**, we have improved our Fast, Frank Feedback service for innovators and expanded our regulatory 'sandbox' in conjunction with ELEXON.

We have launched our joint review with BEIS into **code governance reform** proposals, which will focus on identifying strategic changes to reduce and remove distortions to incentives, and barriers to entry and innovation.

### What we plan to achieve in 2019/20

In 2019, the switching programme will enter the 'design, build and test phase', which will include all of industry working towards delivering the new arrangements. We expect this phase will last until the second quarter of 2021 (planned go-live date) **when faster, more reliable switching will encourage more consumers to engage with switching and experience a fast, robust and positive process.**

We intend to build on our support for innovators throughout 2019-21, and use the insights from our regulatory 'sandboxes' into inform our Future Retail Markets review.

We intend to **continue our work on code governance reform** (subject to planning for the UK's withdrawal from the EU and responses to our reform proposals in 2018/19, as detailed above).



## 3. Network preparedness and performance

### What we aim to achieve

**The electricity and gas networks form the backbone of both the current and future energy system, and are fundamental to ensuring security of supply, enabling innovation and keeping costs down. Networks are also critical to achieving our decarbonisation objectives, both through enabling low carbon energy sources to connect as well as managing demand through enhanced flexibility.**

As natural monopolies, the existing network companies are subject to regulatory price controls to ensure that they deliver services at an affordable cost to consumers. The changing nature of the energy system is also affecting the services provided by network operators, with the most efficient and cost-effective means of delivery increasingly involving whole systems coordination, use of flexibility solutions, smart data and enhanced consumer engagement.

### How we plan to achieve it

There are **two aspects** of our work to ensure that UK networks are effectively managed, and deliver the best value for current and future consumers. We also set out how we intend to simplify our processes and reduce regulatory burdens.

#### A. Using competition to deliver value for money

We will continue to put competition at the heart of network development and decision-making, including by continuing to run our successful offshore transmission operator (OFTO) tender regime and by finalising and implementing models for competing, or applying competitive forces to, onshore network delivery. Looking forward, we will also prepare for further tenders for RIIO-2 to 'build and run' sections of the network, to promote appropriate competition.

Efficient development and decision-making on network projects will reduce network costs, ultimately benefiting all consumers. We are clear that competing elements of the network must provide excellent value to consumers in both cost and service, and will consider whether the time is now right to look at long-established areas of competition such as independent networks.



#### Consumer outcomes

**Lower network bills, lower consumer bills, lower environmental impacts, improved reliability and safety, better quality of service, better social outcomes**



### Key activities in 2018-19

**OFTO regime** – We will continue to appoint Offshore Transmission Operators through a competitive tender process, delivering significant savings for consumers and supporting renewable offshore wind generation. Tender round 5 is expected to be completed in November 2019, with Tender Round 6 due to be completed and Tender Round 7 due to be launched, by March 2021.

**Development of competition models for construction, financing and operation of onshore electricity transmission networks** – We will continue to explore and develop ways of bringing the benefits of competition to onshore networks, including further developing the special purpose vehicle model for competing build and operation of transmission networks, and finalising the competition proxy model we announced for Hinkley-Seabank. We expect to finalise the competition proxy model by summer 2019 and expect the special purpose vehicle and competition proxy models to be considered for deployment in relation to all future Strategic Wider Works projects under RIIO-1 submitted for our approval.

**Competition for the RIIO-2 market** – As an extension to our work developing models to bring the benefits of competition to onshore electricity transmission networks, we will explore the use of such models in all sectors within RIIO-2. We will also investigate the potential for and benefits of 'early' competition models.



## B. Preparing networks for the future

We aim to require network companies to deliver value for money services which are in the interests of both existing and future consumers. We will also consult on electricity network reform for charging arrangements, and ensure that our regulatory framework for future wholesale distribution network operations is fit for purpose.

By developing an effective framework for the networks of the future, we aim to increase network security and ensure that costs are reduced for the benefit of all consumers.



### Consumer outcomes

Lower network bills, lower environmental impact, improved reliability and safety



#### Key activities across 2019-21

**Development of RIIO-2** – Effective approach to ensure that the network companies respond to the challenges of the future and deliver a resilient, cost effective network for consumers, by April 2023

**Electricity System Operator (ESO) price control** – Introduce a new price control for the ESO, to take effect in April 2021, that follows the overarching RIIO-2 design principles, but which is tailored to reflect the unique nature of the ESO, and the expected changes in its activities across the price control period.<sup>2</sup>

**Bringing new interconnectors into operation** – We are working with developers to deliver regulatory approval for up to eleven new interconnector pipelines, ensuring a significant increase to electricity capacity and consumer benefit by March 2021. We will be reviewing the regulatory arrangements that could be used to bring forward additional interconnector capacity in the future, where we believe these could provide additional consumer benefit.

<sup>2</sup> We refer to the electricity system operator in section 2.C.

## Reducing burdens

### What we achieved by the end of 2018/19

We set out the **building blocks of the RIIO second-phase programme**, including the Framework Consultation in early 2018, the subsequent decision during the summer and policy proposal in November. As part of this, we have taken a strategic-level approach to designing in efficiencies in process, engagement and timings.

We made a decision that National Grid Electricity Transmission should be funded to deliver the **Hinkley-Seabank project** through a mechanism which seeks to reflect the outcome of an efficient competitive process for the financing, construction and operation of the project (the Competition Proxy model).

We have continued to **competitively tender OFTO licences**, granting two licences to connect generation assets that will provide a combined 660MW of renewable energy to GB consumers, with a further licence for the 573MW Race Bank project expected to be awarded in Q1 of 2019.

We also initiated work to establish the technical infrastructure to ensure that **disengaged and vulnerable consumers' data** can be accessed to provide them with information and services, helping to increase their engagement with the energy market.

### What we plan to achieve in 2019/20

In setting the next price controls, we want to **learn from our experience to date**. We will continue to take into account the lessons learned from current network price control processes, ensuring they feed into the design of RIIO-2 delivery / monitoring processes, helping to deliver a more efficient and effective network price control, ultimately lowering consumer bills.

We intend to develop a **fully operational data service infrastructure** for disengaged consumers during 2019-21.



## 4. Excellence in statutory and core functions

### What we aim to achieve

**At a time of significant change and uncertainty, it is imperative that consumers can rely on the regulator to protect their interests and ensure good value and services from the energy market.**

To ensure this level of protection is maintained, we are committed to achieving excellence in the delivery of our core and statutory functions.

These functions include market monitoring, compliance, enforcement and delivery of initiatives and schemes in partnership with Government.

### How we plan to achieve it

There are **four aspects** of our work to ensure excellence across our statutory and core functions. We also set out how we intend to simplify our processes and reduce regulatory burdens.

#### A. Ensuring effective licensing and market arrangements

We plan to implement the outcomes from our licensing review to ensure that our approach is proportionate and effective<sup>3</sup>. We will seek to understand if suppliers are financially viable, in order to protect customers from supplier network failure. We will continue to operate our licensing process for parties in an efficient manner. We will also embed the outcomes from our supplier licensing review within these processes.

Changes to energy system and retail market arrangements, as well as our withdrawal from the EU, have the ability to impact the functioning of wholesale markets and related markets such as capacity, ancillary services and balancing markets. We will develop proposals for reform where necessary to facilitate their efficient functioning.

Our goal for this work is to help ensure that the network remains reliable and safe to use, and customers remain connected to an ever more efficient network, with effective protection from poor practices.



#### Consumer outcomes

**Lower bills, improved reliability and safety**

<sup>3</sup> We refer to licensing in section 1.A.



### Key activities in 2018-19

**Core licensing / code role** – Excellence in delivery of our core role – Issuing and management of licenses, and oversight of code modification policy (ongoing)

**Core electricity and gas connection and network charging** – Excellence in oversight of code modifications and processing of derogations (ongoing), including putting in place revised gas methodologies by July 2019, and new generation operating procedures by 2021

**Core role in stability and effectiveness of wholesale market arrangements** – Supporting the efficient functioning of wholesale and related markets through effective monitoring and compliance action and by developing proposals for reform where necessary (ongoing)

**Supplier financial stability framework** – Monitor suppliers to ensure that consumers are protected from potential financial failure (ongoing)

**REMIT and the EU** – Implement domestic systems to manage activities currently carried out by the EU (ongoing)



## B. Proactive market monitoring and consumer protection

During the period, we will be vigilant in monitoring and risk-assessing sector activity, to demonstrate a credible deterrent. We will also continue to learn from our analysis of market behaviour and respond to non-compliance with effective supervisory approaches and enforcement activity. Our goal in undertaking this active monitoring is to help drive real, positive changes in reducing consumer harm.

Throughout 2019-21, we will continue to monitor the retail and wholesale markets, to ensure that customer harm is minimised, and that identified harms can be put right quickly through effective casework, where appropriate.

We will also monitor the four price controls under RIIO-1 and core energy system operators.

By monitoring markets, we can carry out targeted compliance and enforcement activity, which allows us to ensure that licensees deliver what their consumers need and value. Well-functioning markets not only minimise consumer harm, but also increase reliability and safety, and reduce bills.



### Consumer outcomes

**Lower bills, lower environmental impacts, improved reliability and safety, better quality of service, better social outcomes**



### Key activities across 2019-21

**Wholesale and retail market monitoring** – Help to ensure that there is clarity over how wholesale and retail markets are functioning and on security of supply, through gathering, and where appropriate, publishing data (ongoing)

**RIIO-1** – Effective operation of the four RIIO-1 price controls through price control reopeners, incentive mechanisms and monitoring (ongoing)

**Price cap compliance monitoring** – Effective monitoring to allow timely compliance or enforcement action to be taken where appropriate (ongoing)

**Price cap policy** – Oversee price cap to ensure it is having the desired impacts (ongoing)

**Core System Operators** – Ensure system operators are closely monitored, using a range of tools (engagement, reporting, licence modifications and enforcement) (ongoing)

**Enforcement and REMIT casework** – Investigate and penalise, or seek redress for non-compliance, acting as a credible deterrent and ensuring confidence in the retail and wholesale markets (ongoing)

**Compliance and enforcement conference** – Increase compliance and improve conduct from energy companies, in October 2019

**C. Delivering large-scale renewable energy and social programmes**

We will administer and deliver our responsibilities under the portfolio of schemes and programmes entrusted to us by our partners in government.

We will enable industry, business and consumers to access and participate in effectively-managed, renewable energy and social schemes.

We aim to do this whilst protecting the public purse through robust accreditation processes and management of these schemes. We aim to drive down non-compliance with scheme regulations, highlight legislative loopholes to our government partners and tackle suspected fraud. We also plan to invest in data and digital capabilities to ensure value for money across the delivery portfolio.

 **Consumer outcomes**

**Lower bills, lower environmental impacts, better social outcomes**

 **Key activities across 2019-21**

**Renewables obligation (including Northern Ireland)** – Support mechanism for renewable electricity projects (ongoing)

**Feed in Tariffs** – Promote the uptake of renewable and low-carbon electricity generation technologies (ongoing)

**Domestic renewable heat incentive (RHI)** – Encouraging householders to use renewable energy instead of fossil fuels to heat their homes by offering incentives (ongoing)

**Non-domestic RHI** – Increase the proportion of heat generated from renewable sources by offering incentives (ongoing)

**Northern Ireland RHI** – (as above in Northern Ireland) (ongoing)

**Energy Company Obligation (ECO)** – Reduce carbon dioxide emissions from domestic energy use and tackle fuel poverty (ongoing)

**Warm home discount (WHD)** – Obligation on larger energy suppliers to provide support to fuel poor customers (ongoing)



## D. Enhancing our industry-specialist skills and capabilities

During the period, we aim to deploy the expertise of our staff to ensure that our support and delivery services are effectively and efficiently contributing to our policy delivery. Our engineering, legal, economic, regulatory finance, operational delivery, network and information security and data services teams will be deployed on an agile basis, to deliver targeted results.



### Consumer outcomes

**These activities support the regulatory functions of Ofgem to deliver their activities, and so contribute to all of the consumer outcomes**



### Key activities across 2019-21

**Engineering advice** – Internal advisory support and external challenge for industry and trade bodies (ongoing)

**Legal advice** – Internal advice on policy, enforcement and operational matters (ongoing)

**Economic advice** – Quality assurance, impact assessment and evaluation of policy, and reports and research on energy markets (ongoing)<sup>4</sup>

**Regulatory finance advice** – Internal advice on high-value projects, such as RIIO (ongoing)

**Operational delivery advice** – Internal advice on environmental and social outcomes (ongoing)

**Network and Information Security Regulation advice** – Internal advice on network security and consumer data safety (ongoing)

**User centred data services** – Delivering new data capabilities for the exchange and analysis of regulatory data (ongoing)

<sup>4</sup> This includes our annual state of market, consumer impact and future insights reports

## Reducing burdens

### What we achieved by the end of 2018/19

We continued to:

- **streamline the Information Requests process**, helping to reduce burdens on industry and establish smarter, more efficient processes
- carry out assessments of the **economic impact of our regulatory provisions on business**, helping us to better understand how our work affects businesses and how to mitigate these impacts.

We established our Research Hub and Steering Committee in 2018/19, and published a **Future Insights series paper on Electric Vehicles**.

In response to feedback, we continued to **reduce the number and frequency of our consultations** and focused on making our stakeholder engagement more accessible, less burdensome and more representative.

The UK Regulators Network provides the structure for regulators to consider common issues and policy projects with relevance across utility, financial and transport sectors. During 2018/19, we continued to be an active participant in the Network.

### What we plan to achieve in 2019/20

We will continue our work on **horizon scanning** throughout 2019-21, **alongside further Future Insights papers and outputs** from our Research Hub (guided by our Academic Steering Committee). This activity is intended to lead to better awareness of evidence and research among policy makers, helping to deliver positive outcomes for consumers.

We intend to explore the potential for **electronic licensing** in 2019/20 – currently we are required by law to issue paper licenses and associated updates. We will explore the possibility of an updated statutory instrument (with BEIS) leading to smarter, more efficient processes and reduced burdens on industry.

In line with our joint Cyber Competent Authority role<sup>5</sup> (with BEIS), we are strengthening our **internal approach to Security, Privacy and Resilience (SPAR)** to mirror our expectations of the wider sector.

In order to promote better outcomes for consumers, we intend to continue to collaborate and share lessons/approaches with other regulators. We plan to participate in five joint UKRN research groups, including but not limited to:

- projects where we will **share data on vulnerable customers**
- working together to **improve the quality and openness of infrastructure data**.

We intend to build on the increase in stakeholder engagement surrounding our 2018/19 Forward Work Programme, as well as enhancing our high-level stakeholder engagement through the **Ofgem Energy Conference**, taking place across England, Scotland and Wales in early 2019.

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<sup>5</sup> Under the Network and Information Systems Regulation 2018

## Our finances

We are now approaching the final two years (2019-21) of the cost control framework agreed with government. Over the full five years of this spending period, we anticipate that the framework will have delivered a reduction of 15% in real terms.

We do not intend to increase our operating budget for the 2019-21 period, with any future changes subject to agreement with government under the new Spending Review framework.

£m	2018-19	2019-20	2020-21
<b>Total expenditure</b>	<b>£83.9<sup>6</sup></b>	<b>£82.0</b>	<b>£82.0</b>

<sup>6</sup> £83.9m represents our current spending review settlement – further activities may be approved by HM Treasury

