

Ofgem Investor Event

5th December 2018



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Welcome & Introduction



Martin Young
Head of Investor Relations, Ofgem

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#OfgemInvestor

Chairman's Welcome

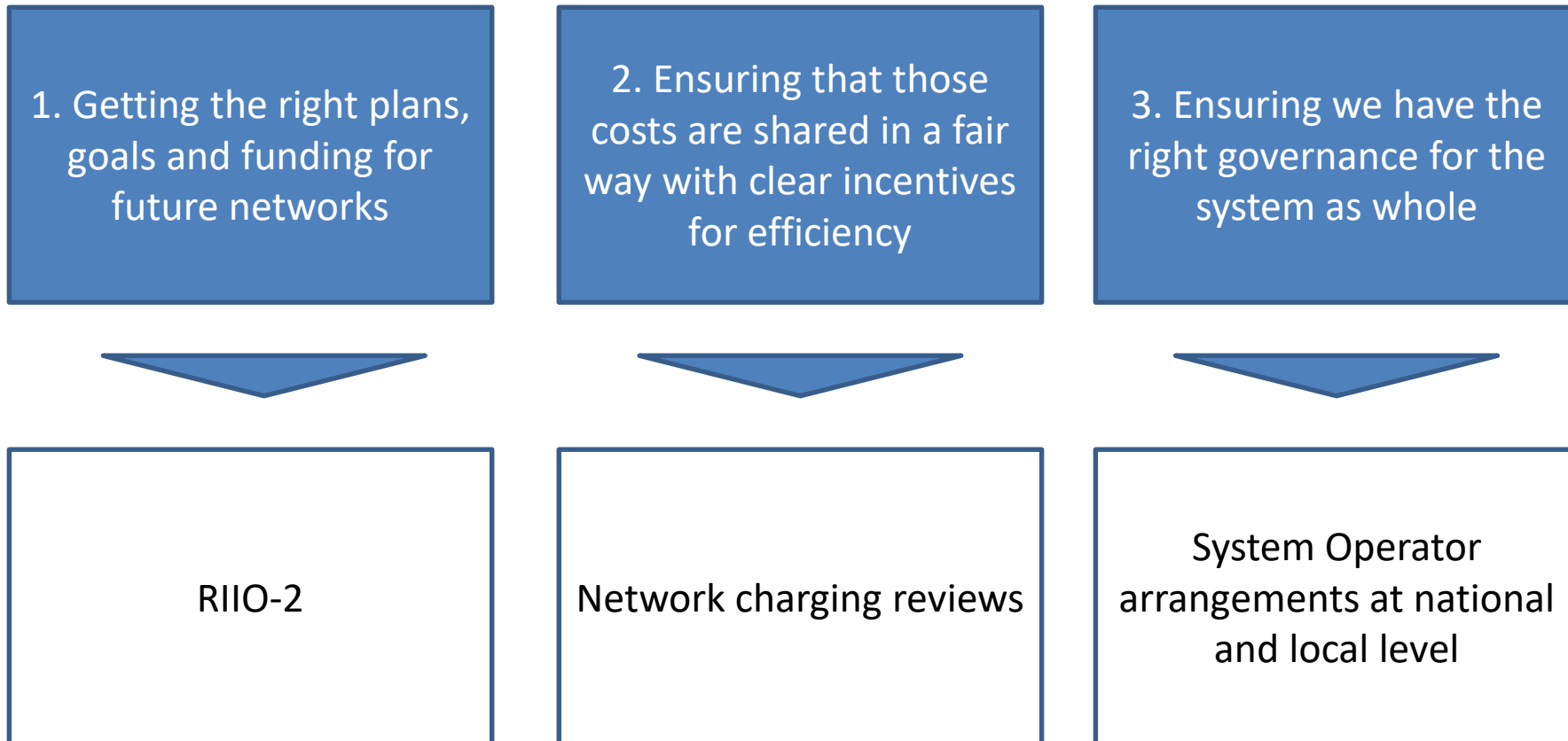


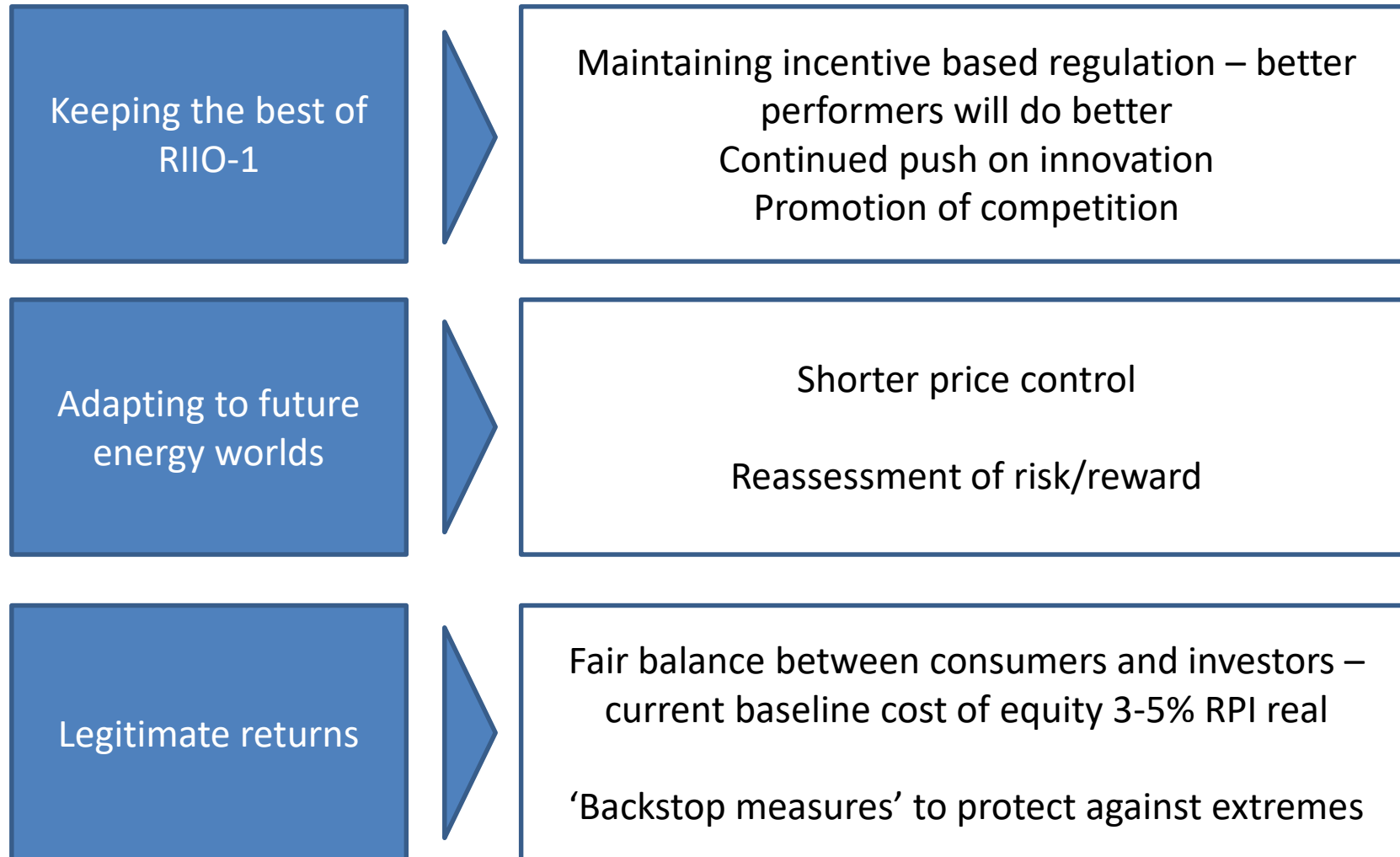
Martin Cave
Chair, Ofgem

Systems & Networks Update



Jonathan Brearley
Executive Director, Ofgem





What?

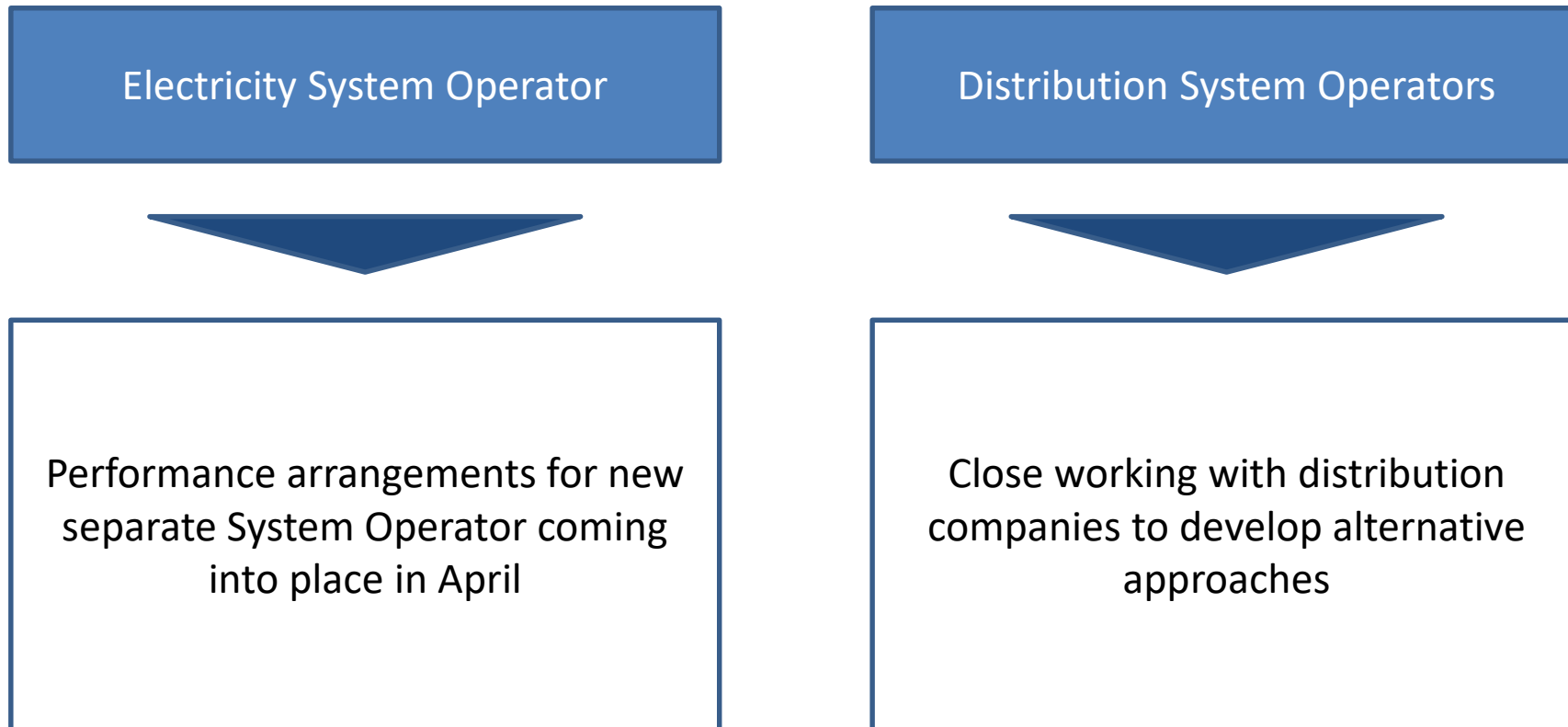
A proposed review of access and future facing charges – focussed on distribution level

We are consulting on changes to residual charges and removal of market distortions

Why?

Maximise use of the networks and encourage efficient connection/location

Ensure charges are spread fairly and minimise distortions



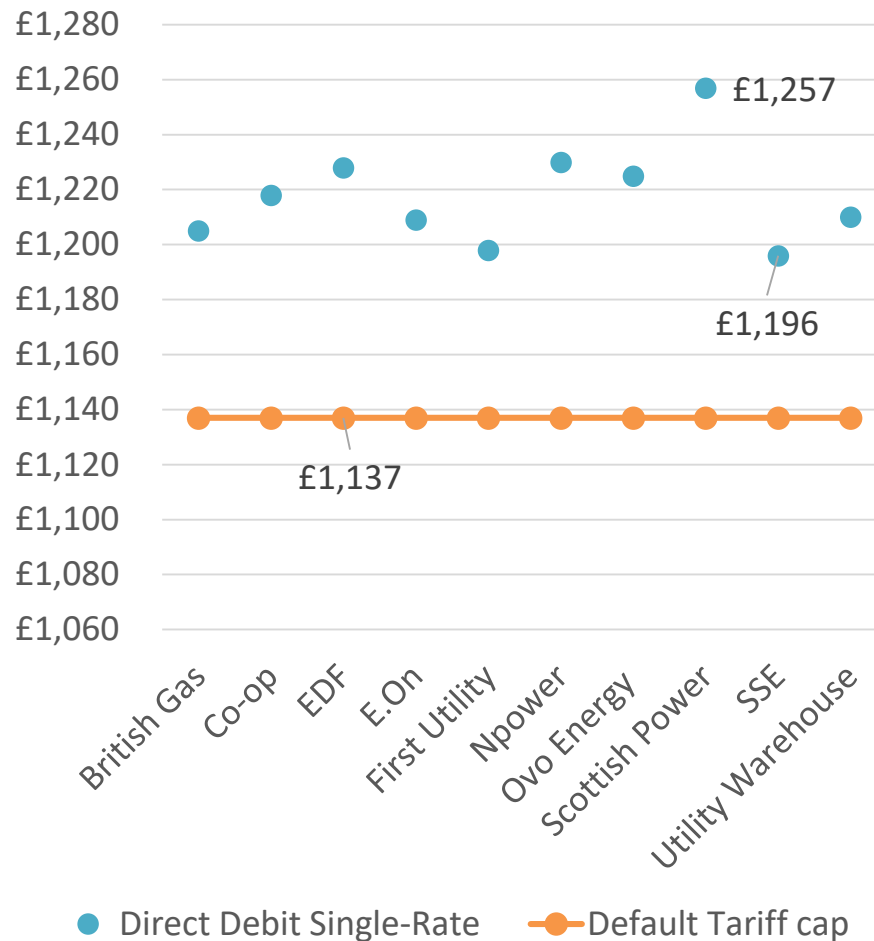
Consumers & Markets Update



Mary Starks
Executive Director, Ofgem

On 6 November, we published our final decision on the price cap

Dual fuel SVT prices at 1 November 2018



What is the default tariff cap?

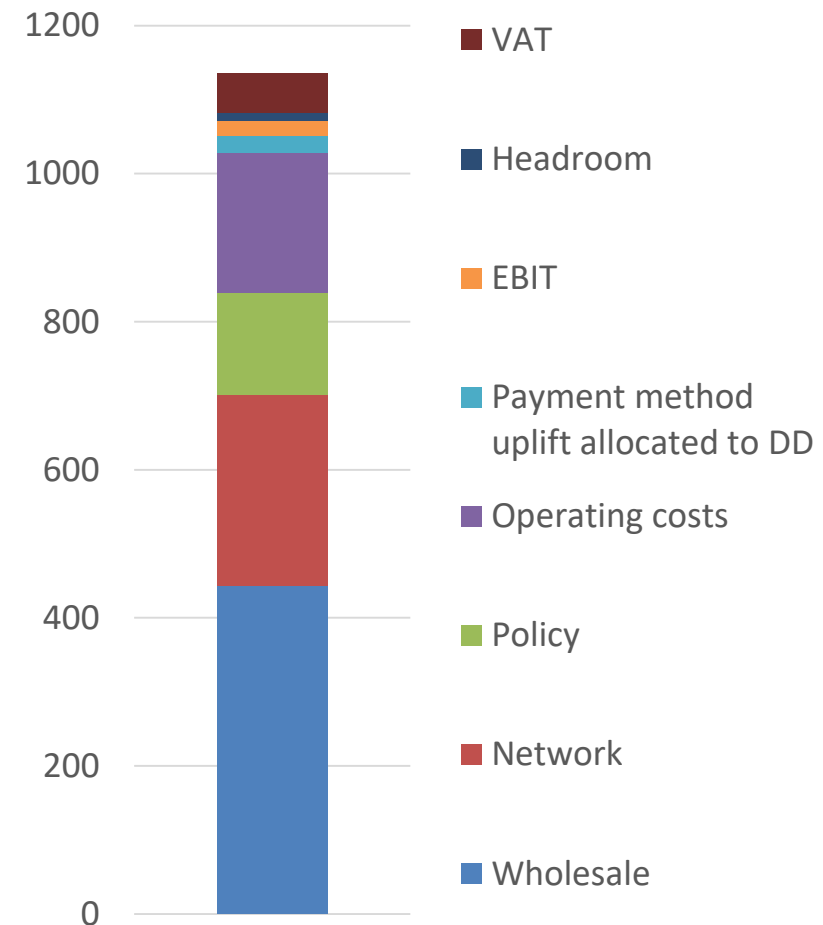
- **Protects all SVT customers, and those with default tariffs.**
- **Temporary.** The cap will last 2 to 5 years, providing a fairer price while conditions for effective competition improve.
- **Will remove around £1 billion of overcharging** from consumers' bills.

What is the cap level?

- **Varies depending on a customer's circumstances:** consumption, payment method, location, fuel and meter type.
- **The first dual fuel cap level is £1,137** (in annual terms), for a typical SVT customer, paying by direct debit. It is £1,221 for a typical standard credit customer.
- **Updated every six months,** to reflect changes in underlying costs.

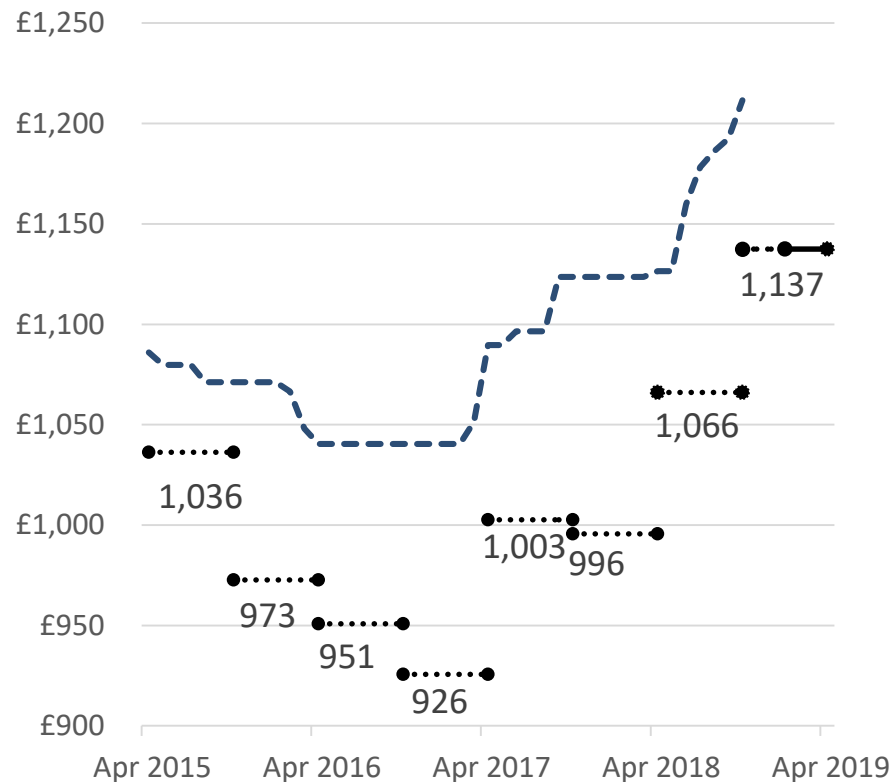
We set the cap by estimating an efficient allowance for each cost component

	Dual fuel First Cap
Wholesale	447
Policy (social and environmental obligations)	137
Network	258
Operating costs, incl. smart metering costs	198
Payment method uplift	12
EBIT	20
VAT	54
"Efficient" Benchmark	1,126
Headroom - 'top up'	12
Cap	1,137



We update each component in the cap every six months, on 1 April and 1 October

Direct debit annualised dual fuel bill (£ nominal)
For customers with typical consumption



--- Weighted average SVT DD for largest 6 suppliers
..... SVT Cap (had it been in place)

Wholesale. Direct fuel cost allowance for forthcoming period calculated, based on forward energy contracts. Additional allowances applied as a fixed percentage of that allowance.

Network costs. Allowance for each period calculated directly using network charging statements.

Policy costs. Updated using a combination of scheme data, OBR forecasts, and information on the expected demand base across which costs are recovered.

Operating costs. 2017 costs indexed at CPI(H).

Incremental smart costs. Increases in smart costs since 2017, are calculated based on a) industry body charging statements, b) modelled impact on rollout on net costs to suppliers.

Payment method – percentage. Bad debt and working capital related costs set as fixed % of total bill (excluding headroom).

Payment method – fixed. Indexed by CPI(H).

EBIT. Profit as fixed percentage, 1.9%.

Headroom. Set as fixed % of costs (excluding network costs).

Price cap is a temporary measure

- Decision to lift:
 - Ofgem makes recommendation to the Secretary of State whether to extend the cap each year as needed from 2020 to 2022
 - Recommendation is based on whether there are conditions for effective competition
 - If nothing happens, cap lapses in 2020
- Next steps:
 - Discussion paper on how to assess effective competition and State of the Market report, H1 next year
 - Will look at market developments (innovation, intermediation), quality of service, and indicators of engagement, as well as conventional indicators (switching, market share)
 - Further work on consumer engagement, innovation, and joint work with BEIS on future retail markets
 - Expect to maintain an element of backstop protection

	Exiting firm	No. customers	SoLR appointed
January	Future Energy	10,000	Green Star
July	Iresa	100,000	Octopus
September	Gen4U	500	Octopus
October	Usio	7,000	First Utility
November	Extra Energy	108,000 dom 21,000 non-dom	Scottish Power
November	Spark	290,000	Ovo

£59m RO plus £4m FITs payments to be mutualised

Licensing review will raise standards around financial resilience and customer service

Question & Answer Session

Chaired by **Martin Young**, Head of Investor Relations

- **Martin Cave** Chair, Ofgem
- **Dermot Nolan** CEO, Ofgem
- **Jonathan Brearley** Executive Director, Ofgem
- **Mary Starks** Executive Director, Ofgem



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Closing Remarks



Dermot Nolan
CEO, Ofgem

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 whilst protecting consumers.

We will ensure that Ofgem will operate 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.