

Professor Martin Cave
Chair



Making a positive difference
for energy consumers

The Rt Hon Greg Clark MP
Secretary of State
Department for Business,
Energy and Industrial Strategy
1 Victoria Street
London
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Our Ref: mc/cd/js

Dear Secretary of State,

Social and Environmental Guidance to the Gas and Electricity Markets Authority

Our principal objective is to protect the interests of existing and future gas and electricity consumers.¹ We are also required to have regard to the Social and Environmental Guidance (the Guidance) from government in carrying out our role.² The Guidance sets out that the government's key social and environmental energy goals are to increase the levels of renewable electricity, reduce greenhouse gas (GHG) emissions in line with carbon budgets, eliminate fuel poverty as far as reasonably practical and reduce energy consumption.

This letter provides a summary of the key activities that demonstrate how we have helped the government make progress towards these goals since our last letter in February 2018. We have conducted these in our role as an independent economic regulator and as an administrator of government social and environmental programmes.

Our corporate strategy

Consumers are at the heart of everything we do. This is recognised explicitly in our Corporate Strategy which outlines the key consumer outcomes we are aiming to achieve.³ These outcomes are:

- Lower bills than would otherwise have been the case;
- Reduced environmental damage both now and in the future;
- Improved reliability and safety;
- Better quality of service, appropriate for an essential service; and

¹ See section 3A of the Electricity Act 1989 and section 4AA of the Gas Act 1986. A further summary is provided at point 1.4. of the powers and duties of the Gas and Electricity Markets Authority:

<https://www.ofgem.gov.uk/publications-and-updates/powers-and-duties-gema>

² See section 3B of the Electricity Act 1989 and section 4AB of the Gas Act 1986:

<https://www.ofgem.gov.uk/ofgem-publications/74203/file37517.pdf>

³ See Ofgem corporate strategy here: <https://www.ofgem.gov.uk/publications-and-updates/corporate-strategy>

- Benefits for society as a whole including support for those struggling to pay bills.

These five consumer outcomes relate to the government's key social and environmental energy goals.

Our work which is of most relevance to the government's social and environmental goals to 'increase the levels of renewable electricity, reduce greenhouse gas (GHG) emissions & reduce energy consumption' and to work to 'eliminate fuel poverty as far as reasonably practical' is summarised below. More detail on this work can be found in our Annual Report and Accounts.⁴

Increase the levels of renewable electricity, reduce greenhouse gas emissions & reduce energy consumption.

Networks and the RIIO price control

Our RIIO (Revenue = Incentives + Innovation + Outputs) price control framework for regulating networks for electricity and gas transmission and gas distribution runs from 2013 to 2021.⁵ For electricity distribution, the eight-year price control started in April 2015.

Within RIIO's environment output, there are various incentives and reporting requirements for networks to monitor their emissions and encourage reduction in greenhouse gas emissions. These include the Business Carbon Footprint (a reputational league table of transport and operational related carbon emissions) and the Environment Report (for electricity distribution). These are monitored and reported on annually in our RIIO annual reports. Electricity Transmission Operators (TOs) are financially incentivised to reduce leaks of Sulphur Hexafluoride (SF₆), an extremely potent greenhouse gas used mainly as an electric insulator in the industry. Over the course of RIIO-1 price control⁶ so far, we can see a reduction of 12% in SF₆ leakage, equivalent to 32,000 tonnes of CO₂ emissions.⁷ Electricity Distribution Operators (DNOs) also have reputational incentives and since the beginning of RIIO-ED1 price control (2015-2017) DNOs reduced SF₆ emissions by 19% (equivalent to circa 16,300 tonnes of CO₂).⁸

In July 2017, we launched the preparation for RIIO-2, the next generation of price controls, which will start in April 2021 for transmission and gas distribution and in April 2023 for electricity distribution. In March 2018 we consulted on the RIIO-2 framework, and published our decision in July 2018.⁹ We signalled our intention to investigate options for removing regulatory barriers to "whole system" outcomes between networks, which could include incentivising network companies to make decisions that support a low carbon energy transition. We are currently developing the sector specific methodologies and will consider what improvements can be made based on lessons learnt from RIIO-1 as well as recognising the challenges that companies will face in future. The details of the specific outputs and

⁴ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-annual-report-and-accounts-2017-18>

⁵ Network Regulation – the 'RIIO' model: <https://www.ofgem.gov.uk/network-regulation-riio-model>

⁶ RIIO-1 price controls: <https://www.ofgem.gov.uk/network-regulation-riio-model/current-network-price-controls-riio-1>

⁷ This could be compared to taking circa 6200 cars off the road for a year. Calculated via EPA Calculator: <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>

⁸ RIIO-ED1: <https://www.ofgem.gov.uk/network-regulation-riio-model/current-network-price-controls-riio-1/riio-ed1-network-price-control>

⁹ <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-decision>

incentives are reviewed and developed at the sector specific as well as some cross sector level. We intend to publish our consultation for the sector specific methodologies in December 2018.

As part of the price control, each year, we run two Network Innovation Competitions (NICs), one for electricity and one for gas, to help Britain's energy networks become smarter and more cost-efficient. In August 2018, Ofgem received five project proposals. In November 2018, we published our decision for the NICs that was informed by the recommendations of our independent Expert Panels.¹⁰ We selected one gas project and three electricity projects for funding, proposing to award £46.8 million to these projects. These projects help the electricity and gas networks address the challenges they face in facilitating the transition to a low carbon energy sector. If successful, they will deliver cost savings to consumers.

In November 2018, we awarded £4m under the Environmental Discretionary Reward scheme to Scottish Hydro Electric Transmission.¹¹ This scheme is designed to encourage and recognise good environmental performance from electricity transmission network owners. This year we also conducted our second Gas Discretionary Reward Scheme (DRS).¹² The DRS incentivises the Gas Distribution Networks (GDNs) to help address a range of environmental, social and carbon monoxide safety issues. In this year's process we awarded £2.5million split between the GDNs for their work in these areas. This is the second of three DRS periods, with a total of £12m available to each GDN across the price control.

Connections

Under the RII0-ED1 Incentive on Connections Engagement (ICE), we assessed the service provided to larger and complex connection customers (including generation customers).¹³ The ICE drives DNOs to identify an engagement strategy, work plan of activities and a set of performance outputs to meet the needs of their connection stakeholders. If a DNO fails to demonstrate that it has engaged with stakeholders or delivered its work plan or performance outputs, we can apply a penalty.

This year, overall, we were satisfied with the quality of the ICE submissions and we were pleased that the majority of stakeholders considered that the DNOs' engagement was leading to improvements in their connection services. After consulting stakeholders, we determined that all the DNOs met the minimum criteria and therefore, we did not apply any penalties. However, there are still areas that require further work and we sent letters to two DNOs, highlighting areas of their engagement that we considered required additional focus. More generally, we expect next year's ICE submissions to demonstrate the steps taken by DNOs to address concerns raised through this year's assessment process and put plans in place to ensure they are meeting the needs of all their connections customers – this includes steps to facilitate connections in constrained network areas and engaging with newer customer types (such as storage providers) to understand their requirements better.

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2018-funding-decisions>

¹¹ <https://www.ofgem.gov.uk/publications-and-updates/decision-riio-t1-environmental-discretionary-reward-2017-18-scheme-year>

¹² <https://www.ofgem.gov.uk/publications-and-updates/arrangements-2018-gas-discretionary-reward-scheme-drs-under-riio-gd1>

¹³ <https://www.ofgem.gov.uk/publications-and-updates/outcome-our-assessment-under-2018-riio-ed1-incentive-connections-engagement>

Offshore Transmission and Interconnection

Our competition in offshore transmission regime has delivered 16 licensed offshore transmission owners (OFTOs) and connected over 4.6GW of offshore wind farms to the onshore grid.¹⁴ In addition to this, tenders are currently underway for five more OFTO projects which would see a further 2.3GW connected to the onshore grid. Three projects with a combined capacity of 2.5GW have been qualified and are expected to be tendered in 2019/2020, with no further plans to qualify any further projects next year.

Electricity interconnectors can help the transition to a low-carbon energy system by enabling electricity trading with countries with significant renewable electricity sources, increasing the flexibility of the electricity system, and enabling better regional specialisation in renewables development.¹⁵ The UK currently has 4GW of electricity interconnection, and our cap and floor regulatory regime is continuing to encourage new investment in interconnection. To date, we have granted nine projects a cap and floor regime and a further project, ElecLink, is being developed through the alternative exemption framework. Four of these projects, totalling 4.4GW in capacity, are currently under construction. If all ten approved projects become operational, we expect to have circa 16GW of electricity interconnection with European countries (France, Ireland, the Netherlands, Belgium, Norway, Denmark and Germany) by the early 2020s. We are currently planning a strategic review of the cap and floor framework and do not expect to open any further application windows for the cap and floor regime until this is concluded.

Adapting to Climate Change and facilitating a flexible energy system

The energy sector is undergoing a major transitional period as generation is increasingly decarbonised, and new scales of delivery (eg distributed energy) and demand trends (flexible, smart systems) start to emerge. Accordingly, we recognise that the regulatory and market arrangements need to evolve to support and encourage change, in a way that protects and advances consumers' interests and enables them to benefit from innovation and new services. We have approved changes to Great Britain's (GB) electricity balancing market that facilitate participation in GB and cross-border balancing markets, such as the Trans European Replacement Reserve Exchange (TERRE).¹⁶ TERRE is a cross-border balancing market which will better allow demand-side-response aggregators and other innovators to provide services to the System Operator (SO) in balancing the system. Opening up the balancing market to firms with flexible processes and assets creates an opportunity for them to share in a growing revenue stream worth hundreds of millions of pounds every year.

We are also driving network companies and the SO to evolve and deliver the changes that are needed over the next few years. This includes them better signalling their needs and opening up the delivery of network solutions to the market, and improving coordination so that whole system network requirements can be identified and acted upon efficiently. We expect to be making regulatory clarifications and have put the onus on network companies to respond accordingly. Alongside this, we have set out reforms to separate the electricity

¹⁴ <https://www.ofgem.gov.uk/electricity/transmission-networks/offshore-transmission>

¹⁵ <https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors>

¹⁶ <https://www.ofgem.gov.uk/publications-and-updates/common-opinion-paper-terre-project-design>

SO into a distinct, ring-fenced company within National Grid Group. We have published statutory consultations relating to the future arrangements for the Electricity SO and given formal consent to partially transfer National Grid Electricity Transmission Plc's transmission licence to the new electricity system operator entity. The separation is planned to go live on 1 April 2019.

In order to secure the potential consumer savings from a more flexible system, while accommodating new low carbon technologies efficiently, there also need to be appropriate and effective signals to network users about how they can alter their behaviour to reduce the costs or increase the benefits they confer on the system. We are therefore proposing a review to improve how network access and charging arrangements can better provide these signals. We consulted on the scope and form of the review between July and September 2018 and plan to publish our decision on this in December 2018.¹⁷ We launched a Significant Code Review in August 2017 to consider reform of how the fixed costs of the electricity transmission and distribution networks should be recovered from consumers in an efficient, fair and practical manner (this project is called the Targeted Charging Review).¹⁸ Throughout the project, we have carried out significant engagement with stakeholders – including consumers, industry and academics – to inform our approach and have commissioned expert consultant advice to understand potential reform options. On 28 November 2018, we published our minded to decision and are seeking views on changes to the way in which we spread the costs of the networks that are used to transport electricity to homes and businesses.¹⁹

Supply market regulation

The retail energy market works well for consumers who shop around, but it does not work as well for consumers who remain on their supplier's default tariff. In July of this year, Royal Assent was given for the Domestic Gas and Electricity (Tariff Cap) Act 2018. This act requires Ofgem to implement a price cap to protect consumers who are on their supplier's default tariff. This is one of the most significant market interventions in recent years, and will save approximately 11 million default tariff consumers in GB around £1 billion per year. This default tariff cap will be implemented from 1 January 2019.

We have designed the default tariff cap to provide a high level of protection, preventing unjustified price increases and ensuring default tariffs reflect more closely the underlying costs of supplying energy.²⁰ This means customers can be confident that any price increase or reduction when we update the level of the cap is justified by underlying costs. When setting the level of the cap, we have given careful consideration to improving efficiency, incentives to switch, enabling competition and financing efficient costs.

The cap is a temporary measure, which is intended to protect disengaged consumers until the right market framework is in place for competition to be effective. From 2020, we will be carrying out an annual review of the market to assess if the conditions for effective competition are in place for a post-price cap market. This framework will form the basis of

¹⁷ <https://www.ofgem.gov.uk/publications-and-updates/reform-electricity-network-access-and-forward-looking-charges-working-paper>

¹⁸ <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-significant-code-review-launch>

¹⁹ <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-minded-decision-and-draft-impact-assessment>

²⁰ <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview>

our recommendation to the Secretary of State, who will make the decision to extend the cap or not. The cap will cease to have effect at the end of 2023 at the latest.

The Prepayment Meter (PPM) cap will continue alongside the default tariff cap. This means that next year, approximately 15 million customers will have direct price protection, which will ensure that these customers are protected from overcharging and that prices they pay more closely reflect the underlying cost of supplying energy.

Our regulation needs to stay ahead of market developments and in a way that does not distort them. It must enable diverse approaches so we can foster more competition and innovation and support new market participants, while offering effective protection to all consumers. At the time of privatisation, the market was designed with suppliers as the primary interface between energy consumers and the energy system. The role of suppliers as the 'hub' of the market has been entrenched in legal frameworks, licensing arrangements and industry rules. We are now seeing significant opportunities for innovation across the energy system and are now examining the role that traditional suppliers play in the market, and the opportunities for consumers to access and manage their supply in new ways. In this context, we issued a call for evidence exploring whether the current 'supplier hub' market arrangements – which place the supplier as the primary intermediary between consumers and the energy system – are fit for purpose or whether reforms might be necessary as the energy system evolves.²¹ This summer we published our response to this call for evidence. We have concluded that – given the scale of change occurring in the sector – there is a strong case for considering fundamental reforms to the supplier hub model, and for evaluating how alternative arrangements might operate in practice. We look forward to working with BEIS in developing a package of reforms that ensure the retail market delivers positive outcomes for consumers.²²

In August 2018, we undertook a discovery exercise with innovators to understand better their experiences in trying to enter the market. This exercise, alongside the evidence base gathered from our extensive stakeholder engagement, will inform the design of potential reforms to ensure we unlock the full benefits to consumers of innovation and competition in the retail market, while ensuring risks to consumers are managed in a proportionate way.

Insights from our Innovation Link service will also help inform reform design. Our Innovation Link service continues to offer support on energy regulation to businesses with new propositions.²³ We have conducted a second 'regulatory sandbox', allowing innovators to trial new products or services. The trials aim to maximise the benefits of locally produced renewable electricity, with the potential to reduce consumer bills. We expect to publish the outcomes of these trials soon. In the meantime, utilising the knowledge gained this year, we are considering how to improve the ability of the sandbox service to enable more firms to trial innovative business models, products and services that can deliver improved environmental and social outcomes.

²¹ <https://www.ofgem.gov.uk/publications-and-updates/future-supply-market-arrangements-call-evidence>

²² https://www.ofgem.gov.uk/system/files/docs/2018/07/future_supply_market_arrangements_-_response_to_our_call_for_evidence_0.pdf

²³ <https://www.ofgem.gov.uk/about-us/how-we-engage/innovation-link>

Within our existing supply licences, we remain committed to relying more on enforceable principles instead of detailed prescriptive rules.²⁴ We expect this to create incentives for suppliers to innovate and put responsibility firmly on suppliers for achieving good consumer outcomes. We've already strengthened our supply licence conditions requiring suppliers to treat customers fairly (the Standards of Conduct), and introduced new principles relating to marketing and sales activities.²⁵ Over the last year we have focused on progressing changes to the rules relating to domestic supplier-customer communications. We are consulting on adding five new enforceable principles to the rulebook, and removing a large amount of associated prescription. These rule changes will be coming into effect in early 2019. They should ensure that consumers get the right information, in the right form and at the right time, to enable them to understand their costs and consumption, to access and assess their options, and to take action where appropriate.

The smart meter rollout is underway and has the potential to bring significant benefits to consumers. Ofgem provides regulatory oversight for the rollout and, working with the government, we aim to ensure the rollout results in the best possible outcomes for consumers. Our key roles are to oversee suppliers' compliance with their smart metering obligations, and regulation of the Data Communications Company.²⁶ In August 2018, we published the Outline Business Case, which presented the results of a draft economic assessment of the impact of market-wide settlement.²⁷ The draft assessment indicates substantial potential benefits, suggesting that our decision on the project, should centre on when and how, rather than whether, market-wide settlement reform should be introduced. Our aim is a design for market-wide half hourly settlement reform that exposes suppliers to the true cost of their customers' usage and incentivises them to take steps to help their customers move their consumption to times of the day when electricity is cheaper to generate and transport, for example by offering smart tariffs and other innovative products. We expect settlement reform to help lower customers' bills, reduce carbon emissions and enhance security of supply by increasing the flexibility of the energy system.

Ofgem is also committed to encouraging and enabling more consumer engagement in order to increase competition and erode the two-tier market; maintain an element of competition during the price cap and help ensure we have the conditions to lift it; and create a more open environment - better placed to facilitate the energy transition. In the last year we have developed and trialled a number of different interventions focused on engaging customers on default tariffs and the results of these trials are encouraging. We expect to trial new and additional ways to prompt consumers, aiming to develop a suite of interventions that tackle a broader range of behavioural barriers. In 2019, we expect to consult on the various services we have trialled with a view to introducing policy changes that help consumers get better outcomes from the Energy Market.

²⁴ <https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/guides-supply-licences>

²⁵ <https://www.ofgem.gov.uk/publications-and-updates/licence-guide-standards-conduct>

²⁶ <https://www.smartdcc.co.uk/>

²⁷ <https://www.ofgem.gov.uk/publications-and-updates/market-wide-settlement-reform-outline-business-case>

Eliminate fuel poverty as far as reasonably practical

Retail price protection and vulnerable consumers

Ofgem shares the government's concern that the energy market is not working for all consumers and is determined to reduce the detriment suffered by all those overpaying for their energy, particularly those who are vulnerable.

One way of doing this, is through the introduction of retail price protection. The Competition and Market Authority's investigation into the market concluded that price protection was needed for consumers on PPMs, so they introduced the PPM cap in April 2017, which allows for price protection to over 4 million households. Ofgem is responsible for administering this, until it comes to an end in 2020. In February this year, Ofgem extended this price protection to cover around 1 million vulnerable customers on poor value default tariffs who receive Warm Home Discount.

Our research shows that consumers in vulnerable situations – low income, social housing renters, aged 65 or over, living with a disability – find it difficult to engage in the market, are more likely to lack confidence, or to be wary of the potential risks of switching tariff or supplier.²⁸ In designing and implementing the default price cap, we want to ensure there are appropriate protections in place to meet the needs of vulnerable consumers.

On 7 December 2017, we decided to modify the standard conditions of the electricity and gas supply licences by inserting new standard condition 28AA to regulate charges for domestic customers who receive the Warm Home Discount (WHD). The main effect of this change was to extend the scope of our existing PPM cap to protect around one million consumers who receive the WHD payment, who are also on their supplier's default tariff. These protections began rolling out from February 2018 and expire in December 2019. When we introduced the existing safeguard tariff we were clear that this was a temporary measure until either the default tariff cap or a broader vulnerable safeguard tariff came into effect.

We have decided to transfer all existing WHD safeguard tariff consumers onto the direct debit default tariff cap (ie the lowest cap level) which will provide the most appropriate protections for vulnerable consumers.

We have also introduced a number of other consumer protections, which will protect consumers from excessive charges and costs. On the 1 of January 2018 we implemented a new licence condition that limits the amount suppliers are allowed to charge for PPMs installed under warrant. As part of this new licence condition, we also banned the installation of PPMs for some of the most vulnerable people in society. In May 2018, we introduced new back billing rules into the supply licence. Suppliers will not be allowed to charge for unbilled consumption older than 12 months, except in exceptional circumstances. This protection will benefit all consumers, but will be particularly beneficial to consumers on low incomes and in debt.

Even if our reforms to improve engagement in the market are successful, there will always be some vulnerable consumers who risk being left behind. That is why our work goes beyond

²⁸ <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-survey-2018> - Some proxies we used to assess engagement in more likely vulnerable groups were: low income, social housing renters, aged 65 or over, living with a disability. However, this does not mean that all of these people were in a vulnerable situation.

the introduction of retail price protection. Ofgem's consumer vulnerability strategy sets out the framework for protecting and empowering vulnerable consumers to reduce the likelihood and impact of vulnerability and ensure all consumers have access to market benefits.²⁹ In the last year, we have taken a number of steps to help strengthen protections for vulnerable consumers. This includes enabling data sharing between networks and suppliers to enable more consumers to benefit from the Priority Services Register, and introducing measures to protect consumers in debt. We continue to monitor carefully how suppliers treat vulnerable consumers – and stand ready to take compliance or enforcement action to protect consumers' interests, if needed.

The Fuel Poor Network Extension Scheme

The Fuel Poor Network Extension Scheme for GDNs help households that are not connected to the gas grid to switch to natural gas by providing funding towards the cost of the connection. Access to gas, a cost-effective fuel for heating, is a good way to ensure fuel poor households can access affordable energy supplies. Since April 2008, GDNs have connected over 105,000 eligible households to the gas grid. We are considering the arrangements for the scheme from 2021 onwards as part of our preparations for RIIO-2.

Investigations, redress and enforcement

Our enforcement activity increased substantially in 2018. We have concluded five cases so far this year, resulting in aggregate redress payments of around £5 million. The payments were made to our Energy Industry Voluntary Redress Scheme, an entity set up in 2017 and managed by the Energy Savings Trust to support vulnerable energy consumers and sustainable energy projects. The Energy Savings Trust will identify potential charitable recipients and allocate funds, which could include schemes to help fuel poor, indebted and vulnerable customers. It will also be responsible for monitoring and evaluating the performance of the funds to ensure that they deliver value for consumers. In 2018, in the first round of grants from the Scheme, six UK charities have been awarded over £280,000 in funding and further rounds of grant allocation are expected to take place over the next few months.

The inaugural payment to the Scheme was made in January 2018 by E (Gas and Electricity) Limited, following conclusion of an investigation into sales and marketing practices towards prepayment meter customers. The other investigations concluded in 2018 pertained to (i) information sent to prepayment customers in annual statements by SSE (redress payment of £1 million), (ii) exit fee information and exit fee charges by British Gas (redress payment of £1.05 million), as well as (iii) installation of smart meters by EDF (redress payment of £350,000), and advanced meters by npower (redress payment of £2.4 million). The former cases highlighted our commitment to protect vulnerable consumers, including prepayment meter customers, while enhancing competition by making it easier to switch suppliers and the latter cases emphasised the importance of meeting deadlines set out in the licence with respect to metering, which is essential to enable optimal use of energy by individuals and companies, leading to environmental benefits.

²⁹ <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/protecting-and-empowering-consumers-vulnerable-situations/consumer-vulnerability-strategy>

To ensure continued deterrence towards poor conduct, in 2018 we opened seven new investigations.³⁰ These focus on (i) treatment of customers in payment difficulties (Utility Warehouse), (ii) customer service standards (Iresa), (iii) quality of information sent to consumers and treatment of vulnerable customers (Ovo Energy), as well as (iv) economic and efficient operation of the electricity system, including forecasts on demand (National Grid Electricity Transmission), (v) record-keeping and reporting relating to the gas pipeline system (Cadent Gas Limited) and (vi) compliance of suppliers with their Renewables Obligations (Economy Energy and Spark Energy). While the opening of these investigations does not imply any findings of non-compliance, it does reflect our priorities and our commitment to protect energy consumers, including vulnerable consumers and those in payment difficulties, and to help to ensure the efficient and economical operation of energy networks.

In 2018, we also used Provisional Orders relating to conduct in the energy market which needed to be addressed urgently. In an effort to protect customers in difficulties, in March we issued a Provisional Order which, amongst other things, required Iresa to stop making arbitrary one-off charges, extend its call centre hours, reduce call waiting times and respond to customer emails more quickly (Iresa has since ceased to trade). To facilitate increased competition, in September we imposed a Provisional Order on npower to ensure its participation in the Active Choice Collective Switch Autumn Trial and subsequently enforced that order by way of an urgent High Court injunction. This trial is an important Ofgem policy in response to the recommendations made by the Competition and Market Authority following the Energy Market Investigation, in particular to increase switching rates for those customers who have been on standard variable tariffs for a long time. We are confident in our course of action, notwithstanding npower's challenge to both our decision to make the Provisional Order and our original, earlier decision to direct npower to participate in the trial in the first place. Both challenges were heard by the High Court in November and we await the court's decision.

Delivering government social and environmental schemes

Ofgem's delivery directorate administers a number of renewable energy schemes and environmental and social programmes for government. Over the past ten years, the delivery directorate has administered schemes worth more than £7 billion a year and provided value for consumers by delivering them for less than 0.25% of their total value. The delivery directorate's role is to provide support to government through effective scheme administration, and ensuring compliance, fraud prevention and overall value for money.

The delivery directorate continues to administer the Domestic and Non-Domestic Renewable Heat Incentives, the Renewables Obligation, the Feed-in Tariff, the Energy Company Obligation and the WHD. We do this in partnership with BEIS and the devolved administrations. We also work with a broad range of stakeholders, from scheme participants to suppliers and vulnerable consumers.

³⁰ This covers enforcement cases opened under our sectoral powers under the Gas Act 1986 and Electricity Act 1989. It does not cover competition law or REMIT (the EU regulation on energy market integrity and transparency) cases.

Better Regulation


In October 2018, we published our second annual State of the Energy Market Report, which focuses on developments in the energy market over the past year.³¹ It brings together analysis published by us and others, and includes new analysis that provides further insights on some of the key issues. The report includes sections on competition in the wholesale and retail markets, affordability and vulnerability for domestic consumers, decarbonisation and security of supply.

In July 2018, some of Ofgem's decisions, along with those of other regulators, were incorporated within the Business Impact Target report covering the period June 2017 - June 2018.³² We have worked with the Better Regulation Executive and the Regulatory Policy Committee to develop our analysis of the impacts of our work on businesses, including through impact assessments. We continue to look for opportunities to reduce business costs, including those of new entrants to the industry, where doing so is consistent with our principal objective to protect consumers' interests.

Ofgem continues to play a leading role in the UK Regulators Network (UKRN). Our Chief Economist Joe Perkins serves as a senior representative. We were a key contributor to the recently published report *Making Better Use of Data to Identify Customers in Vulnerable Situations*. We are involved in all of the UKRN's work streams – innovation friendly regulation, consumer fairness, better ways of working and promoting resilient sectors. We have representatives across UKRN networks and interest groups including the young professionals network (which we co-chair), the cost of capital network (which we chair), the data strategy network, the vulnerability network, the digital comparison tools network and the principals network. We are active participants in the shared training initiative and have hosted training for members on statistical modelling.

This document has outlined some of the ways in which our actions to protect consumer interests are in line with the government's Social and Environmental Guidance. We would of course be happy to provide further details on any of the actions we describe, and look forward to continuing engagement with your officials on these important issues in the future.

Yours sincerely,



Martin Cave

Chair, Gas and Electricity Markets Authority

³¹ <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2018>

³² <https://www.gov.uk/government/publications/better-regulation-annual-report-2017-to-2018>