



Making a positive difference  
for energy consumers



Forward Work Programme

2016/17

## Overview:

This Forward Work Programme outlines the work we think will make the greatest difference for consumers in the coming financial year, and deliverables in the document are referenced against the four quarters within the financial year (ie Q1 refers to the period of time from the start of April to the end of June 2016). We consulted on a draft version of this document between December 2015 and February 2016. We have considered responses and updated the Forward Work Programme where appropriate.

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## Chairman's Foreword

The energy market continues to evolve at real pace, with greater innovation and more independent suppliers promising to provide real benefits for consumers. This presents us with a complex portfolio of work, which is solidly underpinned by our guiding principle of making a positive difference for energy consumers.

We strive to achieve the right balance between facilitating effective competition and proportionate regulation that allows the market to function properly. In June 2014 we referred the market to the Competition and Markets Authority (CMA) for a detailed market investigation. We have welcomed the CMA's provisional decision on remedies, and the final report will have an important impact on the shape of our work programme for next year.

The next few years are likely to see an acceleration of the pace of change in the energy industry. The energy system is likely to need to adapt to changes in the generation mix towards cleaner, smaller scale, intermittent sources of energy, which will place greater emphasis on the need for demand response and system flexibility. The rollout of smart meters is an important part of this transition, which opens up new sources of flexibility and new ways in which consumers can engage with the market. We have to remain open to innovation and new business models that seek to address the challenges and take advantage of the opportunities that arise. We need to make sure that our market rules keep pace with the changing demands on the system.

A large proportion of our work is influenced by developments in Europe, where we work with the EU and other European institutions to achieve outcomes that meet the interests of GB consumers. Through effective influencing and building support for our position in key areas, such as the development of European codes, we will continue to drive our work on the European agenda with real vigour.

It is vitally important that the regulatory framework enables positive change, whilst ensuring it has the interests of consumers at its very heart. We want to move from a reliance on prescriptive rules towards a more principles-based approach, designed to reduce regulatory burdens and increase innovation without compromising consumer protection. This will not be a world of light touch regulation. Suppliers will continue to be governed by clear rules that set demanding standards for how they treat consumers. They will benefit from fewer prescriptive rules, but we will expect suppliers to comply with both the letter and the spirit of the regulations. We will continue to be tough in taking enforcement action against suppliers who fail their customers. Over the coming months we look forward to working constructively with suppliers to help them through this transition.

The trust and confidence of both consumers and investors in the energy



market is central to ensuring that our regulatory and markets framework delivers tangible benefits. In recent years, consumer trust has hit an all-time low. Helping rebuild this trust is a priority and a vitally important component of our work as an independent regulator.

In December 2014 we published our Strategy, and our planned activities for 2016-17 are driven by the objectives and outputs we set out in that document. We consulted on the draft Forward Work Programme and the responses we received from a wide range of organisations will be taken into account as we further scope and plan the initiatives over the coming year.

We are, of course, fully committed to working within the financial limits set for us in the recent Government Spending Review. At the same time, we recognise the scale and urgency of the work we need to do and aim to drive our efficiency and effectiveness so that we can deliver all of our objectives.

At the end of last year we announced a new organisational structure, which is part of our drive to maximise efficiency and effectiveness and be in the best place to meet the challenges ahead. All of our deliverables have been carefully costed and we are confident that consumers and industry will still see real benefit from the work that we are undertaking.

Our portfolio of work is broad and far reaching, but carefully targeted to ensure that we are best able to meet the needs of consumers. I am confident that we can meet the challenges we will face over the coming year and make a positive difference for consumers.



David Gray  
Chairman

## Introduction

Since we published our Forward Work Programme (FWP) last year, we have made good progress in delivering our priorities and meeting our published deliverables. Many external factors have focused attention on the energy sector and we continue to deliver within a complex landscape. We have also made changes to our organisation as part of our Strategic Transformation Programme, re-structuring our divisions and changing our internal governance to give us the best chance to deliver in the most effective way. As part of this change, we continue to develop a portfolio approach to our work, with a central portfolio team providing a clear line of sight between our strategy and the delivery of our core business activities and projects.

This approach allows us to better plan and monitor our own work, and enables us to respond to new areas of focus or requirements. This is particularly important for our 2016-17 FWP, where the final report from the Competition and Markets Authority will influence our work going forward. We anticipate that this will lead to a change in our planned activity and we will publish an update to this FWP in the summer to reflect that. This will include an implementation plan for those CMA remedies relating to Ofgem's work, and an explanation of how the work associated with implementing the remedies impacts on other work in our published Forward Work Programme.

We have always operated within a landscape of change. Looking at our energy system from an historical perspective, we have seen the introduction of privatisation and competition in the UK energy sector, but the way that energy is produced and consumed has not radically changed if we compare, say, 1970 to 2010. If we look forward 40 years from 2010, we will likely see a significantly different landscape in terms of how energy is both produced and consumed.

The industry is changing at pace, with technological innovations and the integration of new business models demanding effective but proportionate regulation. We recognise the need for an agile approach to ensure that the market realises its potential, and are considering this in our approach to future retail regulation.

The energy landscape in a 'smart' future will be quite different from how it is today. So although we cannot foresee exactly what the future energy sector will look like in 2050, our primary goal will be the same; to protect the short-term and long-term interests of energy consumers.

There are a number of interesting patterns of change in the energy supply market. Smaller energy suppliers continue to grow their market share – a positive trend we want to see continue in order to increase levels of competition in the sector. Another positive trend is the general cost reduction in emerging renewable technologies – in some cases approaching cost parity with traditional fossil fuelled generation.

Security of supply continues to be of interest to all stakeholders across the spectrum. Our role in this area is to oversee and regulate National Grid who are charged with balancing the system in an era of tightening supply margins. We will continue to work with the government, Parliament, National Grid and the energy industry to ensure that best value is achieved for consumers during this time of

tight supply margins – as it is ultimately consumers who pay for the measures put in place to manage security of supply.

Government has prioritised energy security, with a clear focus on innovation that accords with our aims to enable space for new types of business models and support solutions that ensure the energy system remains fit for purpose.

Energy prices have largely remained static since spring 2015. We would still like to see reductions in energy prices and we remain focused on making a positive difference for energy consumers. We recognise that many consumers have been unhappy at the value that they get from their engagement with the energy market. We also see the need for the right enablers to be put in place to manage the transition to a low carbon energy system.

As part of the Autumn Statement, presented to Parliament on 25 November, government announced the outcome of its 2015 Spending Review. Along with other independent economic regulators, Ofgem was included in this process for the first time and the commitments in this Forward Work Programme reflect how we will deliver while meeting the requirement on us to reduce spending by 15% over the next five years. The Spending Review settlement reaffirms the financial discipline which has informed our activities for many years, including through the RPI-3% cost control regime which delivered considerable savings through bearing down on Ofgem's running costs.

Government's spending decisions also have implications for the programmes that we deliver on behalf of the Department of Energy and Climate Change (DECC). The Spending Review confirmed the extension of a number of these schemes until at least 2021, with the Warm Home Discount, which provides support for the most vulnerable consumers, continuing until 2022 at the current levels of £320m a year.

We note the government's review of the delivery landscape and support their recommendation to separate E-Serve from the regulatory aspects of Ofgem. We will work with DECC and other bodies as required to complete this work, and will continue to administer the schemes to the highest standard throughout.

We have thought long and hard about this context when considering the work we will do in 2016-17 and believe that the initiatives set out in this FWP put us in the best position to meet the future challenges we see. We have a fixed budget and a set amount of resources available to us to tackle these challenges. This means we must choose carefully which areas of work to prioritise and take forward. We believe this FWP will help us to best protect consumers now and in the future.

## The Forward Work Programme: what can you expect from us?

Our Strategy articulates how we aim to deliver our **consumer outcomes**:

- **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
- **Benefits for society as a whole** including those struggling to pay their bills

Our priority is our duty to protect the interests of existing and future gas and electricity consumers, particularly those who are vulnerable. We recognise the priorities and objectives of the government elected in May 2015 and work within the parameters of policy that affects the energy sector.

## How are we going to achieve it?

There are six **key outputs** as part of our Strategy. We focus on these throughout our Forward Work Programme, and consider them constantly throughout our work:

- **Regulation** - designing strong, stable systems for regulating monopoly activities and the way markets operate
- **Competition** - promoting effective competition where this can benefit consumers by driving down costs and improving service quality
- **Standards** - ensuring results and protection for consumers meet the high standards expected of an essential service
- **Partnership** - engaging with the government and others to make sure consumers get the greatest benefit from independent regulation
- **Confidence** - fostering trust and confidence across the energy market through transparency, accountability and good regulatory processes
- **Efficiency** - minimising the direct and indirect costs we impose on consumers and the industry

## This Forward Work Programme also includes:

- A section on budgets and spend in chapter eight.
- The major deliverables as currently planned. We will continue to develop our plans and activities and delivery dates may change.

# 1. Regulation of Network Companies and other Monopolies

1.1. Several functions in the industry, including onshore network companies and the System Operator, are monopoly activities. We aim to regulate these businesses so that they achieve the outcomes consumers and market participants require in an efficient manner.

1.2. A continuing challenge is to ensure that our regulatory approach is sufficiently flexible to cope with technology and other change in the industry and that our regulation meets the needs of future as well as current consumers. We introduced the RIIO (Revenue = Incentives + Innovation + Outputs) approach to regulating networks in response to this challenge.

1.3. The RIIO price controls are how we set the maximum allowed revenues for the companies that own and run the electricity and gas networks. The aim is to ensure that consumers get value for money.

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

## **a. Regulation of onshore network companies – our RIIO framework**

### **Activities**

#### Setting allowed revenues

1.5. Now that the RIIO price controls have been set for an eight year price control period, our focus is keeping them updated and ensuring they are working. In particular, through the annual iteration process we update and roll forward the price control financial models for each licensee, making adjustments to base revenue allowances to reflect companies' performance and external factors such as interest rates.

#### Distribution price control review close out

1.6. The previous electricity distribution price control review (DPCR5) ended in March 2015. We are currently developing methodologies for closing out some of the remaining schemes and these will be in place in Q2 of 2016-17. We plan to complete close out for a majority of schemes in Q3 of 2017-18.

## Innovation stimulus (RIIO)

1.7. The innovation stimulus package provides funding through price control to incentivise network companies to develop or test new solutions to help accelerate our move to a low-carbon sector and benefit consumers. We will continue to monitor projects that have received funding under the stimulus, and will run a further Network Innovation Competition (NIC) in 2016. We have launched a review of the governance of the NIC, which includes whether we can better enable network innovation by non-licenced companies. We intend to make any changes for the 2017 NIC and will consult on them this autumn.

1.8. We are also reviewing the benefits generated by projects funded by the Low Carbon Network Fund (the predecessor to NIC). The outcome of this will help us decide how much money should be available to fund electricity distribution NIC projects from 2017 onwards. We will conclude the review and announce our decision in autumn 2016.

## RIIO mid-period review reopeners and major onshore investments

1.9. RIIO T1 (Electricity and Gas Transmission) and RIIO GD1 (Gas Distribution) were the first price controls under the RIIO regulatory framework. When we developed the price control, we acknowledged that given the shift from a five year to an eight year price control period, the potential uncertainties could be greater. We introduced a mid-period review (MPR) of output requirements as one of RIIO's uncertainty mechanisms. We said that any potential MPR would cover changes to outputs that can be justified by clear changes in government policy, and the introduction of new outputs to meet the needs of consumers and other network users.

1.10. We are consulting on the potential need for an MPR in both the T1 and GD1 price controls and expect to issue a decision on whether to proceed with an MPR in Q1 of 2016-17. If we decide to proceed, we will consult on our MPR proposals in Q2, and make a decision on those proposals in Q3. Any associated licence changes would need to be in place for 1 April 2017.

1.11. As well as the MPR, the controls include a number of reopeners to deal with specific issues that were uncertain when we set the price control. We will consider any applications made by the companies.

## Implementation of Xoserve funding governance and ownership review

1.12. In September 2015, the industry agreed a programme plan to implement the outcome of our review of Xoserve's funding governance and ownership arrangements. The implementation will be delivered in two phases by the industry. Phase one will be completed by 1 April 2016 and phase two will be completed by 1 April 2017. We are actively monitoring industry's delivery of these milestones. We will be making a decision in Q2 on amending gas transporters' funding arrangements using the reopener provision in RIIO T1 and GD1 in relation to this area.

## Major onshore investments

1.13. An important part of our role in regulating electricity transmission is to assess the need for, and efficiency of, major projects. This includes onshore

projects that meet the criteria for Strategic Wider Works under RIIO. We expect to complete our assessment of whether a number of such projects are needed in 2016, and to scrutinise the efficiency of those projects when they are closer to construction.

### RIIO monitoring and compliance

1.14. We have already required companies to publish more of their information and improve their communications with stakeholders. We publish the network companies' data on our website and report annually on our view of their performance against both the agreed outputs and the revenue allowances set at the start of the control.

1.15. Our Data Assurance Guidance requires the network companies to risk assess the information they report to us and to demonstrate that they have taken a proportionate approach to validating data they are submitting, improving timeliness and accuracy of reporting to the regulator. We will consider their submissions and consider any actions needed.

1.16. The network companies have to deliver agreed levels of risk mitigation associated with the health and criticality of their assets. The companies are developing common approaches to assessing these levels. We will approve these approaches and translate the existing targets into the new format.

### RIIO accounts

1.17. We are working to introduce a new form of financial accounts for network operators subject to price control under RIIO. They will require companies to report their position and performance in RIIO terms and provide new levels of transparency in financial performance reporting. We published two consultation papers in 2015, and are continuing a dialogue with the industry, investors, auditors and accounting standard-setters. We will create tools to make it easier for those preparing the accounts and developing a regulatory financial reporting standard capable of underpinning a 'fairly presents' view of network operators' regulatory financial position and performance.

### RIIO risk project

1.18. Our RIIO price control processes affect the balance of risks that price-controlled energy networks are exposed to, and our RIIO policy thinking is informed by our understanding of risk. We will analyse and engage with investors and other interested parties to understand the risk environment for RIIO regulated networks. This may take up to two years, but will help us align the next cycles of RIIO (RIIO T2, GD2 and ED2) with how we allow for the cost of capital.

### Developing future price controls

1.19. Following a 'lessons learned' exercise for RIIO ED1, we will create a work plan for the next RIIO price control reviews, which will start in 2018.

1.20. We will develop our thinking around our approach for RIIO GD2 and RIIO T2. We will consult in 2018 on the strategy for RIIO GD2 and RIIO T2 ahead of the licensees submitting their business plans to us in 2019. We will build on the lessons learned from the first round of price controls and start to develop our thinking and tools, including benchmarking tools, for RIIO 2.

## Regulation of other monopolies

### **Activities**

#### Development of long-term System Operator incentives

1.21. When we introduced the current electricity system operator incentives for 2015-17, we said to industry that we intend to carry out a more in-depth review of the current incentive framework when we set incentives from 1 April 2017. We have started this review, and in 2016-17 will decide on the best way to incentivise the System Operator to innovate and reduce costs to consumers. For gas, we will focus on National Grid Gas (NGG) pursuing the innovation mechanism we set for exploring how to offset greenhouse gas emissions. We will continue to monitor National Grid Electricity Transmission and NGG's performance against these incentives to ensure that they are delivering value for consumers.

#### Data and Communications Company regulation

1.22. The Data and Communications Company (DCC) is the licensed monopoly that is responsible for the communications between smart meters and market participants. Following its second annual price control report in 2015, we will continue to scrutinise the DCC's costs through the annual price control process to ensure it provides value for money. In 2016 we plan to consult on an operational incentive for the DCC, so it is encouraged to provide a good service once its smart meter services have gone live.

#### Interconnectors – new investment

1.23. In August 2014 we established our cap and floor regime<sup>1</sup>, which regulates how much money a developer can earn, and announced that five new interconnectors would be developed under it. Over the coming year we expect to reach major milestones for some of those projects; beginning construction, making investment decisions, and doing our Final Project Assessment for some of them. We also expect to further assess new interconnector projects during the spring and summer as part of our second window for applications for cap and floor treatment.

#### Offshore transmission owners, interconnectors, monitoring and compliance

1.24. A key role in relation to the offshore transmission and interconnector regimes is to make sure that offshore transmission owners (OFTOs) and interconnector owners are meeting their obligations, as well as monitoring their performance against incentives in their licence.

1.25. To ensure continued confidence in the offshore transmission regime we will continue to incentivise OFTOs to successfully operate and maintain the transmission assets and manage risks associated with the assets effectively. This includes monitoring their performance against the 98% availability target.

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<sup>1</sup> Cap and floor regime details: <https://www.ofgem.gov.uk/publications-and-updates/decision-roll-out-cap-and-floor-regime-near-term-electricity-interconnectors>

1.26. We will put in place systems and processes in order to monitor and ensure compliance of interconnectors which are under the cap and floor regime, as well as interconnectors not subject to the cap and floor regime. Ensuring timely delivery and efficient operation will contribute to security of supply and the reduction of energy bills.

### Deliverables

Action	Quarter Due	Division
<b>D1.1</b> Implement changes to NGET licence for cross-border electricity interconnector regimes	Q1	Networks
<b>D1.2</b> Implement changes to NEMOlink interconnector licence for cap and floor	Q1	Networks
<b>D1.3</b> Publish consultation on form of regulatory financial reporting standard for RIIO accounts	Q1	Networks
<b>D1.4</b> Decision on whether to proceed with an MPR	Q1	Networks
<b>D1.5</b> If we decide to proceed with an MPR, we expect to issue a consultation on our MPR proposals	Q2	Networks
<b>D1.6</b> Publish Interconnector Use Of Revenue statement approvals	Q2	Networks
<b>D1.7</b> We expect to consult on the conclusions of the independent evaluation of the Low Carbon Networks Fund and on potential changes affecting the Network Innovation Competitions	Q2	Networks
<b>D1.8</b> Conclude the review of the Low Carbon Network Fund following consideration of the independent evaluation and announce our decision by the end of 2016. This will include the amount of money for electricity distribution related projects.	Q3	Networks
<b>D1.9</b> Decision on any MPR proposals following consultation	Q3	Networks
<b>D1.10</b> Publish regulatory report on OFTO revenues	Q3	Networks
<b>D1.11</b> Decision on RIIO accounts requirements	Q3	Networks
<b>D1.12</b> Decision on elements of DPCR5 that could not be finalised without 2014-15 data	Q3	Networks
<b>D1.13</b> Complete the Annual Iteration Process	Q3	Networks
<b>D1.14</b> Licences changes as a result of any MPR proposals	Q4	Networks
<b>D1.15</b> Publish consultation on initial project assessment of second window cap and floor applications	Q4	Networks
<b>D1.16</b> Publish RIIO T1, GD1 and ED1 annual reports	Q4	Networks

## 2. Setting the Rules for Markets

2.1. Competition, either for or within the market, is usually the best way to protect consumer interests. The process of competition and rivalry can bring forward innovation and help reveal which technologies and business models best meet the needs of consumers. This is of particular relevance to the energy sector which potentially faces an unprecedented scale of change.

2.2. The wholesale and retail energy markets are man-made and market rules are in place to support competition. We keep these rules under review to ensure they allow for effective competition between participants and for the entry and growth of new players, including those relying on new technology and business models.

### Activities

#### Half-hourly settlement

2.3. In 2016-17, we will take forward a project to introduce settlement for domestic consumers and small businesses based on their actual half-hourly meter readings. In the near-term, this will focus on removing barriers to cost-effective elective half-hourly settlement. Our aim is to have largely completed this work on elective half-hourly settlement during 2016-17. Our draft Forward Work Programme consulted on our proposal to launch a Significant Code Review (SCR) on mandatory half-hourly settlement for all consumers early in 2016-17 to examine the issues involved, which may require changes across multiple codes. Our aim is for this to help us make a decision on mandatory half-hourly settlement during 2018. As our work develops, we will look to take advantage of any further tools which become available.

2.4. We recognise that mandatory half-hourly settlement would require substantial updates to IT systems and business processes – our decision will take into consideration other industry changes.

2.5. This work will be led by Ofgem, but there will be involvement from DECC as part of our joint project on flexibility. We will also take full account of any conclusions on this subject from the Competition and Markets Authority (CMA) in its final report.

2.6. Having considered the responses to the Forward Work Programme consultation, and to our Open Letter on half-hourly settlement published in December 2015, we will announce our decision on the SCR in spring 2016.

#### Flexibility strategy

2.7. We define flexibility as 'modifying generation and/or consumption patterns in reaction to an external signal (such as a change in price) to provide a service within the energy system'. In September 2015 we announced initial priority work areas to help the Great Britain electricity system get access to, and make efficient use of, more sources of flexibility. These areas include clarifying the role of aggregators and implications for industry arrangements, increasing participation of industrial and commercial consumers in flexibility opportunities, and deciding

how electricity storage fits into the legal, regulatory and industry framework. The other key areas are the transition from Distribution Network Operators (DNOs) into an active network management role, including the changing relationship with the transmission networks and the System Operator, and examining the extent to which distribution network charges should change to facilitate flexibility, and time of use retail tariffs.

2.8. This work should deliver positive consumer outcomes by using electricity differently, facilitating competition and new entry, and enabling new products with the potential to support greater use of low carbon generation and improve reliability. We will continue to work with DECC on these issues. We will engage with stakeholders throughout this process and will provide an update for industry and stakeholders on these work areas in spring 2016.

## Development of System Operator role and structure

2.9. Under the new licence conditions, put in place as an outcome of our Integrated Transmission Planning and Regulation project during 2015, National Grid has an obligation as the System Operator (SO) to produce an annual network options assessment report. This report is useful in identifying transmission network and interconnection needs, and assessing the options to meet them. The first report has been published, and during 2016-17 we will work closely with National Grid to ensure this report provides us and industry with meaningful information that helps us understand future network requirements, including identifying suitable projects for onshore competition.

2.10. We will ensure that the internal structures of National Grid, who are both the transmission owner for England and Wales and SO operating the whole transmission network for GB, mean it has sufficient separation between its activities to mitigate potential conflicts of interest arising between these roles for onshore competition.

2.11. We will also work with government to consider whether further changes are needed to the role and structure of different parties, including the SO, to let the energy system evolve in a way that brings most benefit to consumers.

## Innovation space

2.12. As set out in 'A better deal: boosting competition to bring down bills for families and firms'<sup>2</sup>, we will build on existing innovation programmes to develop new approaches to support innovation and the safe testing of new products and services. We will consult in spring 2016, as part of our publication 'Ofgem: Innovation and Regulation', on providing innovation spaces for experimentation, giving more regulatory certainty for innovative approaches and products to be trialled within the existing regulatory framework.

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<sup>2</sup>A better deal:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/480797/a\\_better\\_deal\\_for\\_families\\_and\\_firms\\_print.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480797/a_better_deal_for_families_and_firms_print.pdf)

## Shetland competition process

2.13. A competitive process for new generation on Shetland is run by Scottish Hydro Electric Power Distribution (SHEPD), a DNO owned by Scottish and Southern Energy. As regulator, we are overseeing this process and holding SHEPD to account.

## Licence and code changes

2.14. Certain core gas and electricity activities require a licence from Ofgem. We will continue to progress licence applications, including applications for licensable activities, subject to timings established by provisions in European law. We also have a role in deciding on any material changes to the industry codes, the documents which set out the rules underpinning the operation of the gas and electricity arrangements. We will continue to make industry code change decisions promptly, reporting against agreed key performance indicators for code decisions in our annual report.

## Code governance review phase three

2.15. From our experience, we are aware of the many challenges involved in implementing changes to the industry framework, in particular the industry codes. In 2015 we reviewed the reforms we introduced under our previous Code Governance Reviews<sup>3</sup>. We proposed further reforms to ensure the code governance arrangements are fit for a changing industry and the increasing pace, volume and complexity of change planned in the coming years. We will continue to work with industry to implement our reforms in 2016-17.

2.16. We recognise that, in addition to the reforms we will implement in 2016-17, more fundamental reform may be needed and therefore welcome that the CMA is exploring this. The CMA has also provisionally identified code governance as having an adverse effect on competition under the Energy Market Investigation, and proposed remedies. We strongly agree with the CMA's findings in relation to code governance. We will continue to work with the CMA and DECC in 2016-17 on remedies in this area.

## Embedded benefits

2.17. We are aware that small scale generators bring a range of benefits, including for security of supply, as they can help to meet peak demand by producing electricity when it is most needed. However, we are aware that small distribution connected generators receive an increasing level of benefits, which includes avoiding the generator transmission network charges and receiving payments from suppliers for helping them to avoid transmission charges for customers. We have previously expressed concerns that these arrangements are not fully cost reflective and continue to hold this view. Given the increasing scale of embedded generation and the increasing impact of distribution network flows on the transmission network, we are concerned that the lack of cost reflectivity of these arrangements could be having an increasing impact. However, we need to

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<sup>3</sup> Code governance review details: <https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work/code-governance-review>

consider the wider implications for consumers of making any changes to these arrangements, taking account of wider benefits provided by embedded generators.

2.18. We are currently considering the impact on consumers of changing the charging arrangements for distribution connected generators, whether there is a case for us to initiate any changes to the charging methodologies and how and when any such changes should occur. This includes whether any transitional arrangements are required. We have not yet reached a decision on this, but expect to set out a way forward on this matter in the summer.

**Deliverables**

Action	Quarter Due	Division
<b>D2.1</b> Provide an update for industry and stakeholders on flexibility work areas	Q1	Energy Systems
<b>D2.2</b> Announce our decision on the SCR in spring 2016	Q1	Consumers and Competition
<b>D2.3</b> Consult, as part of our publication 'Ofgem: Innovation and Regulation', on providing innovation spaces for experimentation	Q1	Improving Regulation
<b>D2.4</b> Work with industry to deliver changes to industry codes to enable cost-effective elective half-hourly settlement for small sites	Q4	Consumers and Competition

## 3. Effective Competition

3.1. We believe that effective competition in the energy market is the best way to protect consumers' interests, by driving efficiency and innovation. We welcome the Competition and Markets Authority's (CMA) provisional decision on remedies from its investigation into the operation of the energy market. We look forward to working with the CMA and industry to make sure that the remedies it decides upon succeed.

3.2. We continue to look at ways to enhance competition and market integrity within existing market rules, creating a clear, stable framework of market rules, ensuring barriers to entry are addressed and that our regulation does not impose unnecessary costs upon existing market participants. In the coming year we will have a strong focus on enhancing competition through projects that will transform how the market operates to the benefit of consumers. This includes how we regulate retail suppliers and how customers can engage with the market, both in terms of how their bills are calculated and how quickly they can change suppliers. We will also continue our work extending where competition can be used to benefit end consumers, through our work on tendering for onshore and offshore infrastructure projects.

3.3. However, given the essential nature of energy as a service, it is also necessary to protect consumers against inadequate standards of conduct. It is therefore important that we are prepared to intervene to take steps to ensure that markets deliver for consumers, including ensuring vulnerable consumers have the right levels of protection. Our work will include monitoring what is happening in the market and, where necessary, taking enforcement action under our competition, licence and consumer protection powers when we see behaviours that are inconsistent with fair competition or putting the interests of consumers first.

### Activities

#### Future retail regulation

3.4. There are a range of developments on the horizon which will transform how retail energy markets operate. These include the growing role of third party intermediaries in empowering consumers, alongside the platform of smart metering facilitating the development of innovative products, offerings and services. We want to ensure that the regulatory framework enables positive change while continuing to protect consumers. We are therefore committed to reducing our reliance on prescriptive rules and moving to a greater reliance on principles and outcomes.

3.5. In December 2015, we took our first step on this journey and published our consultation on how to implement principles-based regulation. We aim to respond to this consultation as soon as possible, including setting out priority areas for a move to principles. We also intend to develop and consult on a set of principles later in the year.

## Switching programme

3.6. The objective of the switching programme is to improve customers' experience of switching. The rationale is that designing and implementing a new, reliable, fast and cost-effective switching process will lead to consumers being more engaged in the retail energy market. In turn, this will build consumer confidence and facilitate competition, delivering better outcomes for consumers. The programme is an opportunity for Ofgem, government and industry to work in partnership to design and deliver new arrangements that help rebuild consumer trust and engagement in the energy market.

3.7. We are establishing a central team to lead the cross-industry programme and develop the new arrangements. However, suppliers, networks and the Data and Communications Company will all have to establish their own internal change programmes to update their own systems to interface with the new centralised registration systems and associated rules. We will publish the first design baseline for the Blueprint phase in Q4.

## Market Investigation Reference

3.8. We will continue to support the work of the CMA as it concludes its Energy Market Investigation. The CMA expects to produce its final report in June 2016. This is likely to include recommendations for Ofgem to carry out work to implement remedies. The areas involved will depend on the CMA's decision, but could include changes to aspects such as tariff rules introduced under the Retail Market Review, and code governance. Where the CMA proposes to implement remedies itself (via an Order), it can carry out further work following its final report. In this case, we will continue to provide information and advice to the CMA to help it with its work.

## A continuing commitment to involve consumers

3.9. Consumer research shapes our regulatory interventions and ensures that the consumer voice is heard when we are considering policy options. In the coming year we will continue to put consumers at the heart of our regulation through more innovative, diverse and ambitious consumer research. We will look to understand the priorities, views and experiences of a wide range of energy consumers, including vulnerable consumers and businesses. The high quality consumer data and insight that we provide will complement other approaches such as economic analysis and market monitoring, to ensure that policy is driven by evidence that will withstand public scrutiny.

3.10. In addition, we want to advance our work on behavioural insights. Increasingly, governments and regulators are using this when designing policies or making regulatory interventions and we want to be at the leading edge. Designing interventions that work with the way consumers really behave rather than the way we think they ought to behave means that the interventions are more likely to be successful. It builds hard evidence that will apply to future regulatory interventions too. In markets where we want consumers to engage, this includes considering the best default outcomes for consumers who do not engage.

## Compliance and enforcement

3.11. We will progress new and ongoing cases across the range of our powers, including enforcing licence conditions, competition law, and the Regulation on Wholesale Energy Markets Integrity and Transparency (REMIT).

3.12. We will investigate issues of concern according to our prioritisation criteria. We have specific annual enforcement priorities<sup>4</sup> which let us target specific areas and issues in the market<sup>5</sup>. We are considering the right enforcement priorities for the year ahead, and these will be decided by the Authority in spring 2016.

3.13. We will assess whether we have the right tools and powers to deliver credible deterrence and compliance. We will look for opportunities to strengthen and develop these as necessary, and consider how these might evolve in the context of a move toward more principles-based regulation.

3.14. Using our published redress principles<sup>6</sup> we will decide whether to approve company's proposals for allocating voluntary consumer redress payments in the context of enforcement investigations conducted under our Gas and Electricity Act powers. We will assess whether further mechanisms can be introduced to promote transparency and confidence in the allocation of these payments.

## Wholesale market integrity and transparency

3.15. We want transparency and trust in the wholesale energy markets. We will increase our monitoring and engage with relevant parties to make them aware of their obligations under REMIT. Where appropriate, we will publish further guidance. We will continue to speak with the Agency for the Cooperation of Energy Regulators and other national and financial regulators to coordinate policy views and actions, where required.

## Microbusiness regulation

3.16. The focus of our non-domestic regulation over the next year will be on implementing any potential CMA remedies that affect microbusinesses. We will then consider the needs of microbusinesses and whether any change in the regulatory arrangements could complement the CMA's remedies and lead to even better outcomes for consumers. Our monitoring will continue through publishing our annual non-domestic consumer survey and assessing compliance with, and the effectiveness of, our policies.

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<sup>4</sup> Our annual enforcement priorities for 2015-16 (issued in June 2015):

<https://www.ofgem.gov.uk/publications-and-updates/annual-enforcement-priorities-2015-16>

<sup>5</sup> Our enforcement guidelines: <https://www.ofgem.gov.uk/publications-and-updates/enforcement-guidelines> and our REMIT procedural guidelines: <https://www.ofgem.gov.uk/ofgem-publications/95464/remitproceduralguidelines23june2015-pdf>

<sup>6</sup> Our published redress principles: <https://www.ofgem.gov.uk/publications-and-updates/open-letter-guidance-allocation-voluntary-redress-payments>

### Onshore transmission competition – extending competition in transmission (ECIT)

3.17. We are consulting on how to tender out new onshore electricity transmission infrastructure projects worth £100m or more from 2017. We consider that using tendering to select a party to construct and own some new onshore projects is likely to create cost savings for consumers. 'New onshore electricity transmission infrastructure projects' in this context refers to either brand new overhead lines, cables or substations, or a complete replacement of existing overhead lines, cables or substations. Additionally, projects will only be tendered if it is possible to clearly delineate ownership boundaries so that it is clear who is responsible for each asset.

3.18. In 2016-17, we will continue to develop the detailed design of the regime (eg the tender models) and associated proposals for changes to legislation and licences, working with DECC as appropriate.

### Offshore tenders

3.19. We will continue to manage the offshore transmission competitive tender process to appoint offshore transmission owners (OFTOs). In the first half of 2016-17 we expect to complete the third tender round of OFTO projects, the first under the enduring regime, bringing the total investment to date to just under £3bn and connecting over 4.3GW of offshore wind generation to the onshore grid. The process for tender round four will begin in April 2016 and it is expected that tender round five will commence later in 2016-17 – with both rounds combined representing over £2bn of transmission investment and connecting over 2.5GW of offshore wind generating capacity.

3.20. We will continue to manage the tenders and transaction process so that OFTO projects can be successfully concluded, and expect to reach financial close for the final tender round three project during the first half year, and tender round four thereafter. We will also continue to engage with offshore wind farm developers interested in considering the flexible OFTO Build framework which we published during 2015-16, and which could create benefits for delivering offshore wind farm connections at lower overall cost.

### Local energy

3.21. In response to our non-traditional business models consultation in 2015-16 stakeholders identified local energy as a key emerging energy system trend. We will explore how local energy interacts with the regulatory regime and whether changes are required in order to unlock consumer benefits. We will publish a discussion paper before the end of Q4 2016-17.

## Deliverables

Action	Quarter Due	Division
<b>D3.1</b> Commence Offshore Tender Round four	Q1	Networks
<b>D3.2</b> Priority service register statutory consultation for supply licence conditions	Q1	Consumers and Competition
<b>D3.3</b> Enforcement priorities for the year ahead will be decided by the Authority in spring 2016	Q1	Improving Regulation
<b>D3.4</b> Response to consultation including setting out priority areas of the supply licence for a move to principles-based regulation	Q1	Consumers and Competition
<b>D3.5</b> Consult on non-domestic objections review	Q1	Consumers and Competition
<b>D3.6</b> Publish our third annual 'enforcement scorecard'	Q1	Improving Regulation
<b>D3.7</b> Consult on mechanisms for the allocation of voluntary redress payments in the context of enforcement investigations	Q1	Improving Regulation
<b>D3.8</b> Grant final licence in OFTO Tender Round three	Q2	Networks
<b>D3.9</b> Publish consultation on detailed arrangements for introducing competitive tenders for onshore transmission	Q2	Networks
<b>D3.10</b> Annual enforcement conference to share perspectives on enforcement and compliance	Q2	Improving Regulation
<b>D3.11</b> Commence Offshore Tender Round five	Q3	Networks
<b>D3.12</b> Consultation on supply licence principles	Q3	Consumers and Competition
<b>D3.13</b> Publish first design baseline on Switching Programme blueprint phase	Q4	Consumers and Competition
<b>D3.14</b> Discussion paper on local energy	Q4	Improving Regulation
<b>D3.15</b> Publish annual review of interest during construction for generator build offshore transmission projects	Q4	Networks
<b>D3.16</b> Publication of our annual non-domestic consumer survey	Q4	Consumers and Competition

## 4. High Standards of Outputs and Protection

4.1. Given the essential nature of energy, we expect all electricity and gas companies to offer a high quality service and ensure suppliers place customers at the heart of their business. It is right that consumers share this expectation and are protected by standards.

4.2. We set standards and obligations as part of the market and regulatory arrangements. This ensures that companies meet requirements in line with wider societal objectives, and lets us monitor and enforce if necessary.

4.3. As part of our role in administering government social and environmental schemes, we are able to use our administrative tools to make sure standards are maintained. By administering the schemes in the most economical and consumer-conscious ways possible, and by providing input into DECC's ongoing development of the schemes, we are making a positive difference for consumers. There have been a number of changes to the decarbonisation schemes that we administer on behalf of government. We have been working with government, industry and stakeholders to put these changes to the renewable heat and electricity schemes in place as effectively as possible.

4.4. We will continue to use the enforcement powers and tools at our disposal to ensure that businesses operate in ways that recognise that energy is an essential service. We will monitor the standards that are delivered and ensure that the framework we have in place is effective.

### Activities

#### Consumer empowerment and protection in a smarter market

4.5. The Consumer Empowerment and Protection project<sup>7</sup> aims to ensure that consumers can participate effectively in a 'smarter' retail energy market, recognising the opportunities and risks involved. Last year we worked on smart billing and smart prepayment as part of phase 1. In light of the outcome of the Competition and Markets Authority's (CMA) market investigation, we will consider what issues to focus on for phase 2 and will engage with stakeholders to understand which aspects to take forward and when. A likely area of focus will be the regulation that applies to smart (eg time-of-use) tariffs. This links to our work on flexibility.

#### Smart meter rollout

4.6. In early 2016 we will receive suppliers' formal plans to roll out smart meters by 2020 in accordance with government legislation. During 2015 we engaged suppliers in a 'dry run' exercise as we wanted to see whether they had solid plans in place to meet their annual milestone targets. These targets will be

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<sup>7</sup> Consumer empowerment and protection project details: <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme>

formal and binding from 2016 onwards. We will start to monitor suppliers' progress towards their targets during 2016 with progress reporting starting in early 2017.

4.7. We will continue to regulate suppliers' delivery of the government's plans to engage consumers during the smart meter rollout. These include the delivery of Smart Energy GB and the Smart Metering Installation Code of Practice (SMICOP) obligations set out in licence conditions. Smart Energy GB is the national campaign for the Smart Meter rollout and details of the SMICOP can be found in the link below<sup>8</sup>. We will also continue our observer role in the Smart Energy GB Board and SMICOP Panel.

### Consumer vulnerability strategy

4.8. In September 2015 we published the consumer vulnerability strategy update report. The report outlines our impact for consumers in vulnerable situations since we published our strategy in 2013. It covers our updated approach and work plan on fuel poverty and vulnerability.

4.9. Our priorities for 2016-17 are to implement the outcomes of the Priority Services Register review and the Prepayment Meter review. We will continue to support and lead on the UK Regulators Network's vulnerability work to identify cross sectoral synergies.

4.10. We will report on the suppliers' social obligations performance as well as considering a more principles-based approach through the future retail regulation project. We will also continue to support consumers to reduce their energy costs, enhance awareness and promote stronger financial capability through our successful partnership with the Citizens Advice Energy Best Deal. Our work priorities will be underpinned by market monitoring including compliance monitoring.

### Security of supply

4.11. We are committed to working with National Grid to ensure it has the tools necessary to meet high standards for security of supply. This work is particularly important to ensure that National Grid is able to meet the challenges of tighter electricity margins during the mid-decade winters. We will continue to oversee National Grid's use of new balancing services (Supplemental Balancing Reserve and Demand Side Balancing Reserve) to ensure that they deliver value for money for consumers.

### Ongoing monitoring of guaranteed standards

4.12. We will monitor suppliers' implementation of the new guaranteed standards regime, ensuring that information about suppliers' performance under each of the standards is published consistently and transparently. We will also monitor distribution network operators' (DNOs) implementation of the increased

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<sup>8</sup> Smart metering installation code of practice:  
[https://www.ofgem.gov.uk/sites/default/files/docs/2013/04/smart\\_metering\\_installation\\_code\\_of\\_practice\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2013/04/smart_metering_installation_code_of_practice_0.pdf)

payments under the new regime as part of our monitoring of their performance under RIIO in reducing interruptions.

### Supplier objections

4.13. Last year we started reviewing the circumstances in which suppliers might object to domestic and non-domestic customers switching. We found many areas where we need more information from suppliers to inform our policy conclusions. We will finalise our assessment of the objections regime to see if the current arrangements could be improved to make it easier for consumers to get the best deal. If our work assessing the objections regime indicates that changes are the best way forward, we will implement them in 2016.

### Company performance monitoring

4.14. We will continue to publish information about suppliers' performance to let consumers make effective switching decisions. We will work closely with the Energy Ombudsman and Citizens Advice to ensure that information is relevant, comparable and consistent, and will look to coordinate publication where we can.

### Ombudsman and company complaints handling

4.15. The review of the Ombudsman scheme, published on 23 September 2015<sup>9</sup>, found that several improvements could be made. We will work with the Ombudsman to make sure these are implemented so that consumers can benefit from an effective redress scheme and to drive improvement in company complaints handling. We will also publish the results of our latest survey of customers' satisfaction with suppliers' complaints handling. These will be reviewed against the commitments suppliers made to improving performance last year.

### Third Party Intermediary regulation

4.16. In 2016 we will work closely with the CMA to help implement remedies that affect Third Party Intermediaries (TPI). We will also continue to develop our TPI regulatory tools, provided that this work does not cut across the CMA remedies. For TPis dealing with business consumers, we will evaluate and develop the Code of Practice. For Price Comparison Websites, we will improve accreditation and audit processes.

4.17. The intermediary landscape continues to develop rapidly, with new business models and routes to market. We also see intermediaries playing a central role in helping deliver the benefits of smart meters to consumers. In 2016 we will commence work to implement a robust and flexible regulatory framework for intermediaries to protect consumers and promote competition, consistent with our approach to future retail regulation.

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<sup>9</sup> Review of Ombudsman Services - Energy:  
<https://www.ofgem.gov.uk/publications-and-updates/review-ombudsman-services-energy>

### Improving the connection process

4.18. We are exploring how the connections process could be improved. This includes making better use of existing capacity on the network and finding ways to make investment in new capacity for connections earlier. We are also assessing how well DNOs understand the requirements of new generators connecting to their networks and whether they are taking appropriate steps to ensure that grid capacity does not constrain growth.

### Project Nexus

4.19. In 2015 we established project governance and assurance arrangements to oversee Project Nexus, a major cross-industry programme to replace gas settlement systems and improve the associated business processes. We are playing an active role on the industry steering group overseeing the programme through to implementation. The new systems are due to go live in October 2016.

### Sector resilience

4.20. We will keep under review our ring-fence arrangements to ensure they are robust and we can deal with any financial distress in companies we regulate. We will also continue to work with DECC on energy sector resilience, considering both physical and cyber security.

### Key initiatives planned for environmental schemes

4.21. In 2016-17 we will continue to monitor and enforce compliance by scheme participants and suppliers with the obligations that apply to them. This plays its part in ensuring that government policy targets are met, that consumers are protected and that schemes are delivering value for money.

4.22. For example, under the Warm Home Discount (WHD) we ensure that domestic energy suppliers are meeting their obligations by helping nearly 2.2 million vulnerable customers a year through the provision of electricity bill rebates and indirect support for consumers at risk of fuel poverty. We are working closely with industry and DECC to develop the park homes initiative beyond the pilot stage, for delivery under the WHD. This will provide support to a specific group of vulnerable consumers who had not previously benefitted under the scheme.

4.23. Under the Energy Companies Obligation we have engaged with Dr Peter Bonfield's 'Every Home Matters' review. We will monitor the outcomes of the review and ensure that we continue to work with stakeholders to drive improvements in energy efficiency installation quality and to ensure that only eligible energy efficiency measures are counted.

4.24. Our renewable heat and electricity schemes have audit strategies in place which ensure that compliance by scheme participants is rigorously audited, based on market intelligence. For example, during 2015-16 we successfully carried out a round of site audits for micro scale stations under the Renewables Obligation in Northern Ireland, which will be repeated in 2016-17. Under the Non-Domestic Renewables Heat Incentive, our audit approach measures both targeted and statistically sampled audits. This approach enables us to identify a more realistic view of non-compliances and is proven to be cost-effective. We will continue to

review our audit strategies and update them in line with scheme changes, to ensure they provide the highest standard of protection.

4.25. We constantly strive to improve the security and efficiency of our application processes under the renewable heat and electricity schemes. This ensures a quality customer experience whilst minimising the risk of fraud and protecting public money as only applicants that meet the eligibility criteria are accredited. Across all schemes, proactively detecting and preventing fraud is a key area of focus. Where we find evidence of fraud we use our administrative tools to pursue action and liaise with prosecuting authorities and certification bodies where appropriate.

**Deliverables**

Action	Quarter Due	Division
<b>D4.1</b> Take forward the results of our analysis of domestic supplier objections and publish our next steps	Q1	Consumers and Competition
<b>D4.2</b> Commence work to implement a robust and flexible regulatory framework for intermediaries to protect consumers and promote competition, consistent with our approach to future retail regulation	Q2	Consumers and Competition
<b>D4.3</b> Work closely with the CMA to help implement those remedies that affect Third Party Intermediaries	Q2	Consumers and Competition
<b>D4.4</b> Publish our research of customers’ satisfaction with suppliers’ complaints handling	Q2	Consumers and Competition
<b>D4.5</b> Domestic suppliers’ social obligations annual report	Q2	Consumers and Competition
<b>D4.6</b> Prepayment meter final decision on proposed changes (ie not taking into account supply licence condition implementation effective from date)	Q2	Consumers and Competition
<b>D4.7</b> Supplier reporting of progress towards smart meter targets commences	Q4	Consumers and Competition

## 5. Partnership with Government and Stakeholders

5.1. As an independent regulator, we have an important role in getting the best deal for consumers. We have good relationships with consumer groups of all sizes, with industry, and have been listening to and giving views to the new government. We are continually engaging with other partners, such as National Grid, other regulators and devolved administrations to bring about the right results.

5.2. From our offices in Glasgow and Cardiff we will continue to engage with the Scottish and Welsh governments and with elected representatives in Holyrood and Cardiff Bay. With elections to the Scottish Parliament and the Welsh Assembly in May 2016 we are preparing a new programme of engagement to make early contact with the new governments and key energy Committees. Through our regular contact programme we aim to keep politicians and their staff up-to-date with the work we do to protect the interests of gas and electricity consumers. We will, of course, continue to give evidence to Committees of the Scottish Parliament and Welsh Assembly on our work and on energy issues where requested. But we are keen to go beyond this, and during 2016 we will look to provide newly elected representatives with an opportunity to meet with us on a one-to-one basis.

5.3. We are also planning to engage more widely with stakeholders in Scotland and Wales, playing a more active part in energy conferences, events and workshops. We are now engaging more directly with the academic community in Scotland and Wales and will build on this sharing of expertise in ways which help to make a positive difference for energy consumers. To this end we will continue to sit as observers on forums advising the Scottish and Welsh governments on energy efficiency and fuel poverty.

5.4. Within our role we will work to support the implementation of new energy powers transferred to Scotland and Wales under the Scotland Bill and the Wales Bill. Subject to the provisions of the Scotland Bill as enacted we will, for the first time, present a copy of our Annual Report and Accounts for 2015-16 to Scottish Ministers on a formal basis. This is, however, not a new development. Although we have not been obliged to do so before now, it has been our practice to place copies of our Annual Report and Accounts before the Scottish Parliament and the Welsh Assembly in recognition of their strong interest in energy issues and the close interaction with areas of devolved policy. We will build on our existing work to include still more detail on Scotland and on Wales. We will also publish a copy of our Annual Report and Accounts in the Welsh language.

5.5. As in the past, the Gas and Electricity Markets Authority will also host an event in Scotland and in Wales during 2016 to discuss energy issues with key political, industry, consumer and business stakeholders.

5.6. We remain committed to engaging with a wide range of stakeholders on our work in a transparent and open manner. Through listening to stakeholders' views and concerns and drawing on our own research, we are able to make well-informed choices on how we frame and take forward our activities. Our specific

plans in this regard are set out in other chapters, against our key delivery priorities.

5.7. In 2016-17, E-Serve will continue to focus on delivering environmental schemes and consumer and social programmes on behalf of government. We will work with government and stakeholders to improve the schemes we administer so that they stimulate investment and encourage greater use of renewable technologies. We are also working with a growing number of delivery partners across government, adding value to their operations by sharing our knowledge and expertise.

## Activities

### Smart grids

5.8. The DECC/ Ofgem Smart Grid Forum (SGF) was created by DECC and Ofgem to support the UK's transition to a secure, safe, low carbon, affordable energy system. The main issue discussed at the DECC/ Ofgem SGF is how electricity distribution network companies will address new challenges decarbonising the electricity supply. We will use the Forum to help take forward our work on flexibility and smart grids.

### Consumer Engagement

5.9. The 'Be An Energy Shopper' campaign was launched in April 2014 to help customers to understand their bills and take steps to find their best energy deals. The campaign has been very well received by stakeholders and the website [www.goenergysshopping.co.uk](http://www.goenergysshopping.co.uk)<sup>10</sup> has attracted a million visits. We continue to promote the campaign through digital and radio advertising, PR and social media to as many domestic energy customers as possible and work with stakeholders to widen our reach, particularly for off-line customers.

### Future of gas

5.10. We will be doing more work on the future role of gas in the energy mix and, importantly from a RIIO perspective, the impact of energy policy on the future role of gas networks. We will continue to work in relation to the Oban project which is considering the challenges and opportunities of widening the gas specification in GB, and considering changes that help unconventional gas including biomethane be used more widely in the energy mix.

### EU coordination and engagement

5.11. Throughout 2016-17, we will continue with a number of European initiatives to deliver a competitive, secure and sustainable single energy market that benefits British consumers. Our engagement in Europe will remain crucial, with the Commission's "Energy Union" initiative putting energy high on the European agenda. An ambitious framework is being set for a new energy market design and governance, focusing more on retail markets and flexibility. It is vital

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<sup>10</sup> The "go energy shopping" website: <http://www.goenergysshopping.co.uk/>

that we continue over the next year, as legislation is proposed and developed, to influence, understand and engage across Europe so that policy is informed by a clear focus on the consumer outcomes we want.

5.12. As the European Commission continues to push forward with new EU energy policy initiatives, we will continue to influence policy direction through our membership of, and central role within, the European regulatory bodies: the Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER). We will continue to work through these bodies with the EU institutions, industry and fellow regulators to implement new rules (in the form of European network codes) and develop infrastructure in a coordinated way. We expect to play an active role in delivery of much of the CEER/ ACER work programmes, including papers on cross border participation in capacity remuneration mechanisms; on effective market monitoring; and on renewable support mechanisms. We will also continue working with other EU stakeholders and GB industry to make sure they understand the many new initiatives and changes to existing GB market rules coming from Europe-led policy.

5.13. It is important that we are at the forefront of the debate on areas such as the future of smart grids, and work to ensure decisions taken at European level benefit GB consumers. This includes roles in the CEER Distribution System Operators Working Group, the Smart Grids Coordination Task Force and the Flexibility Task Force. We work closely with the European Commission on smart grids and flexibility issues through the Commission's Expert Group 3 task force.

5.14. We need to influence new rulemaking that will affect the development and use of gas network infrastructure: (i) new pan-European gas quality standards, (ii) finalising harmonised gas tariffs rules, (iii) frameworks for public co-financing of new infrastructure projects ("Projects of Common Interest"). We will also remain engaged on the reforms to EU regulations on gas security of supply and the implications for our cross-border gas network infrastructure.

### EU regulation and network codes implementation

5.15. We will remain focused on taking forward our work on the European Network Codes, a suite of binding European laws which promote competition, efficient use of transmission capacity, integration of energy markets and the harmonisation of rules for the operation of transmission and distribution networks. As the last of these codes are finalised and in force, our focus will be on working with DECC and industry, as well as other European regulators, to ensure we implement them proportionately and promptly. Over the next 12 months this will involve making seven decisions on detailed aspects of the rules for cross border electricity trading and market integration (such as how to calculate cross border capacity). These methodologies, which will be drafted by Transmission System Operators (TSOs), require agreement by consensus among all European regulators (or decisions are made by ACER) and will therefore require Ofgem to assess whether proposals are in the interests of British consumers and to work with our regulatory colleagues across Europe.

5.16. Other aspects of network code implementation will involve making multiple changes to GB industry arrangements, licences and legislation. We will work with DECC and industry to ensure we implement the codes in a proportionate and timely manner, as well as working closely with our fellow European regulators. This will also involve managing multiple changes to existing GB industry

arrangements, licences and legislation where necessary. Among other things this will include, for each network code, deciding which of Britain's TSOs will need to comply with each article of the new law.

5.17. We have recently worked with industry to streamline opportunities for engagement on European regulatory issues, including network codes. We will continue to keep this approach under review and to ensure that changes are clearly communicated, that parties have opportunities to engage with the process of developing policy at European level and that the changes to GB frameworks required to implement European laws are coordinated and effectively delivered.

### UK regulators network

5.18. We participate in the UK regulators network (UKRN), the collaborative vehicle for joint working between the UK's economic regulators. In 2015 we led two significant UKRN projects to conclusion: the second phase of the Affordability project, to examine factors which may affect consumer bills over the next ten years, and the Cross-sector Infrastructure project, to put in place a set of measures to make it easier for developers to engage with network operators.

5.19. In 2016-17 we will continue to contribute across UKRN's workstreams including to the standing group that considers cost of capital issues across sectors. From April 2016 we will take on leadership of UKRN when Dermot Nolan becomes Chair of the UKRN CEOs' group.

### Key initiatives planned for environmental schemes

5.20. E-Serve will continue to administer and deliver a range of social and environmental schemes on behalf of government, including the Domestic and Non-Domestic Renewable Heat Incentive (RHI), the Renewables Obligation (RO), the Feed in Tariff (FIT), the Energy Companies Obligation (ECO) and the Warm Homes Discount (WHD).

5.21. We have worked with DECC on streamlining the memorandum of understanding we agreed in March 2013. We will look at how to improve the relationship further, and work more collaboratively to deliver the government's policy objectives. As always, we will work closely with DECC, Northern Ireland's Department of Enterprise, Trade and Investment and the Scottish government to ensure that any changes they make to existing schemes, or any new schemes, can be implemented easily and administered cost effectively.

5.22. For example, under ECO we have already delivered the closedown of the ECO1 scheme and introduced ECO2, working closely with stakeholders to ensure a smooth transition. We approved over 1.4 million measures under ECO1, such as insulation and heating packages, which have benefitted low income and vulnerable households. In 2016-17 we will continue to work with the delivery chain to identify and further clarify our processes, to reduce the administrative burden and to prepare them for changes to their obligations from March 2017.

5.23. In 2016-17, there will be more changes across the renewable electricity schemes. We have worked closely with DECC to help move the FIT from being a demand-led to a capacity-led scheme. There will be more changes to what is considered eligible under the RO scheme, so we will be providing guidance and workshops to help explain the changes. Our experience in administering

renewable electricity schemes means we are recognised as the best party to support the Low Carbon Contracts Company (LCCC) on suitability and fuel measurement and sampling. This work will continue in 2016-17.

5.24. Across our renewable heat schemes, we will continue to seek feedback from stakeholders to help us to improve our administration. Under the Non-Domestic RHI we will continue to work with stakeholders, including customers and the supply chain, to better understand their needs. Under the Domestic RHI, we will work with relevant authorities to raise consumer protection issues and protect consumers from substandard traders and installers.

5.25. We will work with energy companies, consumer groups, scheme participants and other stakeholders to ensure that schemes are delivered in the most economical and consumer-conscious ways possible. We will do this through meetings, consultations, workshops and surveys, providing stakeholders with the opportunity to give us feedback while we keep them informed with latest developments.

**Co-location and shared functions**

5.26. We will work with government and other economic regulators to review the business case feasibility and implementation issues around co-locating and sharing back office functions across regulators.

**Deliverables**

Action	Quarter Due	Division
<b>D5.1</b> UKRN annual conference	Q1	Improving Regulation
<b>D5.2</b> Deciding on the structure of European Capacity Calculation regions. This is the first of the decisions on detailed terms and conditions required by the Capacity Allocation and Congestion Management network code and must be agreed by all of Europe’s National Regulatory Authorities.	Q1	Energy Systems
<b>D5.3</b> Providing input to business case and implementation issues around co-locating and sharing back office functions	Q2	Corporate Functions
<b>D5.4</b> Providing detailed comments and suggestions in response to European Commission proposals for a “new Electricity Market Design” and enhanced Gas Security of Supply policies	Q3	Energy Systems

## 6. Trust and Confidence

6.1. Trust and confidence in the energy market is key to ensuring that the competitive framework delivers benefits, particularly through greater consumer participation, and that network regulation delivers effectively. Building this level of trust is an important component of our work as an independent regulator.

6.2. We will work with the Competition and Markets Authority (CMA) and the industry to implement the recommendations set out in the CMA's final report on the operation of the market, which will provide a positive basis to begin to rebuild trust. We will continue to build trust by ensuring consumers and their representatives have access to well targeted advice and information, whether through data we publish ourselves, partnership with other organisations, or requirements on the industry to provide transparency. We will build on our work to ensure a clear line of sight on prices, costs, profits and customer service, publishing or highlighting supplier information where this supports consumer choice and engagement in the market.

6.3. On the networks side, we have taken steps through RIIO to provide access to more information on regulated company performance, whether direct from the companies or through our publications. Customers' interests are best served by ensuring the regulatory framework is well understood by investors and risks are allocated with the part of the industry best able to bear them. This helps ensure that outputs are delivered, finance is available and that the cost of capital remains at efficient levels and hence customer bills are no higher than they need to be. We will continue to ensure that we have engaged constructively with the investment community.

6.4. We have received good feedback from stakeholders on the improvements made to E-Serve's transparency and accountability and remain committed to making further improvements during 2016-17. By being more open and transparent, particularly through the publication of more information and statistics about the schemes, we hope to continue to build stakeholder trust and confidence in what we do.

### Activities

#### Security of supply

6.5. We will continue to monitor market fundamentals on a day to day basis and analyse potential implications of any market movements on security of supply of both gas and electricity. We will engage with DECC and National Grid to address any potential issues identified through our monitoring. We will also continue to monitor security of supply of both gas and electricity. We will ensure that our market arrangements are delivering secure supplies for GB consumers. Following on from our previous publications on security of supply, we will continue our analytical work to assess any potential risks to electricity security of supply in the coming years.

6.6. We will scrutinise the analysis carried out by National Grid Electricity Transmission (NGET) on the volume to procure for each Capacity Market auction. This may include specific areas requested by DECC and ensuring that NGET takes

up advice given by the Panel of Technical Experts. We can add significant value for consumers by utilising our expertise in this area, helping to make the analysis robust and avoiding excessive costs for consumers or a lack of secure electricity supply.

### Liquidity report

6.7. Secure and Promote was introduced as a special licence condition in obligated parties' generation licences. It was designed to help them access the wholesale electricity market, and to ensure the market provides the products and price signals needed so that they can compete effectively. We published our first annual assessment on the impact of Secure and Promote in September 2015. The report showed the results of our monitoring since the start of Secure and Promote in Q2 2014. We will continue to monitor liquidity in the market and how independent suppliers are able to access the products they need to compete effectively. We will publish our views in reports in 2016 and 2017. All of this work will feed into our preparations for the review of the effectiveness of the licence condition.

### Market monitoring

6.8. In 2016 we will publish our second annual Retail Energy Market report. It will look at how well the retail market is delivering the strategic outcomes in our corporate strategy. It will draw on market indicators to show key trends on the supply and demand sides of the market. Building on last year's analysis, the report will also look at the impact of some of our retail market reforms over the past two years. The report will take account of the findings of the CMA's market investigation.

6.9. We will continue to monitor the wholesale market to assess how well it is delivering for consumers, and that industry participants are complying with market rules. We will continue to update the Wholesale Market Indicators that we publish regularly on our website, and will publish an updated Wholesale Energy Market Report in 2016.

6.10. Part of our monitoring work will include an assessment of the 'cash-out' rules we changed as part of the Significant Code Reviews in both gas and electricity. These changes, which came into force in winter 2015-16, will be closely monitored to gauge the impact they have had on the market. Considering their effectiveness will be key to understanding how secure GB supply is. We will also continue to closely monitor the impact of liquidity reforms in electricity through the 'Secure and Promote' licence condition. Each quarter, we will publish liquidity metrics for both gas and electricity on our website.

### Closed account credit balances

6.11. Following the analysis of monitoring information we are receiving from energy companies about returning closed account money to consumers, we will consider whether further action is required.

### Determinations and derogations

6.12. We have a statutory duty to handle requests for determinations if they fall within our powers. Determinations can arise if a customer is in dispute with a network company and they typically concern the charges of providing a customer

with a new connection to the network. We manage this process and any policy issues that arise.

6.13. We also handle occasional requests from licensees to derogate from certain licence conditions. This may be on a temporary basis, for example to deal with new types of gas and when certain factors outside of their control make it impossible to fully comply.

### Key initiatives planned for environmental schemes

6.14. Over the last year we have worked hard to improve trust and confidence in the schemes we deliver by making sure they are transparent and accountable. This has been possible because of the strong transaction and regulatory processes we have in place and effective communication with stakeholders.

6.15. On our website, we publish information about what we do and over the last year we have made improvements to help stakeholders to find the information they want more easily. We have introduced website publication libraries for each of the schemes to help users search for documents and have published interactive charts. We have also rolled out new electronic newsletters for each of the key schemes, to keep stakeholders up to date with all the latest developments.

6.16. Under the Feed in Tariff (FIT) and Renewables obligation (RO) schemes, the information we publish includes data on accredited installations and new tariff caps as well as annual reports. This information helps inform stakeholders of progress towards the new caps and scheme uptake. Our renewable heat schemes also publish quarterly and annual reports that provide information about our administration of the schemes and uptake of different technologies.

6.17. We also report on our energy efficiency and social programmes. Under the Energy Companies Obligation (ECO) we have improved our reporting on ongoing scheme progress, including the final determination report on ECO. We will also carry out the Government Electricity Rebate (GER) and Warm Homes Discount (WHD) end-of-year assessments of suppliers and will produce annual reports on the delivery of WHD and GER.

6.18. Last year we set up a group to look at the information we hold and how we could make it more accessible, such as through an online mapping tool. Our objective is to provide regional/ constituency level information on metrics as diverse as technology type installed, installed capacity and energy efficiency measures installed. We will continue to build on the momentum of this initiative in 2016-17.

6.19. Another development for 2016-17 will be launching a customer satisfaction measurement tool for transaction-based schemes. We want to ensure that we are doing all we can to uphold the high standard of customer service that scheme applicants expect. The tool will allow customers to give feedback on their application experience, helping us to understand more about how we can improve it.

6.20. We will also continue to work with DECC and other bodies that fund the schemes to build trust through openness, professionalism and high-quality administration. We will do this by improving our reporting processes and engaging proactively.

## Deliverables

Action	Quarter Due	Division
<b>D6.1</b> Publish our second annual Retail Energy Market report	Q2	Consumers and Competition
<b>D6.2</b> Publish annual report on the Domestic Renewable Heat Incentive (RHI) scheme	Q2	E-Serve
<b>D6.3</b> Publish annual report on the Non-Domestic RHI scheme	Q2	E-Serve
<b>D6.4</b> Publish FIT annual levelisation process	Q2	E-Serve
<b>D6.5</b> Publish an updated Wholesale Energy Market report in 2016	Q3	Energy Systems
<b>D6.6</b> Publish annual report on the WHD scheme	Q3	E-Serve
<b>D6.7</b> Publish annual report on GER	Q3	E-Serve
<b>D6.8</b> Publish annual Liquidity report	Q3	Energy Systems
<b>D6.9</b> Publish annual report on the FIT scheme	Q4	E-Serve
<b>D6.10</b> Publish annual report on the RO scheme	Q4	E-Serve
<b>D6.11</b> Publish compliance progress reports against ECO	Monthly	E-Serve
<b>D6.12</b> Publish quarterly report on Domestic RHI scheme	Quarterly	E-Serve
<b>D6.13</b> Publish quarterly report on Non-Domestic RHI scheme	Quarterly	E-Serve
<b>D6.14</b> Publish liquidity metrics on our website for both gas and electricity	Quarterly	Energy Systems

## 7. Efficiency and Reduced Regulatory Burdens

7.1. Increasing the efficiency of our operations and reducing the costs we impose on industry, and therefore consumers, is an important consideration for Ofgem.

7.2. Being efficient means delivering as much benefit to consumers as possible with our limited resources. This involves not only doing more for less, but also making sure that we choose to do the things that have the greatest impact.

7.3. We aim to manage our activities strategically. This means that we will prioritise those activities that we expect to deliver the greatest value for consumers, both today and in the future. These decisions need to be based on a clear understanding of the current state of affairs and a well-developed view of the challenges of the future.

7.4. We will continue to invest in our capability, to make sure that our people have the right skills and expertise, and the right tools and systems at their disposal, to do the best job possible on behalf of consumers.

7.5. Our Strategic Transformation Programme (STP) is central to the improvement of our performance and efficiency. The programme's aim is to bring our strategy into effect, by focusing on improving the management of our people, processes and technology. Last year we reviewed our operating model and designed specific improvement projects around our organisational structure, systems, processes and governance. In 2016-17 we will continue to implement those changes.

### Activities

#### Optimising outcomes for energy customers

7.6. Across the organisation we are constantly reviewing the way we work and challenging ourselves to deliver the optimum outcomes for current and future energy consumers, while minimising the costs we impose on consumers and the industry. As part of the STP a new organisational structure was established and this structure will be embedded during 2016. The new structure will allow us to be more responsive to the needs of consumers and work in a more agile way. The divisions in the new structure ensure that we are better placed to fulfil the strategy of the organisation. The organisation is now arranged into the following divisions: Corporate Affairs, Improving Regulation, Consumers and Competition, Energy Systems, Networks, Corporate Functions and E-Serve.

7.7. We continue to set ourselves challenging budgetary targets to ensure that we are delivering value for money. Our budget for 2016-17 will be lower than last year, despite the scale and complexity of the initiatives we are planning to deliver.

7.8. In everything we do, we must regard the principles of better regulation. This means that our activities must be transparent, accountable, proportionate, consistent and targeted only where action is needed. We have a duty to keep our

regulatory functions under review and to make sure that when we exercise them we do not impose or maintain unnecessary burdens.

7.9. As our main delivery team, E-Serve is expert in operational design and delivery excellence. A culture of continuous improvement is fully embedded within E-Serve and initiatives are overseen by the work of our Operational Excellence Forum. In 2016-17 E-Serve will continue to lead the way in developing innovative process improvements that result in cost and time savings as well as quality improvements, to the benefit of scheme applicants and ultimately consumers.

### Reducing burdens

7.10. We support government's aim to reduce burdens on business. Regulating in effective, proportionate ways accords with the approach in our strategy and delivers the best value for consumers. We have a statutory duty to keep our activities under review and to publish an annual statement setting out what we have done and what we intend to do to reduce regulatory burdens. This statement is our Simplification Plan, which is published alongside this Forward Work Programme in March 2016.

7.11. We have worked closely with government on the development of requirements in the Enterprise Bill to extend the Business Impact Target (BIT) to our activities, including the new framework for sharing assessments of costs with the Regulatory Policy Committee. Our Simplification Plan 2016-17 gives more insight on which of our activities are in scope of the BIT, how considerations of business burdens are reflected in our planning and decision making and what this means for the businesses we regulate and the consumers they serve.

7.12. The Cutting Red Tape in energy report published in March 2016<sup>11</sup> sets out joint work between DECC and Ofgem to reduce burdens. DECC and Ofgem accept that fewer, more comprehensive requests and better sharing might remove pressure and are committed to find ways to streamline data and information requests. A working group will be formed to deliver this and will look at what requests are being issued, and seek to develop more streamlined and, where possible, shared approaches by summer 2016. DECC will also consider how to extend these principles relating to data requests to National Grid and code bodies.

### Strategic projects

7.13. During 2015 several projects were launched to improve business functions. A new approach to corporate planning and performance management aligns to strategic objectives and internal and external performance indicators which will be implemented in 2016. The combination of the improved management information and planning will enable us to target our resources and activities and measure our efficiency and performance against planned outcomes.

7.14. In 2016 we will continue to develop our knowledge management capability and build our body of corporate knowledge so that information across the organisation is easier to retrieve and access, and the lessons we've learned from past work are applied to future initiatives.

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<sup>11</sup>Cutting Red Tape in energy report: <https://cutting-red-tape.cabinetoffice.gov.uk/energy/>

7.15. We will also focus on improving our regulation through a new analytical excellence team. This team will provide central analytical support across the organisation, set out regulatory stances for use by staff when making key regulatory decisions, run a modelling network to ensure best practice, and develop Ofgem guidance to improve the robustness of modelling and the consequent decisions taken based on such modelling.

7.16. As part of the reorganisation, we are undertaking horizon scanning to understand potential changes in the sector and how our regulatory framework should best accommodate them. This will build on the learning from the non-traditional business models project and other work focusing on future regulatory arrangements. We will examine both the shorter-term actions required and also the implications of longer-term trends. We hope that stakeholders will play a central role in our horizon scanning.

7.17. The changes to our organisation will be embedded with a revised governance framework to ensure direction is clear, there is appropriate delegation and empowerment, and lines of ownership and accountability are transparent. This will be in place from April 2016. This organisation model is oriented to, and starts with, a clear strategic focus on delivering the best deal for consumers efficiently and effectively, as an exemplar of regulatory excellence. The structure and associated governance linked to robust delegation models will enable us to invest our resources wisely.

7.18. In 2016-17 we will continue to plan for an office move to more cost-effective premises. As part of this programme of work we will maintain a strong focus on achieving smarter working practices across the business, seeking to use technology which will reduce costs and increase efficiency.

### Key initiatives planned for environmental schemes

7.19. In our delivery of environmental schemes, E-Serve's aim is to achieve delivery excellence in all that we do. We do this by seeking cost, quality and efficiency improvements, ensuring value for money for consumers and the industry.

7.20. Under the oversight of the Operational Excellence Forum, operational excellence was launched within schemes during 2015-16. It built upon existing continuous improvement work and expanded it to ensure that all aspects of delivery excellence were brought together. This involved finding ways to reduce transaction costs, cut overall spending and enhance the quality of service received by scheme participants. There are a number of initiatives already underway and updates are reported to the E-Serve Board.

7.21. We will continue to embed this during 2016-17 with the Operational Excellence Forum helping to maximise cross-scheme opportunities, as well as sharing best-practice, to deliver operational savings and to optimise our processes. At the same time we will ensure that we continue to maintain the high levels of service that our stakeholders have come to expect.

7.22. We made a number of improvements last year, which we intend to build upon in 2016-17. For example, our Renewable Electricity team have delivered a streamlined application process for micro-scale applicants in Northern Ireland. Taking feedback from applicants we re-worded application questions to make

them more user-friendly and published factsheets with easy to access information. We also strengthened our dedicated application processing team in Glasgow, which has been very successful in tackling application peaks.

7.23. Under the Domestic RHI we have delivered significant efficiencies to the cost of our operation since scheme launch. We also implemented a change management system to further enhance our ability to effectively manage process and system improvements. In 2016-17 we will make further strides towards achieving an even higher automatic processing rate, reducing the number of applications that need to be reviewed manually.

7.24. Across our energy efficiency and social programmes we delivered significant cost reductions during 2015-2016 through administrative process improvements. During 2016-17 we will continue to work closely with stakeholders to identify improvements in scheme administration, making further cost reductions, whilst continuing to maintain high levels of service.

### Deliverables

Action	Quarter Due	Division
<b>D7.1</b> Further revisions to the Impact Assessment guidance	Q2	Improving Regulation
<b>D7.2</b> Publish regulatory stances	Q3	Improving Regulation
<b>D7.3</b> Publish consultation on the 2017-18 Forward Work Programme	Q3	Corporate Functions
<b>D7.4</b> Publish final 2017-18 Forward Work Programme	Q4	Corporate Functions
<b>D7.5</b> Publish Simplification Plan 2017-18 <sup>12</sup>	Q4	Improving Regulation

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<sup>12</sup> This deliverable may move to Q1 2017-18 to include statutory reporting under the Business Impact Target

## 8. Budgets and Spend

8.1. Our budget is funded by fees collected from licensed energy companies. The majority of E-Serve's funding comes from DECC but income is also received from other sources including the Northern Ireland Department of Enterprise, Trade and Investment (DETI) and electricity suppliers. We also receive a contribution from the Department of Environment, Food and Rural Affairs (Defra) to cover their proportion of the costs of running the headquarters building shared by Ofgem and Defra.

### Five year plan

8.2. Our estimated gross costs for the next five year period are set out below.

**Figure 1: Ofgem's expenditure**

£m	2015-16 planned	2016-17	2017-18	2018-19	2019-20	2020-21
Regulation of Network Companies and other Monopolies / Setting the Rules for Markets	23.6	23.4	22.5	20.9	21.4	21.0
Effective Competition	21.4	22.9	23.7	23.3	22.8	23.3
High Standards of Outputs and Protection	4.0	4.2	4.6	4.3	2.9	2.8
Partnership with Government and Stakeholders	4.8	4.7	4.4	4.0	4.2	4.2
Trust and Confidence	5.4	5.4	5.0	4.7	4.7	4.7
Efficiency and Reduced Regulatory Burdens	2.2	2.6	3.4	2.6	2.6	2.6
<b>Regulatory Sub Total</b>	<b>61.4</b>	<b>63.2</b>	<b>63.6</b>	<b>59.8</b>	<b>58.6</b>	<b>58.6</b>
E-Serve	26.1	23.5	22.2	22.1	21.4	21.4
Contingency	2.0	2.0	2.0	2.0	2.0	2.0
<b>Total</b>	<b>89.5</b>	<b>88.7</b>	<b>87.8</b>	<b>83.9</b>	<b>82.0</b>	<b>82.0</b>

8.3. Included in these costs is an allocation of corporate overhead. These costs represent our estimated future expenditure.

## Cost control regime

8.4. We have agreed with government a new five year framework for the period 1 April 2016 to 31 March 2021. It will take our total expenditure down to £82 million by 2019-20 representing a reduction in real terms of 15%. This is a challenging target and we have structured the organisation to deliver against our objectives, allowing us to prioritise and make the best use of resources at our disposal. Where we receive additional income for activities above that shown in Figure 1, subject to government approval this will be retained to fund the relevant activities. An example of this is where we are asked to undertake work on behalf of another government organisation.

8.5. As set out in our existing Licence fee cost recovery principles document<sup>13</sup>, we previously operated under a cost control regime on the basis of RPI minus 3%. We will reflect the new cost control framework in a revised principles document.

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<sup>13</sup> Our Licence fee cost recovery principles document:  
[https://www.ofgem.gov.uk/sites/default/files/docs/revised\\_licence\\_fee\\_cost\\_recovery\\_principles\\_publication\\_amendments\\_public\\_bodies\\_order\\_2014.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/revised_licence_fee_cost_recovery_principles_publication_amendments_public_bodies_order_2014.pdf)

## Appendix 1 – Key Performance Indicators

### Effective Competition

Metric	What is being measured	Annual Target	Division
RMR Derogation requests	Make decisions on RMR derogation requests within 60 working days of receiving a request (unless formal consultation is needed)	90%	Consumers and Competition
Offshore Transmission processing	Licence grant within 70 days of commencement of Section 8a consultation	70 working days	Networks
Offshore Transmission processing	Preferred Bidder selection within 120 days of ITT submission (excluding Best And Final Offer)	120 working days	Networks

### High Standards of Outputs and Protection

Metric	What is being measured	Annual Target	Division
Domestic Renewable Heat Incentive (RHI) processing	Applications to receive an automatic decision on the day of application	60%	E-Serve
Non-Domestic Renewable Heat Incentive (RHI) processing	Responding to queries within 10 working days	90%	E-Serve
Renewables Obligation (RO) processing	Responding to enquiries about applications within 10 working days	90%	E-Serve
Feed-in Tariff (FIT) processing	Responding to enquiries about applications within 10 working days	90%	E-Serve
Energy Company Obligation (ECO)	Responding to queries within 10 working days	90%	E-Serve
Warm Home Discount (WHD) processing	Responding to obligated party submitted Warm	100%	E-Serve

	Homes Discount schemes for approval, within 28 days <sup>14</sup>		
Domestic Renewable Heat Incentive (RHI) processing	Maintaining system availability during business hours	99% (or above)	E-Serve
Non-Domestic Renewable Heat Incentive (RHI) processing	Maintaining system availability during business hours	99% (or above)	E-Serve
Renewables Obligation (RO) processing	Maintaining system availability during business hours	99% (or above)	E-Serve
Feed-in Tariff (FIT) processing	Maintaining system availability during business hours	99% (or above)	E-Serve
Energy Company Obligation (ECO) processing	Maintaining system availability during business hours	99% (or above)	E-Serve
Licence Applications	Make decisions on licence applications within 45 days	100%	Consumers and Competition
Code Modifications	Make code modification decisions within 25 working days of receiving the Final Modification Report (or, where applicable, final responses to a Final Impact Assessment or other Ofgem consultation) and, where applicable, publish code modification Impact Assessment (or other Ofgem consultation) within 3 months of receiving the Final Modification Report.	90%	Consumers and Competition

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<sup>14</sup> Required by legislation

**Trust and Confidence**

Metric	What is being measured	Annual Target	Division
Customer Contacts	Time taken for first substantive response to customer contacts	93% - 10 working days	Improving Regulation
Whistle-blowers	Time taken for first response to whistle-blower contacts	90% to receive initial engagement within 1 working day	Improving Regulation

**Efficiency and Reduced Regulatory Burdens**

Metric	What is being measured	Annual Target	Division
Domestic Renewable Heat Incentive (RHI) processing	Making payments within 5 working days	95%	E-Serve
Non-Domestic Renewable Heat Incentive (RHI) processing	Making payments within 30 working days	95%	E-Serve
Renewables Obligation (RO) processing	Issuing the main batch of Renewables Obligations Certificates, following the generators' output data reporting deadline, within 17 working days (Apr - Jun) and 12 working days (July -Mar)	95%	E-Serve
Feed-in Tariff (FIT) processing	Completing the levelisation process within 22 working days	95%	E-Serve
Energy Company Obligation (ECO)	Processing measures submitted within calendar month	95%	E-Serve

## Appendix 2 – Forward Work Programme At A Glance

### QUARTER 1 DELIVERABLES

	Deliverables
<b>Regulation of network companies and other monopolies</b>	Decision on whether to proceed with a mid-period review (MPR)
	Implement changes to National Grid Electricity Transmission (NGET) licence for cross-border electricity interconnector regimes
	Implement changes to NEMOlink interconnector licence for cap and floor
	Publish consultation on form of regulatory financial reporting standard for RIIO (Revenue = Incentives + Innovation + Outputs) accounts
<b>Setting the rules for markets</b>	Provide an update for industry and stakeholders on flexibility work areas
	Announce our decision on the Significant Code Review (SCR) in spring 2016
	Consult, as part of our publication 'Ofgem: Innovation and Regulation', on providing innovation spaces for experimentation
<b>Effective competition</b>	Commence Offshore Tender Round four
	Priority service register statutory consultation for supply licence conditions
	Enforcement priorities for the year ahead will be decided by the Authority in spring 2016
	Response to consultation including setting out priority areas of

	the supply licence for a move to principles-based regulation
	Consult on non-domestic objections review
	Publish our third annual 'enforcement scorecard'
	Consult on mechanisms for the allocation of voluntary redress payments in the context of enforcement investigations
<b>High standards of outputs and protection</b>	Take forward the results of our analysis of domestic supplier objections and publish our next steps
<b>Partnership with government and stakeholders</b>	UKRN annual conference
	Deciding on the structure of European Capacity Calculation regions. This is the first of the decisions on detailed terms and conditions required by the Capacity Allocation and Congestion Management network code and must be agreed by all of Europe's National Regulatory Authorities.
<b>Trust and confidence</b>	Publish monthly compliance progress reports against Energy Companies Obligation (ECO)
	Publish quarterly report on Domestic Renewable Heat Incentive (RHI) scheme
	Publish quarterly report on Non -Domestic Renewable Heat Incentive (RHI) scheme
	Publish liquidity metrics on our website for both gas and electricity
<b>Efficiency and reduced regulatory burdens</b>	No deliverables this quarter

**QUARTER 2 DELIVERABLES**

	<b>Deliverables</b>
<b>Regulation of network companies and other monopolies</b>	If we decide to proceed with an mid-period review (MPR), we expect to issue a consultation on our MPR proposals
	Publish Interconnector Use Of Revenue statement approvals
	We expect to consult on the conclusions of the independent evaluation of the Low Carbon Networks Fund and on potential changes affecting the Network Innovation Competitions
<b>Setting the rules for markets</b>	No deliverables this quarter
<b>Effective competition</b>	Grant final licence in offshore transmission owners (OFTO) Tender Round three
	Publish consultation on detailed arrangements for introducing competitive tenders for onshore transmission
	Annual enforcement conference to share perspectives on enforcement and compliance
<b>High standards of outputs and protection</b>	Commence work to implement a robust and flexible regulatory framework for intermediaries to protect consumers and promote competition, consistent with our approach to future retail regulation
	Work closely with the Competition and Markets Authority (CMA) to help implement those remedies that affect Third Party intermediaries
	Publish our research of customers’ satisfaction with suppliers’ complaints handling
	Domestic suppliers’ social obligations annual report
	Prepayment meter final decision on proposed changes (ie not

	taking into account supply licence condition implementation effective from date)
<b>Partnership with government and stakeholders</b>	Providing input to business case and implementation issues around co-locating and sharing back office functions
<b>Trust and confidence</b>	Publish our second annual Retail Energy Market report
	Publish annual report on the Domestic Renewable Heat Incentive (RHI) scheme
	Publish annual report on the Non-Domestic Renewable Heat Incentive (RHI) scheme
	Publish Feed-in-Tariffs (FIT) annual levelisation process
	Publish compliance progress reports (monthly) against Energy Companies Obligation (ECO)
	Publish quarterly report on Domestic Renewable Heat Incentive (RHI) scheme
	Publish quarterly report on Non-Domestic Renewable Heat Incentive (RHI) scheme
Publish liquidity metrics on our website for both gas and electricity	
<b>Efficiency and reduced regulatory burdens</b>	Further revisions to the Impact Assessment guidance

**QUARTER 3 DELIVERABLES**

	<b>Deliverables</b>
<b>Regulation of network companies and other monopolies</b>	Conclude the review of the Low Carbon Network Fund following consideration of the independent evaluation and announce our decision by the end of 2016. This will include the amount of money for electricity distribution related projects
	Decision on any MPR proposals following consultation
	Publish regulatory report on offshore transmission owners (OFTO) revenues
	Decision on RIIO (Revenue = Incentives + Innovation + Outputs) accounts requirements
	Decision on elements of distribution price control review (DPCR5) that could not be finalised without 2014-15 data
	Complete the Annual Iteration Process
<b>Setting the rules for markets</b>	No deliverables this quarter
<b>Effective Competition</b>	Commence Offshore Tender Round five
	Consultation on supply licence principles
<b>High standards of outputs and protection</b>	No deliverables this quarter
<b>Partnership with government and stakeholders</b>	Providing detailed comments and suggestions in response to European Commission proposals for a "new Electricity Market Design" and enhanced Gas Security of Supply policies

<b>Trust and confidence</b>	Publish an updated Wholesale Energy Market report for 2016
	Publish annual report on the Warm Home Discount (WHD) scheme
	Publish annual report on Government Electricity Rebate (GER)
	Publish annual liquidity report
	Publish monthly compliance progress reports against Energy Companies Obligation (ECO)
	Publish quarterly report on Domestic Renewable Heat Incentive (RHI) scheme
	Publish quarterly report on Non-Domestic Renewable Heat Incentive (RHI) scheme
	Publish liquidity metrics on our website for both gas and electricity
<b>Efficiency and reduced regulatory burdens</b>	Publish regulatory stances
	Publish consultation on the 2017-18 Forward Work Programme

**QUARTER 4 DELIVERABLES**

	<b>Deliverables</b>
<b>Regulation of network companies and other monopolies</b>	Licences changes as a result of any mid-period review (MPR) proposals
	Publish consultation on initial project assessment of second window cap and floor applications
	Publish RIIO (Revenue = Incentives + Innovation + Outputs) - T1, GD1 and ED1 annual reports
<b>Setting the rules for markets</b>	Work with industry to deliver changes to industry codes to enable cost-effective elective half-hourly settlement for small sites
<b>Effective competition</b>	Publish first design baseline on Switching Programme blueprint phase
	Discussion paper on local energy
	Publish annual review of interest during construction for generator build offshore transmission projects
	Publication of our annual non-domestic consumer survey
<b>High standards of outputs and protection</b>	Supplier reporting of progress towards smart meter targets commences
<b>Partnership with government and stakeholders</b>	No deliverables this quarter

<b>Trust and confidence</b>	Publish annual report on the Feed-in-Tariffs (FIT) scheme
	Publish annual report on the Renewables Obligation (RO) scheme
	Publish monthly compliance progress reports against Energy Companies Obligation (ECO)
	Publish quarterly report on Domestic Renewable Heat Incentive (RHI) scheme
	Publish quarterly report on Non-Domestic Renewable Heat Incentive (RHI) scheme
	Publish liquidity metrics on our website for both gas and electricity
<b>Efficiency and reduced regulatory burdens</b>	Publish final 2017-18 Forward Work Programme
	Publish Simplification Plan 2017-18 <sup>15</sup>

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<sup>15</sup> This deliverable may move to Q1 2017-18 to include statutory reporting under the 'Business Impact Target'