

Forward Work Programme 2017-18

Consultation

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Overview:

This document is a consultation on our Forward Work Programme. It is an opportunity for you to help shape our work in the coming financial year.

Deliverables and consultations in this document are referenced against the four quarters in the financial year (ie Q1 refers to the period of time from the start of April to the end of June 2017).

Please respond to this draft Forward Work Programme by noon on 15 February 2017. Unless you ask us not to, we will publish your responses on our website when we publish our final Forward Work Programme 2017-18, planned for March 2017.

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Chairman's Foreword

The last year continued to demonstrate the scale of change in the energy sector. Innovation in technologies and business models has been driven in part by change in the wider markets, and rapid evolution in the energy market is now the norm. In this environment, regulatory stability and consistency are valuable. But we must be clear that these are not the same as unquestioningly retaining the status quo.

In 2017 we will sharpen our focus on enabling change: positioning ourselves as agents of innovation and not as an obstacle in its path. We will react more quickly to events, speed up our decision-making, be more receptive, approach new ideas thinking more about their opportunities rather than their difficulties, and be more flexible in how we think and behave.

We believe this will benefit consumers first and foremost. It will also help create stability in the market, and confidence among our stakeholders that we will do the right thing. This forms the centrepiece of much of our work over the next year and beyond: our move to principles-based regulation of the retail energy markets, the move to smarter markets and faster switching, the follow-up work from the Competition and Markets Authority's investigation, and using what we learned from RIIO-1 as we go forwards to RIIO-2.

As always, we are interested in hearing from you about our thinking and plans for the year ahead. I look forward to working with you all as we deliver this exciting programme of work.

David Gray

Chairman

CEO's Introduction

Welcome to our Forward Work Programme, which outlines the main things we will be doing in the next financial year.

We hope to see some real progress over the next year, as faster switching, half-hourly settlement, and smart metering have the potential to dramatically change the market and give consumers more control. But at the same time, we want to build trust in the market too, and consumers won't trust a market they cannot understand. This is why we want to give them facts and information while encouraging companies to be open, clear and accessible to their customers.

The retail market is the focus of our work on regulating more through principles. We have already removed over 30 pages of prescriptive tariff rules from the gas and electricity supply licences, and 2017-18 will see us slimming down the rulebook even more.

One motive behind our move to principles-based regulation is that we don't want to discourage companies from innovating, nor be in their way. We want to create the right conditions for them to innovate. We have set up an Innovation Link, and innovation is also a common theme throughout our RIIO price controls, which incentivise network companies for fresh thinking.

In 2017, we will start developing our strategy for RIIO-2. We will look to stakeholders to help us understand the risk to investors, industry, and consumers as we explore options. We will also investigate how best to deliver transmission investment projects to ensure they are competitive.

We have established an Office of the Chief Economist to support and challenge the rest of Ofgem and help our decision-making process. We will improve how we research and evaluate our work, looking at the overall impact on consumers.

We will continue to deliver a range of environmental schemes on behalf of government through Ofgem E-Serve and will engage with government as required on institutional arrangements.

Personally, I want Ofgem to be a source of trust and creator of confidence in the energy market. We can only do this by clearly explaining how the market works, our role in it, and what changes are on the horizon.

I look forward to hearing your views on our many varied strands of work and hope to meet as many of you as possible at our Forward Look event on 9 February.

Dermot Nolan

Chief executive

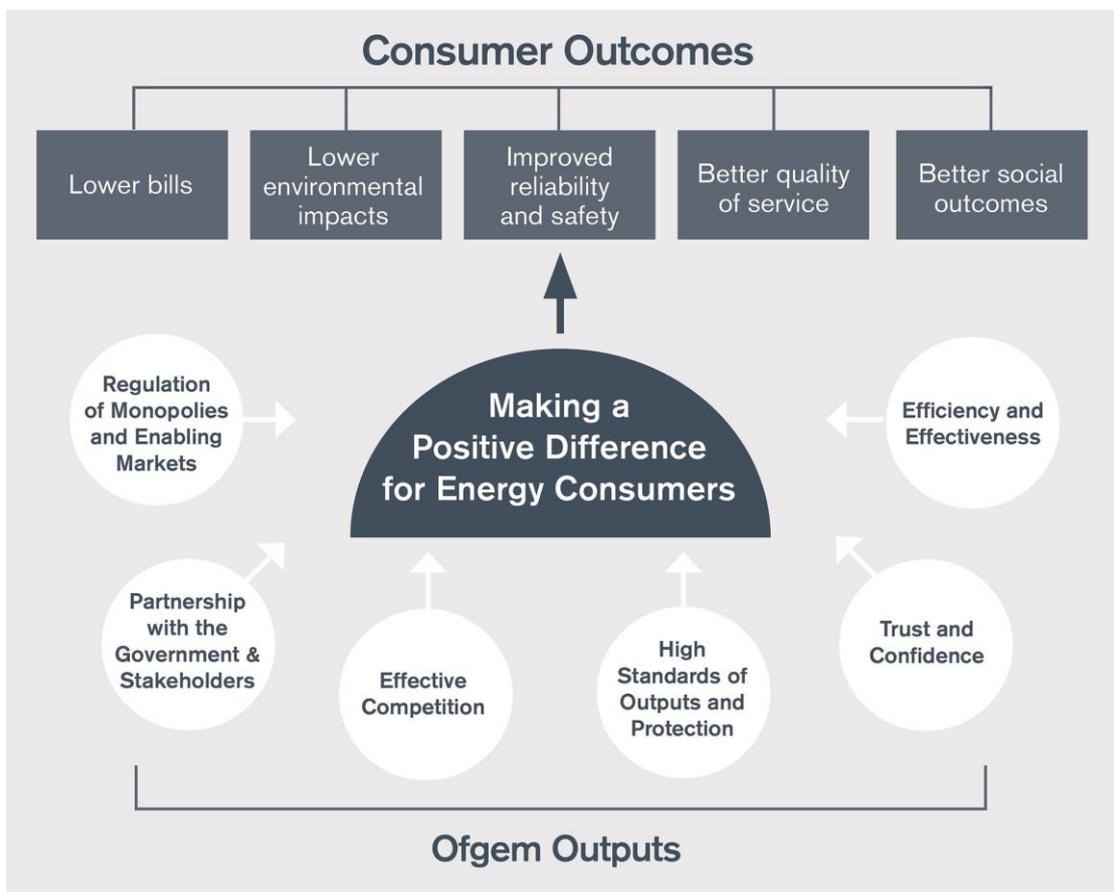
Ofgem's strategy

Who we are

We are an independent National Regulatory Authority and non-ministerial government department, recognised by EU Directives. Our principal aim is to protect the interests of current and future energy consumers. This underpins all our activities and how we engage with partners in government, industry, consumer bodies and other regulators.

Our strategy: What we aim to achieve and how we will achieve it

Consumers are central to everything we do. There are five **consumer outcomes** our work aims to deliver. We ensure that all our work supports one or more of these consumer outcomes. Ofgem's **strategic outputs** represent in broad terms what we do as a regulator and how we approach our work. Our consumer outcomes and strategic outputs are outlined below. More detail is in our published strategy document.¹



¹ Ofgem's Corporate Strategy: <https://www.ofgem.gov.uk/publications-and-updates/corporate-strategy>

Our regulatory stances

Alongside this Forward Work Programme, we have published our regulatory stances for the first time. Our regulatory stances are a set of principles designed to guide all staff at Ofgem as we develop policy and make decisions. They are primarily an internal tool to ensure our work supports the approach and outcomes in our strategy and should also help our external stakeholders to better understand our approach. They do not override our statutory powers and duties.

Our work programme

This Forward Work Programme document outlines Ofgem's key initiatives over the coming years, with a particular focus on 2017-18. Our key initiatives have been carefully selected as the areas we feel represent the greatest opportunity for and risk to current and future energy consumers. Within each area we have commissioned a number of pieces of work which we feel represent the optimum use of our effort and resources relative to the outcomes we seek. Our key initiatives are:

- 1. Enabling a better functioning retail market**
- 2. Facilitating the energy transition**
- 3. Learning from the first RIIO framework and setting RIIO-2 up for success**
- 4. Introducing competition into monopoly areas**
- 5. Becoming an authoritative source of quality analysis**

Alongside our key initiatives, this document also sets out our ongoing core business activities and explains the upcoming work for Ofgem E-Serve.

1. Enabling a better functioning retail market

What we aim to achieve

Our ambition is a retail market that works for all consumers. This is a market where competition constrains prices, drives efficiency and delivers the quality of service and products that customers need. Success also involves delivering a quality service befitting an essential service. It involves suppliers meeting the specific needs of people in vulnerable circumstances.

The market is working well for customers willing and able to change supplier or tariff to get a good deal. But around 70 per cent of people are not benefitting from this competition. The market is also not working for many small businesses who face similar issues to householders in engaging in the market. Similarly, while there are signs of improvement in service standards, and in the treatment of vulnerable consumers, this still falls short of expectations.

How we will achieve it

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

- Supplier conduct – we need to ensure that the licence and our interactions with suppliers drive the conduct and service standards that are expected of energy suppliers.
- Supply-side competition – our regulations need to facilitate vigorous and disruptive competition between suppliers. Price comparison websites (PCWs) should be competing with each other, and with suppliers while maintaining consumer trust.
- Consumer engagement – we need to do all we can to encourage householders and small businesses to engage in the market and also to take the hassle out of switching. This is fundamental to making the market work better.

1.1 Supplier conduct

Through the **Future of Retail Regulation** project, we are looking to remove unnecessary prescriptive rules and introduce new principles into the licence. This will put responsibility on suppliers to deliver good consumer outcomes, provide future-proof effective protection for consumers in a rapidly changing market and allow room for suppliers to compete and innovate. We expect to include a new broad requirement on suppliers to have special regard to the needs of their vulnerable consumers. We are also expecting to include a principle that suppliers should help consumers make informed choices and remove the prescriptive rules around sales and marketing. In 2017-18 we will address another part of the rules in the licence and consider the appropriate balance between rules and principles. We expect this to focus primarily on supplier written communications with consumers.

As well as improving the regulations, we will continue our work to ensure we address **compliance** issues affecting all types of consumers in a way that is targeted, focused and ensures that lessons learned are shared across suppliers.

We are working with Citizens Advice and Ombudsman Services: Energy to ensure we have a good understanding of what is happening in the market. We will build our links with other relevant consumer bodies and charities over the course of the year so we can seek to identify and address issues as soon as possible after they arise, and start to identify leading indicators of problems so that they can be addressed.

In particular, our work will include looking at how suppliers are meeting their obligations towards consumers in vulnerable circumstances, and holding the mirror up to suppliers on their performance. This may include conducting a deep dive into an area to understand good practice and unintended consequences of actions, and producing and sharing lessons from the information in our annual Report on Social Obligations.

Deliverables 2017-18

- Make amendments to the broad principles in the gas and electricity supply licenses, including a new vulnerability principle – Q2
- Publish Report on Social Obligations, including reporting on how suppliers supported customers in vulnerable situations and managed debt and disconnection in 2016 – Q2

1.2 Supply-side competition

Third party intermediaries, including PCWs, are an important source of supply-side competition and also provide services which help consumers engage in the market. In 2017-18 we will conclude our **review of the Confidence Code** in light of the Competition and Markets Authority's (CMA) recommendation that changes should be made to allow PCWs in the domestic market to innovate and compete. We will also engage with and consider the consequences of the **CMA's market study on Digital Comparison Tools** for energy markets and consider whether further work is needed.

We will assess the effectiveness of the CMA remedies relating to the access intermediaries have to the Electricity Central Online Enquiry Service and the Single Centralised Online Gas Enquiry Service and will support government as it considers how best to use Midata to support the use of intermediaries. We will be carefully monitoring the impact that the CMA price cap for prepay customers has on competition for this group of customers.

We will be keeping under review the **arrangements we have for licensing suppliers**, and will learn the lessons following from any supplier insolvencies over the period.

Deliverables 2017-18

- Publish our decision on the intermediate proposals for amendments to the Confidence Code and, if appropriate, make the Code amendments outlined in our consultation – Q1
- Outline our proposed next steps for our review of the Confidence Code – Q1

1.3 Consumer engagement

We have several pieces of work planned to encourage consumers to engage in the retail market.

We will continue to trial various designs of the **database** for loyal customers to establish how best to use this vehicle to place competitive pressure on the prices these customers pay. In parallel, our new Behavioural Insights team will work with suppliers to carry out **randomised controlled trials** to learn which prompts work best to engage consumers. We will ensure that the CMA orders aimed at helping those on **non-standard meters** to engage are properly implemented and will monitor their effectiveness.

In the **non-domestic retail market** we will be looking closely at the impact of the CMA remedies, including that which introduces pricing transparency for microbusiness customers. We will consider what we might need to do in light of how market participants respond. This may include looking at trials for prompts to encourage microbusinesses to engage in the market in light of the information available and understanding whether there are issues affecting non-domestic consumers which we should take action to address.

We will continue our **Switching programme** which is putting in place a new switching process for domestic and business customers that is reliable, fast and cost-effective. We are currently defining the new switching arrangements and the systems needed to support them. Ofgem is leading the work, with dedicated industry expertise and consumer representatives playing an important role. We have developed options for the new switching arrangements and are looking at their relative costs and benefits. We will consult on our preferred market design in mid-2017. We are fully committed to delivering our Switching programme and, although full delivery is some years away, we will continue to explore any identified routes to bring forward consumer benefits from the programme earlier.

Deliverables 2017-18

- Publish Blueprint Consultation (Design Baseline 2) in relation to the Switching programme, including impact assessment and draft outline business case – Q2
- Publish Blueprint decision document (Design Baseline 3) in relation to the Switching programme – Q3
- Complete Detailed Level Specification Phase and publish Design Baseline 4 in relation to the Switching programme – Q4

Question for stakeholders: do you agree with our priorities and planned programme of work? If not, why?

2. Facilitating the energy transition

The way in which energy is produced, generated, transported, stored and supplied to consumers is changing. The push to reduce carbon emissions and the deployment of new technologies means the energy system is in transition to one that is low carbon, more decentralised, smart and flexible.

At the same time, we are seeing new and potentially disruptive business models entering the market. Some of these are based on new energy technologies, some are focused on local communities, and others are building on innovative use of information technology.

These changes are challenging the regulations and market rules that govern industry. Arrangements that were designed for a system with passive demand and large-scale, centrally-dispatched power stations will need to evolve. It is Ofgem's role to make sure these arrangements remain fit for purpose.

An important enabler of this transition is the mandated deployment of smart meters in every household and business, connected through a communications network to a central data clearing house.

Although the Department for Business, Energy and Industrial Strategy (BEIS) owns the overall smart metering policy and regulatory framework, Ofgem is responsible for ensuring a timely and efficient rollout of smart infrastructure that delivers benefits for consumers. This includes making sure that the industry arrangements enable industry to make full use of the functionality.

Our specific areas of work are below:

2.1 Future-focused strategy

The scale and pace of the energy system transition means that an incremental and reactive approach to change may not be in the best interests of consumers. There is a risk that the market rules and regulations might not best facilitate how industry change develops and might stand in the way of innovation. This would not be in the interests of consumers.

As well as considering urgent responses to immediate issues, we need to take a strategic approach to industry change. We need to anticipate possible future developments and consider whether the current arrangements would still be fit for purpose. But we also need to recognise that changes to market and regulatory arrangements can result in cost and uncertainty.

For these reasons, we will develop a strategy to guide our work in relation to the energy system and network regulation over the coming years. This will be aimed at facilitating the transition to an efficient and secure future energy system with consumers at its core. The process of developing it will ensure our work is guided by the best possible understanding of the changes taking place across the energy system, and will link strongly with the future insights work we are undertaking.

The strategy will be used to identify key linkages and dependencies across all parts of Ofgem. In particular, the strategy will provide a basis from which we will

develop our approach to network regulation, the future role of the system operators, future charging arrangements, the design and operation of wholesale markets, and our approach to increasing competition in networks. It will also be helpful in ensuring that our short and medium-term actions in response to more immediate issues are consistent with this wider strategic vision.

Deliverables 2017-18

- Publish our proposed high-level strategic approach to market and regulatory reform in response to the energy systems transition. This will guide our work in relation to the energy system and network regulation over the coming years. – Q1

At this stage we will take a view on whether we need to consult on strategic options coming out of this work

2.2 Flexibility work

The flexibility programme is an important part of this forward facing work for Ofgem. It was launched in response to the recognised need for the electricity system to make use of new sources of flexibility, such as storage and Demand Side Response, and to deliver the future low carbon system efficiently. We are taking forward a set of short to medium-term work priorities to help increase system flexibility, as well as considering the need for any further changes to market arrangements, roles and responsibilities in the longer-term.

Following policy development, analysis and engagement with industry parties, we issued a call for evidence with BEIS on 10 November 2016 with a closing date for responses of 12 January 2017.² We will consider responses before publishing our next steps. This work will also feed in to the strategic thinking on the future energy system and role of networks we describe in strategy work set out at 2.1 (Future-focused strategy).

Deliverables 2017-18

- Publish, by June 2017, (Q1) our plan for enabling a smart, flexible energy system jointly with the Department for Business, Energy and Industrial Strategy. This will set out the range of actions we intend to undertake in 2017-18 and beyond and is an important part of our wider future-focused work. It will include:
 - Action to remove undue barriers to storage
 - Action to ensure flexibility services can participate in relevant markets
 - How we propose to take forward network charging issues
 - Our expectations and any action on the move from Distribution Network Operators to Distribution System Operators and the Distribution System Operator-Transmission System Operator relationship

² Smart, Flexible Energy System - a call for evidence:
<https://www.ofgem.gov.uk/publications-and-updates/smart-flexible-energy-system-call-evidence>

2.3 Future System Operator

We believe that the System Operator (SO) role, as undertaken by National Grid, needs to evolve to ensure it is well placed to respond to and facilitate the transformation of the electricity system over the coming decades. This means enhancing its role and making changes to effectively mitigate conflicts of interest.

We have been working with government and National Grid to consider the options for greater separation of the System Operator, and expect to publish our thinking on this area soon. We will also be releasing our initial proposals on the incentive scheme for the SO over 2017-18, and an initial consultation on a more fundamental review of the incentive framework to be ready for April 2018 implementation.

Deliverables 2017-18

- Publish a second consultation (Q2) and then a decision (Q3) on our proposals for a new System Operator incentive framework to apply from April 2018 onwards, designed to align with the System Operator's future role and drive high System Operator performance

We will set out future deliverables on the role of the System Operator and level of separation in our forthcoming publication on this area

2.4 Reform of network charging

It is important that charges for use of and access to the electricity networks provide the right incentives to market participants. Since sunk and fixed costs need to be recovered, this needs to be done in a way that minimises distortion to users of the networks.

We launched a project in 2016 to review the so-called embedded benefits. These are the benefits received by small generators (sub-100 MW) connected to the distribution network when compared to larger embedded generators and transmission connected generation. We are concerned that the system as it is could be preventing a level playing field between these smaller embedded generators and other generators.

Shortly after the end of the current financial year (2016-17) we expect to make final decisions on a number of code modifications, which may address aspects of these embedded benefits.

We recognise that embedded benefits are related to a wider issue of how best to recover fixed and sunk costs on the system. In early 2017 we intend to consult on launching a targeted charging review which may require a significant code review to consider these issues, including possibly some aspects of the Balancing Services Use of System charges and allocation of sunk/fixed costs, including for storage and 'behind the meter' generation.

Other aspects of network charging are being considered as part of the future-focused strategy work, which will include consideration on how best to provide the right locational incentives for market participants.

Deliverables 2017-18

- Publish final decision on current industry code modifications that relate to aspects of embedded benefits – Q1
- Publish our proposed approach to the reform of network charging to ensure consistent and minimally distortive recovery of the sunk and fixed costs, storage charging and other elements of embedded benefits – Q1

2.5 Innovation Link

Much of the transformation in energy is being driven by innovators and new entrants, who bring new technology, products, services and business models into the sector. Many of these actors are new to the energy sector and are developing propositions which may not fit with the current regulatory framework. As such, we recently launched an Innovation Link to support innovators in navigating the regulatory framework. The Innovation Link will also help us to understand trends in the sector and identify areas to consider in adapting our regulatory framework.

Going into 2017, we will continue to offer the fast, free, non-binding feedback on the regulatory implications of new business propositions. We intend to review our experience of delivering this service in spring 2017 and adapt it as appropriate. We will also consider whether additional support might be required in order to allow innovators to trial their products or services in a controlled regulatory environment, which continues to offer appropriate consumer protection - a so-called 'regulatory sandbox'. We will also consider whether there is general support we can offer innovators through workshops on the regulatory framework.

Deliverables in 2017-18

- Decide whether and how to provide a potential 'regulatory sandbox' in energy – Q1
- Review the Innovation Link based on our experience in delivering the services – Q2

2.6 Smart meter rollout and Data Communications Company regulation

The rollout of smart gas and electricity meters to all homes and small businesses in Great Britain is a core enabler for both the transformation of the competitive energy markets and a smarter energy system fit for the future. Energy suppliers must take all reasonable steps to install smart meters to all domestic and small business customers by the end of 2020.

Suppliers provided their first formal plans with annual milestones to Ofgem in 2016. They will report on progress, and may update their plans, in 2017. We will continue to assess suppliers' plans and progress, seeking to provide feedback on best practice and barriers, and considering where compliance or enforcement action may be needed to ensure appropriate progress is made.

In parallel, we have an active focus on the consumer experience of the smart metering rollout, critical for enabling benefits to be realised. There are a number of important regulatory obligations on suppliers, where we monitor compliance on

an ongoing basis. The success of the smart metering programme, and delivery of benefits, is dependent on the appropriate engagement and protection of consumers.

The Data and Communications Company (DCC) is the licensed monopoly that is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and energy service companies. We will continue to ensure that the DCC complies with the requirements set out in its licence, and scrutinise the DCC's costs through the annual price control process to ensure it provides value for money. The DCC service went live in November 2016 and we will be introducing new incentives into the price control to reward good performance.

Deliverables 2017-18

- Implement Data and Communications Company operational performance regime – Q1
- Publish Data and Communications Company price control decision for 2016-17 – Q4

2.7 Half-hourly settlement

In 2017-18 we will continue to lead a project to introduce settlement for domestic and smaller non-domestic consumers based on their actual half-hourly meter readings, rather than through the current system of estimation using profiles.

The half-hourly settlement (HHS) work is led by Ofgem, with involvement from BEIS on key policy issues and through our joint project on making electricity production and consumption more flexible to benefit consumers. We will take account of recommendations on HHS made by the Competition and Markets Authority (CMA) in their investigation into the GB energy market.

During 2017-18 we will monitor the uptake and effects of elective HHS and resulting tariff offerings, and consider any further steps needed to protect consumers.

In the longer-term, we expect that we will need to mandate all suppliers to settle their customers on a half-hourly basis to realise the full benefits. We will be taking forward work on mandatory HHS in 2017-18 through a Significant Code Review. This work will be supported by the development of a full Impact Assessment of the move to mandatory HHS, outlining the costs and benefits of reform.

During 2017-18, we will also be working with ELEXON to monitor suppliers' compliance with their obligation in the Balancing and Settlement Code regarding the settlement of medium and larger non-domestic consumers (profile classes 5-8) on a half-hourly basis.

2.8 Code governance reform

Operating the energy market relies on a large and complex suite of industry codes and central IT systems and processes. The CMA found that the current

system of code governance risks adversely affecting competition by distorting incentives, raising barriers to entry, or stifling innovation. It has recommended a package of remedies that will enable strategic change to be delivered smoothly, efficiently and in the interests of consumers. This is a new project that builds on reforms that we have already introduced through our Code Governance Review (Phase 3) changes.³ The key changes we expect to make in 2017-18 are to set the strategic direction for code development and establish the consultative board. The new licence regime for code management will take longer to put in place and is dependent on legislation.

Deliverables 2017-18

- Hold first meeting of the consultative board – Q4

Consultations 2017-18

- Consult on the draft strategic direction – Q2

Question for stakeholders: do you agree with our priorities and planned programme of work? If not, why?

³ Code Governance Review (Phase 3) Final Proposals:
<https://www.ofgem.gov.uk/publications-and-updates/code-governance-review-phase-3-final-proposals>

3. Learning from the first RIIO framework and setting RIIO-2 up for success

The networks that transport electricity and gas around the UK form the backbone of our overall energy system. They are natural monopolies, meaning they are not subject to the kinds of competitive pressure observable in other markets. However, the costs of developing and operating these networks also form a material part of the bills consumers pay, and the scope for investment in new network capacity still has the potential to cost billions of pounds. As the regulator, it is therefore important that we ensure these monopoly services deliver best value to consumers. This is increasingly important in a world where the future for the energy system, and therefore the networks that support it, becomes ever more uncertain.

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

Through RIIO, network operators are 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 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.

As we receive an increasing amount of evidence of how companies are performing under the first set of RIIO price controls, our focus will turn to using this information to begin our development of the RIIO-2 price controls. This will include assessing the performance of companies against the outputs and incentives we set, and assessing the changing external environment to consider what objectives these next set of price controls should seek to deliver. A core part of our approach will be to determine how best to engage with different stakeholders and use their experiences and viewpoints to help us understand the existing arrangements and the development of new ones.

Our specific areas of work are below:

3.1 RIIO-2

We will be entering stakeholder engagement phases of our work preparing for the next round of energy network price controls, RIIO-2. Our thinking will draw extensively from the strategy work set out in paragraph 2.1 (Future-focused strategy) to gain the best possible understanding of the changes taking place across the energy system and the uncertainties that follow. Our aim is a

framework that best positions networks to respond to those changes and manage those uncertainties for the benefit of consumers.

We look to undertake a programme of activities to inform our strategy with an emphasis placed on ensuring timely engagement with the full spectrum of stakeholders. For example, in 2017-18, we expect to engage with stakeholders on experience to date with the RIIO framework as we explore options for future RIIO cycles. We also expect to engage with stakeholders in a number of ways to help us analyse and understand the drivers of risk for network investors, managers and consumers.

3.2 RIIO accounts

RIIO accounts is a continuing project designed to provide participants in corporate governance of RIIO-regulated network companies (including a wide spectrum of interests in the investor community) with more transparent and more assured information about economic performance. This involves us establishing a new standard for regulatory 'generally accepted accounting practice' (GAAP) derived from UK and International GAAP. The objective is to heighten the effectiveness of our incentive regimes by providing a regulatory financial reporting framework consistent with and audited to a 'fairly presents' standard. This is broadly equivalent in quality to the 'true and fair' standard for statutory accounts and should help ensure companies can be more rigorously held to account for their performance under RIIO. During 2017-18 we will continue to work with stakeholders to deliver a reporting framework that meets this objective.

Deliverables 2017-18

- Implement a requirement for companies to prepare accounts in accordance with the regulatory financial reporting standard for 2017-18 – Q4

Consultations 2017-18

- Consult on the regulatory financial reporting standard – Q1

Question for stakeholders: do you agree with our priorities and planned programme of work? If not, why?

4. Introducing competition into monopoly areas

Whilst energy networks are natural monopolies, wherever possible we identify opportunities to deliver competition or competitive-like forces. This enables us to more easily deliver and demonstrate value for money. Principally this can be through using competition in identifying an owner or developer of a particular network, or through using competition between networks where there is a case for them to operate as part of a market. Over a number of years we have pioneered the use of competition in the ownership of new networks through the offshore transmission owner (OFTO) regime.

Aside from ensuring the OFTO regime continues to deliver effectively, we will also continue to progress our plans for introducing similar arrangements for the delivery of major onshore transmission investments. In order to do this effectively we will join this up with our existing RIIO (Revenue = Incentives + Innovation + Outputs) approach for major new investments (Strategic Wider Works) to ensure a consistent and efficient approach to delivery of major new investments, irrespective of the regulatory route adopted.

As well as moving energy around the country, networks also enable us to connect to wider and deeper pools of energy in other markets, such as through electricity interconnectors that connect us to neighbouring countries. Such interconnectors are self-financing as they enable wider gains from trading energy and can offer ancillary services which have significant value for our own energy system. In this area we have promoted competition between the owners of interconnectors, to ensure we deliver the optimal levels of new investment on the most efficient basis. Combined with our cap and floor regulatory model, this is bringing forward significant quantities of new investment and will help transform the future of UK and European energy.

Our specific areas of work are below:

4.1 Major onshore transmission investments

An important part of our role in regulating electricity transmission is to assess the need for, and efficiency of, major new investment projects. Such projects can either be delivered by an existing Transmission Owner (TO) under our Strategic Wider Works (SWW) mechanism in RIIO, or could in future be delivered by a Competitively Appointed Transmission Owner (CATO). Where we decide to compete the delivery of these projects, we will appoint a CATO to construct, own and operate the asset. This will create value for consumers by putting competitive pressure on costs of individual transmission projects, as well as providing valuable benchmarks to inform our monopoly regulation of other transmission assets.

In 2017-18, we will continue to develop the detailed design of the technical, commercial, and regulatory arrangements underpinning the CATO regime, as well as considering whether specific transmission projects should be tendered. In

parallel we will also consider whether those projects should be delivered by an existing TO under our SWW regime.

Deliverables 2017-18

- Make an initial decision on the need for the North West Coast Connections transmission project connecting proposed new nuclear generation in Cumbria, as well as deciding whether to tender that project – Q1
- Make a final decision on the need for the Hinkley-Seabank transmission project connecting proposed new nuclear generation in Somerset, as well as deciding whether to tender that project – Q3

Consultations 2017-18

- Publish further details, for consultation, on the detailed tender models, processes, and commercial and regulatory arrangements for competitively appointed transmission owner tenders – Q2

4.2 Offshore transmission owners

Offshore wind generation continues to form an important part of the GB generation mix and our aim through the OFTO competitive tender process is to ensure that transmission connections are delivered and operated in the most economic and efficient way. We will continue to deliver the OFTO tender process following successful completion of the tendering for 4.3GW of connections at a value of £3bn to date. In 2017, we expect to complete the fourth tender round of OFTO projects, announcing the preferred bidder and granting the licence for the Burbo Bank Extension project, and throughout 2017-18 continue to run the tenders for the five tender round 5 projects. These tender rounds combined represent over £2bn of transmission investment, connecting over 2.5GW of offshore wind generating capacity.

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 and considering any licence claims associated with unforeseen and exceptional events.

Deliverables 2017-18

- Select a Preferred Bidder for the Burbo Bank project in offshore transmission owner Tender Round 4 – Q1
- Select Preferred Bidders for the Dudgeon, Rampion and Race Bank projects in offshore transmission owner Tender Round 5 – Q4

4.3 Electricity interconnectors

Electricity interconnectors - the physical links which allow the transfer of electricity across borders - provide significant benefits to GB energy consumers and are an important component of our future energy system. New investment in electricity interconnection is a competitive market, with new projects having the

option of seeking support from our cap and floor regime, or pursuing the merchant exempt route, by which projects receive exemptions from certain European legislation.

Successful closure of our first cap and floor application window has meant that six projects have been approved for support under the cap and floor regime to date, potentially further increasing GB's interconnection capacity with Belgium, Denmark, France, Ireland and Norway. The projects are at varying stages of development and construction. Two projects, Nemo Link to Belgium and North Sea Link to Norway, have had Final Project Assessments (FPA) and construction is now underway. At least two further projects are expected to move forward to FPA stage in 2017, where we will assess the detailed costs and set the preliminary cap and floor levels to support subsequent delivery.

Our second cap and floor application window closed in October 2016 and we received three proposals for new interconnectors. We are assessing these as part of the Initial Project Assessment (IPA) stage of our cap and floor framework. In spring 2017 we will consult on our IPA and will then decide whether to approve the projects for a cap and floor regime in principle. We will consider new projects in terms of their ability to deliver in the interests of GB energy consumers.

In 2017-18 we will therefore continue to support a wide portfolio of prospective projects using both the cap and floor and exemption routes to ensure the regulatory framework allows projects to proceed in delivering benefits for consumers. This will include determining the relevant licence conditions and profit-sharing mechanics for each project and assessing the efficient costs of delivery.

For existing projects, we will also continue our existing regulation including ensuring ongoing compliance with relevant requirements on access, ownership and profit sharing.

Question for stakeholders: do you agree with our priorities and planned programme of work? If not, why?

5. Becoming an authoritative source of quality analysis

Building on initiatives in 2016, we are continuing to improve the robustness of the analysis underlying our regulatory decision-making, and assessing energy sector developments so we can identify market problems quickly. This work cuts across all aspects of Ofgem's regulatory work and is driven by teams across the organisation, but is coordinated and overseen by our new Office of the Chief Economist which we launched in October 2016.

The Office of the Chief Economist incorporates work recommended by the Competition and Markets Authority's (CMA) energy market report, such as the State of the Market Report and coordinating opinions on government legislative and policy proposals, but goes beyond this to include research and assurance functions. We particularly welcome stakeholder feedback on our plans and priorities.

Our specific areas of work are below:

5.1 Quality assurance, impact assessments and evaluation

An initial focus of our new central analytical team has been to develop our approach to assuring the quality of policy appraisals and refresh our approach to impact assessments. We expect this will lead to more impact assessments being published alongside consultations and proposals, and strengthen consistency in our approach and standards. We will build on this with a programme of independent quality assurance of our business-critical models. This is in line with the Macpherson review of model quality assurance, and will provide greater confidence in the accuracy of our modelling work. This will be ongoing throughout the year. We also plan to assess the overall consumer impacts of our work, to improve accountability and to help us to demonstrate the value for money of our work.

At present, we undertake post-implementation reviews of some of our projects, generally within the same policy team. This is an area where we recognise we could do more. During 2017-18, we will devote additional resource to undertaking more formal evaluation of past interventions. This will feed back into future policy development.

5.2 Reports and research

In 2016, we progressed our horizon-scanning work, leading to publication of a future insights discussion paper series.⁴ This will continue into early 2017 and develop into an augmented programme of research; assessing developments in the energy sector to feed into our future strategy and policy development.

⁴ Ofgem Future Insights programme: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-launches-future-insights-programme>

In autumn 2017, we will publish our State of the Market Report, which will assess how energy markets are operating. This follows a recommendation in the CMA's market investigation. The flagship report will include analysis of the evolution of energy prices and bills, the profitability of energy firms, and the interplay between decarbonisation, security of supply and affordability.

Following a separate CMA recommendation, we will increasingly publish comments on government legislative and policy proposals that have a substantial impact on the energy sector, where we can make a distinctive and valuable contribution.

Deliverables 2017-18

- Publish State of the Market Report – Q3

5.3 Capability improvement

Internally, we are developing our network of economists across the organisation. We aim to make our economic analysis more coherent and robust through activities including seminars, training, and a clearer professional structure for economics careers.

We are also seeking to improve our engagement with academics and to use more external advice for peer review rather than just as consultancy support for developing proposals. We expect to launch an Academic Panel in early 2017.

Question for stakeholders: do you agree with our priorities and planned programme of work? If not, why?

6. Our core business activities

Our core business activities are central to us fulfilling our role as regulator. They form the basis of our day-to-day activities and include the important work we do to monitor compliance, enforce our rules, review our policy and assess security of supply. These are all important areas for us to be involved in and we pride ourselves in taking a robust and professional approach to our core business activities. The detail below outlines what you can expect from us over the coming financial year.

6.1 Security of supply work

Security of supply, in both electricity and gas, is a key priority for both Ofgem and government. We will continue to analyse market conditions, enabling Ofgem to have a public view of the risks and give the Gas and Electricity Markets Authority (the Authority) the information it needs to make informed decisions about security of supply. Our work helps to deliver improved reliability and safety for consumers, lower bills than would otherwise have been the case, and benefits for society as a whole.

In 2017-18, our other priorities for this area include:

- Ensure National Grid's Supplemental Balancing Reserve costs for winter 2016-17 are thoroughly scrutinised and only efficient and economic costs incurred in-line with the methodologies are recovered
- Manage change to the Capacity Market (CM) Rules to ensure consumers are protected and the objectives of the CM are delivered
- Deliver our mandatory Electricity Market Reform (EMR) roles: dealing with disputes on Contracts for Difference and the CM; publishing reports on National Grid Electricity Transmission's (NGET) delivery of its EMR delivery body role and the operation of the CM; receiving and logging price maker memorandums
- Deliver our EMR roles: overseeing and incentivising NGET's delivery of its EMR delivery body role; overseeing the behaviour of participants in the CM and referring to enforcement; reporting internally on EMR progress; taking part in the Department for Business, Energy and Industrial Strategy's operational and policy boards

6.2 Monitoring the retail market and understanding consumers

We will continue to analyse a range of indicators to understand how well competition is working in the retail market and how far it is delivering outcomes for consumers such as: lower bills, a quality service, reduced environmental damage and improved outcomes for vulnerable consumers. This analysis will feed into the 2017 State of the Market Report (see section 5.2). Our monitoring builds our understanding of the market, and helps us to regulate more effectively, for example by evaluating how well existing regulations are working. We regularly publish data to help increase trust and confidence in the market, inform the public debate and show how evidence has driven our decision-making. For example, in

Q2 we will publish an annual report on how suppliers supported customers in vulnerable situations and managed debt and disconnection in 2016 (see chapter 1).

We gather insight into the views, experiences and aspirations of consumers so we have a complete picture of how the market is working and to make sure the consumer voice is heard when we consider policy options. In the coming year, we will continue to put consumers at the heart of our regulation through an ambitious and innovative programme of consumer research. This programme will have a wide reach, including household consumers – some of whom will be early adopters of smart meters, business consumers and consumers in vulnerable situations.

6.3 Licence and code changes

Certain core gas and electricity activities require a licence from Ofgem and we will continue to progress licence applications. 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.

6.4 Technical codes and standards

Relevant industry participants such as electricity generators, transmission and distribution networks operators are obliged by their licences to comply with technical codes and standards. Where justified, the Authority can issue a direction to relieve a licensee from such obligation in specified circumstances and to a specified extent. Also, these codes and standards are kept under review and modifications may be proposed by the industry, for example to reflect technological developments and/ or legislative changes. These proposals are subject to approval by the Authority.

6.5 Wholesale market conduct

We will continue our work to ensure and protect integrity and transparency in the wholesale energy market. This is vital to ensuring confidence in the market as well as reducing unnecessary costs to consumers. Key ongoing aspects of this work are the engagement of stakeholders, including the Agency for the Cooperation of Energy Regulators (ACER) and other national and European regulators, to ensure that operations are as effective as possible; and monitoring the actions of relevant parties for potential breaches of the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). Over the last year we have also continued to successfully register many market participants under REMIT.

We also investigate potential breaches of the Transmission Constraint Licence Condition (TCLC) placed on electricity generators, and take appropriate action where necessary. We will consult on putting in place a new TCLC, as the current one expires in July 2017 and we consider it is important to maintain it.

Alongside this we continue to promote effective markets through applying the Secure and Promote licence condition. Secure and Promote was introduced as a special licence condition in obligated parties' generation licences. It was designed to help small suppliers access the wholesale electricity market, and to ensure the market provides the products and price signals needed to enable all market participants to compete effectively. We will also continue to engage at a GB and EU level on matters relating to EU Financial Legislation, to ensure ongoing liquidity in wholesale energy markets and clarity with its border with REMIT.

6.6 Compliance and Enforcement

We are committed to fostering a culture where energy companies are putting consumers first and acting in line with their obligations. We want to see energy companies across the sector identifying risks that may arise, managing these effectively and putting things right quickly when things do go wrong, including offering effective redress to consumers who have suffered. As part of our strategy to incentivise this culture, we revised our Enforcement Guidelines and Penalty Statement, which set out our approach to investigations and to calculating penalties for breaches. Through an effective approach to enforcement action, we hope to deter conduct that is detrimental to consumers and ensure visible and meaningful consequences for businesses that fail consumers; incentivising companies to put consumers first.

We will continue to open investigations, issue orders or directions, accept undertakings or commitments and impose penalties in accordance with our priorities and where this is required to deter breaches. We will continue to conduct these investigations and make decisions in relation to breaches in line with our Enforcement Guidelines. We will report our performance of enforcement cases in our annual publication of the Enforcement Overview. We remain committed to improving our practices using lessons from the cases that we have conducted, including input we receive from companies following the closure of an investigation. In 2017 we will host another annual Enforcement Conference to share insights from our investigations.

We consider it important that we use our range of enforcement powers to put things right for consumers, including enforcing licence conditions, competition law, and REMIT. Increasingly, following an investigation, companies volunteer to direct funds back to consumers either directly or indirectly via charities (where it might not be possible to identify the consumers impacted) in lieu of a financial penalty. It is important that these funds deliver good value for consumers. We recently announced our decision to procure a third party, with expertise in energy consumer charities, to ensure that such funds are allocated to maximise benefits to consumers.

The use of our enforcement powers is not the only tool we have. Across Ofgem we monitor companies' compliance with their obligations and engage with them to put things right when issues are spotted or concerns are raised. There are also examples of where companies have put things right effectively and efficiently without the need for a formal investigation or enforcement powers being exercised. With the move to principles-based regulation, we intend to review our strategy to achieving the right outcomes for consumers through compliance

activity. We intend to publish guidelines on our approach in order to give clarity and certainty on our vision and approach to Compliance and Enforcement and our priorities in these areas.

Deliverables 2017-18

- Publish our Enforcement Overview on our performance in exercising our enforcement powers – Q1
- Host an annual Enforcement Conference to share our experience and learnings in exercising our powers – Q2
- Procure a third party, with expertise in consumer charities, to effectively allocate funds from voluntary redress – Q2
- Publish guidelines on our approach to Compliance and Enforcement, including on our priorities – Q3

6.7 RIIO-1 price controls

The RIIO (Revenue = Incentives + Innovation + Outputs) price control is our method for setting the prices charged by the gas and electricity companies that own and run the gas and electricity networks. The price controls run for eight years and set the outputs companies need to deliver and the funding allowances they will receive for delivering them.

The price controls include uncertainty mechanisms where costs and outputs could not be determined at the start of the price controls. One of these is the provision for a Mid-Period Review (MPR) of output requirements to determine whether any outputs are no longer needed or new outputs should be set. Following conclusion of the MPR for the transmission price controls, we will be consulting on whether a MPR is needed in the electricity distribution price control.

The RIIO price controls also include a limited number of uncertainty mechanisms which cover specific identified issues (we refer to these mechanisms as “reopeners”). We expect to receive a number of reopener applications from companies in 2017-18, including in relation to electricity distribution, smart metering in the gas distribution sector, and in relation to the Shetland energy solution (discussed below).

In addition, we will reach a decision in summer 2017 on our review of the capital allowances provided for capacity at the Fleetwood gas transmission system entry point.

We will also be concluding the work in three areas identified under, but progressed separately from, the gas and electricity transmission MPR. These areas include:

- Clarifying how we intend to hold companies to account for outputs in areas where this is not already clear
- Improving RIIO operation - where we look to improve the operation of some of the existing RIIO mechanisms

- Filling gaps in the RIIO framework

The most significant part of the work filling gaps in the RIIO framework is in relation to Network Output Measures (NOMs). The network licensees are provided with significant funding allowances to keep their equipment in appropriate condition so that the whole networks can perform their duty efficiently and securely. Under RIIO-1, the network licensees are required to develop and implement the NOMs methodology which will allow transparent and objective measurement of how they manage their network assets. The NOMs methodology and any subsequent modifications are subject to approval by the Authority. Next year we will continue to work on this area with all the network companies.

We will also continue to build our understanding of the licensees' performance as part of our annual monitoring work, so that there are robust grounds for implementing relevant RIIO-1 incentive mechanisms as well as for developing future regulatory mechanisms.

Deliverables 2017-18

- Decision on review of Fleetwood Regulatory Asset Value addition for National Grid Gas Transmission – Q2

6.8 Distribution price control close out

The fifth electricity distribution price control (DPCR5) ran from 1 April 2010 to 31 March 2015. It had several components which could not be settled ("closed out") until the price control had ended. These include reopeners which enable us to consider any significant under or overspend and mechanisms which enable us to penalise network companies if they have not delivered the outputs they committed to during DPCR5.

Using the detailed methodologies we published in July 2016, we will assess the performance of the Distribution Network Operators (DNOs) in relation to each of the close out components. There are several steps we will take in making this decision.

During February 2017, we will provide a preliminary view to each licensee on any adjustments to the licensee's revenue under each of the relevant methodologies. The licensees will then have the opportunity to provide any further information. During May 2017, and in light of responses from the licensees, we will publish a formal two-month consultation on any adjustments to the licensee's revenue. Having considered responses to that consultation, we aim to publish the Authority's decision by the end of September 2017.

Where we decide it is appropriate to make adjustments to the price control allowances of the DNOs, we will do so in November 2017 as part of the wider annual iteration process whereby we update and roll forward the price control financial models for each licensee.

Deliverables 2017-18

- Publish decision on adjustments to licensees' revenue – Q2

Consultations 2017-18

- Open two-month consultation on adjustments to licensees' revenue – Q1

6.9 Network Innovation Competition

The innovation schemes provided for under our RIIO price controls enable network companies to develop and test innovative solutions to help accelerate our move to a low carbon energy sector and benefit consumers. We will continue to monitor projects that have received funding under these schemes, and administer them. In particular, we will run the annual Network Innovation Competition (NIC) and decide which projects to fund by December.

In 2016-17, we completed our Innovation Review of the governance arrangements covering the NIC and the Network Innovation Allowance. The aim of the review was to ensure that our innovation schemes continue to deliver value for money for consumers and drive culture change within the network companies we regulate. By the first quarter of 2017-18 we will look to implement most of the review's decisions through changes to the schemes' governance documents. Some of the changes will impact the network companies in 2017-18; others won't take effect until 2018-19.

During 2017-18 we expect DNOs to come forward with submissions to make use of the Innovation Rollout Mechanism (IRM) under RIIO-ED1. This mechanism is for funding the rollout of proven innovations which will contribute to the development of a lower carbon energy sector or provide broader environmental benefits to consumers. Applications should be received by May 2017. We will look to make a decision on which, if any, projects should be funded under this mechanism by the third quarter of 2017-18.

Deliverables 2017-18

- Make a decision on which projects to fund in relation to the Network Innovation Competition – Q3

6.10 Shetland

Shetland is currently an islanded network, not connected to the main electricity transmission system of Great Britain. In April 2014 we directed Scottish Hydro Electric Power Distribution (SHEPD) to undertake an open, fair and transparent competitive process to identify a new, efficient energy solution for Shetland. A new energy solution is required as Lerwick Power Station on Shetland is nearing the end of its operational life and the availability of Sullom Voe Terminal Power Station is uncertain from 2017.

In Q1 2017-18 SHEPD is expected to recommend the winning bidder(s) from the competitive process to us, and we will then assess the costs of the winning solution in Q2 2017-18 to ensure the solution is delivered at an efficient cost. We will work with the successful bidder and SHEPD to agree an appropriate regulatory framework to protect consumers' interests.

6.11 Our European work

The result of the referendum to leave the European Union will influence our present and future work and working relationships with our European partners. We will continue to provide extensive advice and support to the UK government as it negotiates our future relationship, while continuing to work with industry, government, our neighbouring regulators and the European regulatory bodies to ensure that we deliver the best outcomes for consumers.

Subject to wider developments, we plan to carry out the following activities in 2017-18:

We will continue our successful approach of engaging with the European institutions to influence European policy and regulations in the interests of GB consumers. A particular focus of our work through the Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER) will be on implementing European regulations governing cross border trade in a proportionate way and, fundamentally, on ensuring that GB consumers can continue to benefit from cross border trade.

We will continue to use our senior positions in ACER and CEER, and our participation in various working groups, to influence future legislation, implement new rules (in the form of European Network Codes and Guidelines) and develop infrastructure in a coordinated way.

A particular focus for 2017 will be on the European Network Codes and Guidelines, a suite of binding European laws which promote the integration of energy markets and the harmonisation of rules for the operation of networks. Once approved, these rules will need to be implemented proportionately and promptly into GB's industry codes. As such, clear planning and close working with GB industry will be vital.

We also think it is important that we remain at the forefront of the European debate on areas such as the future of smart grids and will work to ensure decisions taken at European level are consistent with developments in GB. We will therefore continue to hold roles in the relevant working groups and task forces and to work closely with the European Commission on smart grids and flexibility issues.

We recognise that a flexible approach is going to be needed throughout 2017-18. As the nature of our future relationship with the EU becomes clearer, we recognise that there may be a need to refocus our activities and change priorities. These decisions will be made based on the areas in which we can have the greatest impact in securing benefits for GB consumers.

6.12 Better regulation

We have a new statutory requirement to report on the impact of our regulatory measures on costs to businesses. The first report covers the two-year period from May 2015.

We recognise that we collect large volumes of data from industry and we have been working over the past year to make relevant data more accessible to stakeholders through the data portal on our website, our commentary and reports, and by working with partner organisations. We plan to review our internal data architecture to ensure that we fully understand the data we need to gather, where there may be scope for streamlining, and to ensure we make the best use of the data we hold.

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 will be published in March 2017.

Deliverables 2017-18

- Submit Business Impact Target report – Q1

6.13 UK regulators network planned activities

We will continue to participate in projects and working groups of the UK regulators network (UKRN). The UKRN provides a structure for joint working between the UK's economic regulators.

In 2016-17 we have contributed to several UKRN projects. These have included a project on data sharing for vulnerable customers, a joint project with Which? on consumer challenge and engagement, a report on Price Comparison Websites and leading a review of the Northern Ireland regulator's estimate for the cost of capital in its gas distribution price control.

Question for stakeholders: do you agree with our priorities and planned programme of work? If not, why?

7. Ofgem E-Serve

E-Serve is the part of Ofgem that delivers a range of green energy and social schemes on behalf of government. Our expertise lies in designing, setting up and delivering large scale programmes in the sustainable energy sector. These programmes are in fields as diverse as renewable heat, renewable electricity, energy efficiency and fuel poverty.

In 2017-18 we will work closely with the Department for Business, Energy and Industrial Strategy (BEIS) to consider what can be done to simplify delivery of the schemes we administer, and to drive value for money for consumers. At the same time we will remain focused on providing our customers with the level of service that they expect.

In our effective administration of the schemes, we will also continue to support the government in meeting its commitment to help reduce carbon emissions, improve energy efficiency, and reduce fuel poverty.

These are the schemes we administer:

- The Domestic Renewable Heat Incentive (Domestic RHI) is a government incentive that provides successful applicants with money towards renewable heating costs in their homes.
- The Non-Domestic Renewable Heat Incentive (Non-Domestic RHI) is a government incentive that helps businesses, public sector and non-profit organisations in England, Scotland and Wales meet the cost of installing renewable heat technologies.
- The Feed-in Tariff (FIT) is a government incentive that makes it possible for successful applicants to get payments (a 'feed-in tariff') from their energy supplier if they generate their own electricity.
- The Renewables Obligation (RO) is one of the government's main support schemes for large-scale renewable electricity generating stations in the UK.
- The Renewable Energy Guarantees of Origin scheme aims to increase the use of renewable energy sources for electricity production across the EU.
- The Climate Change Levy (CCL) is a tax on UK business energy use, charged at the time of supply. The government has closed the Climate Change Levy exemption for renewable electricity generated after 1 August 2015.
- The Energy Company Obligation (ECO) requires energy suppliers over a certain size to deliver energy efficiency measures such as loft and wall insulation to domestic premises in Great Britain.
- The Warm Home Discount (WHD) obligates energy suppliers over a certain size to support vulnerable customers, such as low income pensioners and young families.
- The Offtaker of Last Resort (OLR) is a government scheme that helps eligible renewable generators enter into a Backstop Power Purchase Agreement (BPPA) with a licensed supplier when they cannot get a standard Power Purchase Agreement through normal commercial avenues.

7.1 Customer engagement and insight

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 a range of mediums, providing stakeholders with the opportunity to give us feedback while keeping them informed about latest developments.

A core focus in 2017-18 will be to continue to improve the satisfaction ratings that customers give us when they respond to feedback surveys. This is part of our ongoing customer insight work, which helps us to understand how and why our customers interact with us, and what we can do to improve these interactions. We have already expanded our use of online feedback surveys, from surveying applicants' experience of the end-to-end application process, to other areas such as audits, payments and the annual declaration process. We are now looking at other processes which we can survey and how we can make more use of focus groups to gain direct feedback on what customers were pleased with, and where they think we can do better. Based on the feedback we receive, we will implement changes to our processes that will improve the experience for future customers.

7.2 Operational excellence and continuous improvement

A culture of continuous improvement is fully embedded within E-Serve, through our Operational Excellence programme. In 2017-18 we will continue to lead the way in finding ways to share best practice, reduce transaction costs, cut overall spending and enhance the quality of service received by scheme participants. There are a number of initiatives underway including the continuation of our programme of providing staff with Institute for Continuous Improvement in Public Services Lean qualification training. This will allow us to deliver individual "Lean" projects within schemes.

We also constantly strive to improve the security of our application processes. This ensures a quality customer experience while 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 remains a key area of focus.

7.3 Publishing scheme performance and customer satisfaction data

We want to be as open and transparent as possible about how the schemes we administer are performing, as this helps our customers clearly understand how long it is likely to take for their application to be processed. We also want to provide regular updates about how well we are performing against our key performance indicators as our performance in these areas really matters to, and has the potential to impact on, our customers. Customer Satisfaction is another key driver for us. In publishing satisfaction ratings that customers give us when they respond to feedback surveys, we are being open and transparent about what our customers think about the service we provide.

This year we will be building on the improvements we made in 2016-17 to the scheme performance and customer satisfaction data that we publish. We will act

on stakeholder feedback about our online data mapping tool, so that we can improve its functionality before relaunching it. This will ensure that we optimise the way we provide the regional and constituency level information that stakeholders have asked us for on a wide range of metrics, making it easier for them to find the data they need. During 2017-18, we remain committed to publishing our online scheme performance report, customer satisfaction report and the Supplier Performance Report. We will work with stakeholders to understand their data requirements in greater detail, to determine what other types of data we might be able to share and what improvements we can make to how data is presented.

7.4 Improving our IT systems and processes

We have listened to customer feedback about our IT systems and processes and are looking at what improvements we can make to improve the overall customer experience. As part of this process we recognise the importance of ensuring that our IT systems and processes keep pace with technological developments. We will also look at how we can make more effective use of technology across the schemes we administer. This will help deliver value for money for consumers by, for example, increasing automation and simplifying processes.

Question for stakeholders: do you agree with our priorities and planned programme of work? If not, why?

8. How we operate (including our budget)

Our finances: Operating costs

We have agreed a cost control framework with government which will take our total expenditure down to £82m by 2019-20. This represents a reduction in real terms of 15%. Our gross costs for the next five year period are set out below.

| £m | 2016-17 planned | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|-------|-----------------|---------|---------|---------|---------|---------|
| Total | 88.7 | 87.8 | 83.9 | 82.0 | 82.0 | 82.0 |

Our stakeholders: Smarter consultations

Making life easier for our stakeholders is one of our priorities. That's why we aim to try consulting 'smarter' this year.

Stakeholders have told us we publish too many consultation documents, and that they are too long. This sometimes makes them unmanageable for those who have neither the time nor the resources to devote to responding. And if we are to make the best possible decisions, we need to make sure that all interested parties are represented and their views are heard.

Alongside or sometimes instead of using documents, we will engage stakeholders through workshops and online tools such as surveys, and LinkedIn. It is important not to exclude any stakeholders, and to give them a forum to think about and respond to our consultations in ways that suit them.

As we move towards regulating more through principles in the retail market, and encouraging innovation among suppliers and network companies, it follows that we too are less prescriptive and more innovative in our approach to consultation, as befits a regulator of a changing market.

We will be launching new external consultation policy in spring 2017, to bring it into line with the government's consultation principles. We will aim to provide a clearer view of our upcoming consultations and will continue to promote upcoming consultations on our website.

We are interested in hearing from you. How would you like to work with us? You can either respond via this Forward Work Programme consultation or we will be holding a discussion group on LinkedIn in mid-January. Follow us on LinkedIn to find out more.

Looking to the future for the organisation

We are excited about the enormous changes and challenges ahead in the energy sector. These changes will greatly affect our work as regulator, so we want to be ready for them. This means having the right structure, outlook, capabilities and size to respond to change in an agile way, while maintaining our focus on protecting the interests of consumers. We are continually reviewing and evolving

our operating model and ways of working to keep pace with changes in the sector.

In 2016, we created a new role of Chief Operating Officer, appointing Sarah Cox in May. We also launched the Office of the Chief Economist, building on the work to improve our regulation through creating a central analytical team.

Feedback on this consultation

We want to hear from anyone interested in this document. Send your response to the person or team named at the top of the front page.

We have asked for your feedback in each of the questions throughout the document. Please respond to each one as fully as you can.

Unless you mark your response confidential, we will publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

We will also be holding a stakeholder event on 9 February where you can hear from Dermot Nolan and David Gray and members of the Authority on our plans for future work. Look out for an invitation to this event.

Appendix 1 – Key performance indicators

Ofgem Regulatory Key Performance Indicators

| Metric | What is being measured | Annual target |
|----------------------------------|--|--|
| RMR Derogation requests | Make decisions on RMR derogation requests within 60 working days of receiving a request (unless formal consultation is needed) | 90% |
| Offshore Transmission processing | Licence grant within 70 days of commencement of Section 8a consultation | 70 working days |
| Offshore Transmission processing | Preferred Bidder selection within 120 days of ITT submission (excluding Best and Final Offer) | 120 working days |
| Licence Applications | Make decisions on licence applications within 45 days | 100% |
| 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% |
| Customer Contacts | Time taken for first response to customer contacts | 93% - 10 working days |
| Whistle-blowers | Time taken for first response to whistle-blower contacts | 90% to receive initial engagement within 1 working day |

Ofgem E-Serve Key Performance Indicators

| Metric | What is being measured | Annual target |
|--|--|----------------------|
| Domestic Renewable Heat Incentive (RHI) processing | Responding to enquiries about applications within 10 working days | 90% |
| Non-Domestic Renewable Heat Incentive (RHI) processing | Responding to queries within 10 working days | 90% |
| Renewables Obligation (RO) processing | Responding to enquiries about applications within 10 working days | 90% |
| Feed-in-Tariff (FIT) processing | Responding to enquiries about applications within 10 working days | 90% |
| Energy Company Obligation (ECO) | Responding to queries within 10 working days | 90% |
| Warm Home Discount (WHD) processing | Responding to obligated party submitted Warm Homes Discount schemes for approval, within 28 days | 100% |
| Domestic Renewable Heat Incentive (RHI) processing | Maintaining system availability during business hours | 99% (or above) |
| Non-Domestic Renewable Heat Incentive (RHI) processing | Maintaining system availability during business hours | 99% (or above) |
| Renewables Obligation (RO) processing | Maintaining system availability during business hours | 99% (or above) |
| Feed-in-Tariff (FIT) processing | Maintaining system availability during business hours | 99% (or above) |
| Energy Company Obligation (ECO) | Maintaining system availability during business hours | 99% (or above) |
| Domestic Renewable Heat Incentive (RHI) processing | Making payments within 5 working days | 95% |
| Non-Domestic Renewable Heat Incentive (RHI) processing | Making payments within 30 working days | 95% |
| 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 (Jul-Mar) | 95% |



Forward Work Programme 2017-18

| Metric | What is being measured | Annual Target |
|---------------------------------|--|----------------------|
| Feed-in-Tariff (FIT) processing | Completing the levelisation process within 22 working days | 95% |
| Energy Company Obligation (ECO) | Processing measures submitted within calendar month | 95% |

Appendix 2 – Deliverables included in this document

Quarter 1 Deliverables

| | Deliverables |
|---|--|
| Enabling a better functioning retail market | <ul style="list-style-type: none"> • Publish our decision on the intermediate proposals for amendments to the Confidence Code and, if appropriate, make the Code amendments outlined in our consultation – Q1 • Outline our proposed next steps for our review of the Confidence Code – Q1 |
| Facilitating the energy transition | <ul style="list-style-type: none"> • Publish our proposed high-level strategic approach to market and regulatory reform in response to the energy systems transition – Q1 • Publish, by June 2017, (Q1) our plan for enabling a smart, flexible energy system jointly with the Department for Business, Energy and Industrial Strategy. • Publish final decision on current industry code modifications that relate to aspects of embedded benefits – Q1 • Publish our proposed approach to the reform of network charging to ensure consistent and minimally distortive recovery of the sunk and fixed costs, storage charging and other elements of embedded benefits – Q1 • Decide whether and how to provide a potential 'regulatory sandbox' in energy – Q1 • Implement Data and Communications Company operational performance regime – Q1 |
| Learning from the first RIIO framework and setting RIIO-2 up for success | No deliverables this quarter |

| | |
|---|--|
| Introducing competition into monopoly areas | <ul style="list-style-type: none"> • Make an initial decision on the need for the North West Coast Connections transmission project connecting proposed new nuclear generation in Cumbria, as well as deciding whether to tender that project – Q1 • Select a Preferred Bidder for the Burbo Bank project in offshore transmission owner Tender Round 4 – Q1 |
| Becoming an authoritative source of quality analysis | No deliverables this quarter |
| Our core business activities | <ul style="list-style-type: none"> • Publish our Enforcement Overview on our performance in exercising our enforcement powers – Q1 • Submit Business Impact Target report – Q1 |
| Ofgem E-Serve | See E-Serve recurring deliverables |

Quarter 2 Deliverables

| | Deliverables |
|---|--|
| Enabling a better functioning retail market | <ul style="list-style-type: none"> • Make amendments to the broad principles in the gas and electricity supply licenses, including a new vulnerability principle – Q2 • Publish Report on Social Obligations, including reporting on how suppliers supported customers in vulnerable situations and managed debt and disconnection in 2016 – Q2 • Publish Blueprint Consultation (Design Baseline 2) in relation to the Switching programme, including impact assessment and draft outline business case – Q2 |
| Facilitating the energy transition | <ul style="list-style-type: none"> • Review the Innovation Link based on our experience in delivering the services – Q2 |
| Learning from the first RIIO framework and setting RIIO-2 up for success | No deliverables this quarter |

| | |
|---|--|
| Introducing competition into monopoly areas | No deliverables this quarter |
| Becoming an authoritative source of quality analysis | No deliverables this quarter |
| Our core business activities | <ul style="list-style-type: none"> • Host an annual Enforcement Conference to share our experience and learnings in exercising our powers – Q2 • Procure a third party, with expertise in consumer charities, to effectively allocate funds from voluntary redress – Q2 • Decision on review of Fleetwood Regulatory Asset Value addition for National Grid Gas Transmission – Q2 • Publish decision on adjustments to licensees' revenue – Q2 |
| Ofgem E-serve | <ul style="list-style-type: none"> • Publish annual report on the Domestic Renewable Heat Incentive scheme • Publish annual report on the Non-Domestic Renewable Heat Incentive scheme • Complete Feed-in Tariff annual levelisation process • Complete final determination on ECO2 Carbon Saving Community Obligation <p>See E-Serve recurring deliverables</p> |

Quarter 3 Deliverables

| | Deliverables |
|--|--|
| Enabling a better functioning retail market | <ul style="list-style-type: none"> • Publish Blueprint decision document (Design Baseline 3) in relation to the Switching programme – Q3 |
| Facilitating the energy transition | <ul style="list-style-type: none"> • Publish a second consultation (Q2) and then a decision (Q3) on our proposals for a new System Operator incentive framework |

| | |
|---|--|
| | to apply from April 2018 onwards, designed to align with the System Operator's future role and drive high System Operator performance |
| Learning from the first RIIO framework and setting RIIO-2 up for success | No deliverables this quarter |
| Introducing competition into monopoly areas | <ul style="list-style-type: none"> • Make a final decision on the need for the Hinkley-Seabank transmission project connecting proposed new nuclear generation in Somerset, as well as deciding whether to tender that project – Q3 |
| Becoming an authoritative source of quality analysis | <ul style="list-style-type: none"> • Publish State of the Market Report – Q3 |
| Our core business activities | <ul style="list-style-type: none"> • Publish guidelines on our approach to Compliance and Enforcement, including on our priorities – Q3 • Make a decision on which projects to fund in relation to the Network Innovation Competition – Q3 |
| Ofgem E-Serve | See E-Serve recurring deliverables |

Quarter 4 Deliverables

| | Deliverables |
|---|---|
| Enabling a better functioning retail market | <ul style="list-style-type: none"> • Complete Detailed Level Specification Phase and publish Design Baseline 4 in relation to the Switching programme – Q4 |
| Facilitating the energy transition | <ul style="list-style-type: none"> • Publish Data and Communications Company price control decision for 2016-17 – Q4 • Hold first meeting of the consultative board – Q4 |
| Learning from the first RIIO framework and setting RIIO-2 up for success | <ul style="list-style-type: none"> • Implement a requirement for companies to prepare accounts in accordance with the regulatory financial reporting standard for 2017-18 – Q4 |
| Introducing competition into monopoly areas | <ul style="list-style-type: none"> • Select Preferred Bidders for the Dudgeon, Rampion and Race Bank projects in offshore transmission owner Tender Round 5 – Q4 |
| Becoming an authoritative source of quality analysis | No deliverables this quarter |
| Our core business activities | No deliverables this quarter |
| Ofgem E-Serve | <ul style="list-style-type: none"> • Publish annual report on the Feed-in Tariff scheme • Publish annual report on the Renewables Obligation scheme <p>See E-Serve recurring deliverables</p> |

E-Serve recurring deliverables

| | Occurrence | Deliverables |
|---------------|------------|---|
| Ofgem E-Serve | Monthly | <ul style="list-style-type: none"> Publish compliance progress reports against the Energy Company Obligation |
| | Quarterly | <ul style="list-style-type: none"> Publish quarterly report on Domestic Renewable Heat Incentive scheme |
| | Quarterly | <ul style="list-style-type: none"> Publish quarterly report on Non-Domestic Renewable Heat Incentive scheme |