

Minutes of a Meeting of the Gas and Electricity Markets Authority

Thursday, 13 October 2016 at 8.15 am

9 Millbank, London SW1P 3GE

Minutes of the Authority meeting held in September 2016

1. The minutes of the meeting held on 15 September 2016 were agreed subject to minor drafting amendments, which were noted.

Introductory remarks by the Chairman

2. The Chairman noted that declarations of interest were recorded from a Member who was a non-executive director of the Low Carbon Contracts Company; another Member whose institution was in receipt of some funding from the energy industry including in relation to advice on a response to the Authority's open letter on charges to embedded generators; and from the Secretary, who was connected with a body that had granted an option to provide a site and technical support to a service provider tendering to provide firm frequency response to National Grid.
3. The Chairman reported on meetings with a Minister, the Chairs of other regulators and senior stakeholder representatives. He had also chaired a meeting of the Sustainable Development Advisory Group (SDAG) which had welcomed the publication of Ofgem's recent future insights programme overview paper. The Chief Executive noted that it was intended to hold an event to discuss the future insights programme within the next few months.

Report by the Chief Executive

4. The Chief Executive reported on discussions and correspondence with a Minister, senior civil servants and other senior stakeholders, and on plans for forthcoming meetings with Ministers. He noted also that the recent E-Serve conferences in London and Glasgow had been very successful, and that the participation of non-executive directors had been much appreciated.
5. The Chief Executive gave an update on current Enforcement cases.
6. The Senior Partner, Energy Systems gave an update on exchanges with Government on the future role and status of the electricity System Operator. It now appeared likely that an announcement on the proposed way forward would be made shortly, possible at the same time as publication of the joint Flexibility study and call for evidence. As reported at the previous meeting, it would no longer be possible to implement arrangements for greater independence of the System Operator within the

National Grid group by April 2018 but the feasibility of implementing the changes part way through 2018/19 was being investigated.

7. The Senior Partner, Energy Systems reported on responses to the open letter on possible changes to the charging arrangements for embedded generation. A large number of proposed Code modifications had been put forward, on which the Code Panel would report by 28 November. The Chairman noted that Ofgem itself would be affected by any changes to charging arrangements through its ownership of a small combined heat and power plant at 9 Millbank. There was a discussion of actions to be taken in preparing to respond to the Code Panel recommendations, of which there would be further consideration at the next meeting.
8. The Senior Partner, Networks reported on need to review treatment of an allowance given to National Grid Gas Transmission for constructing a connection to a proposed new gas storage facility which had been much delayed as a result of planning issues and which now might not be constructed within the RIIO period. The Chairman noted that he had been a Non-Executive Director of the company which was seeking to develop the gas storage facility until his resignation in 2013 prior to his appointment as Chairman of the Authority. A letter on the proposed treatment of the expenditure allowance would be issued later in the month.

Consumer credit balances: decision on changes to supplier of last resort arrangements for supplier insolvency

9. The Authority considered a paper which set out an approach to protect consumers' credit balances in the event of supplier insolvency through changes to the Supplier of Last Resort (SoLR) arrangements. The paper incorporated a range of views expressed in response to consultation and covered several considerations. These included getting the balance right between offering appropriate levels of protection and not creating distortions in the market that might be detrimental to consumers in other ways.
10. It was noted that for some suppliers the average levels of credit balances held were disproportionately large. It was agreed that this position should be monitored closely, with possible action to be considered if balances at the beginning of the winter appeared to be unnecessarily high.
11. A broader issue of responsibility was discussed, including whether some suppliers might take unjustifiable risks and gain customers on the basis that the regulator would bail the customers out if necessary. There were various ways that these risks might be limited including further control on issuing supply licences or limiting the cover that customers would receive if the supplier became insolvent.

12. After discussion, the Authority approved an amended approach to SoLR arrangements which would give preference to SoLR bids that would honour credit balances without recourse to the industry levy and, where no such bids were received, give consideration to allowing a bidding SoLR to recover the costs of honouring credit balances from the industry levy. The Authority agreed that this situation should be kept under constant review, taking into account points raised in discussion, and that further action might be required in the future.

RIIO Innovation Review – minded to approach

13. The Authority considered a paper summarising recommendations to consult on a number of changes to the Network Innovation Competitions and the Network Innovation allowance in the light of a review of the schemes.
14. The level of funding to be made available was discussed and it was felt that reducing the total was appropriate, both to ensure that money was not spent just because it was available and to encourage greater competition between bidders. The Authority supported a proposal to ensure that DNOs contributed to the costs of these projects, as they were gaining some benefits from them, but this should not detract from ensuring that benefits and lessons from the projects were shared across the sector.
15. It was noted that the possible extension of the fund direct to third parties required further careful consideration. There would be benefits to encouraging such applications in that some companies might be discouraged from bidding if it was necessary to partner with a DNO, particularly for the more innovative or disruptive projects. However, the assessment of innovation proposals by third parties was not part of the core business of a regulator, the right expertise was not available in house and the administrative burden and risk of tendentious challenge should not be underestimated. There were other bodies such as the Technology Strategy Boards that were better suited to conducting such programmes and Ofgem should do more to build links to the wider innovation landscape and engage with a range of other organisations.
16. There was a discussion of the need for DNOs to be more strategic with their innovation planning ahead of RIIO 2 and to have clear plans for the future. They could usefully work more closely together to develop an innovation strategy.
17. After discussion, the Authority agreed to consult on:
 - reducing the annual funding of the electricity Network Innovation Competition from £90m per year to £70m per year (of which £30m per year was already committed for the duration of the current transmission price control, RIIO T1);

- Promoting greater third-party involvement in the short to medium term by requiring the network companies to issue an annual call for ideas from potential project partners;
 - As a longer term measure, a cautious exploration of the potential for legislative change allowing direct access to funds by third parties;
 - Requiring network companies to make a non-refundable 10% contribution to projects seeking NIC funding; and
 - A number of other smaller governance changes summarised in the paper.
18. The Authority agreed to delegate the final decision on these changes to the Senior Partner, Networks, subject to the responses to consultation not raising any material concerns and subject to consultation with the Chairman and Chief Executive on the line to be taken on future direct access to funding by third parties.

E-Serve Board update report

19. The Authority received a presentation on E-Serve's activities over the past six months and significant issues for the short and longer term. The Managing Director, E-Serve reported on the Northern Ireland Public Accounts Committee investigation into the non-domestic Renewable Heat Incentive Scheme and the associated site audit report by PWC. E-Serve would be commenting on the recommendations.
20. There was a review of discussions with Government on the delivery landscape and the future status of E-Serve. It was agreed that the case for separation from the perspective of the Authority as a regulator, Government as facilitator of an efficient delivery structure and E-Serve itself as a repository of skills and expertise which might otherwise see a progressive reduction in activity remained strong. The Managing Director would be meeting the Minister later in the month; following that meeting, it would be appropriate to take stock and consider what further contacts might be appropriate.
21. After further discussion, the Authority noted the report and the priorities moving forward.

Setting ourselves up for successful delivery

22. The Authority received a presentation on plans for rebalancing and reallocating resources to align better with the Authority's organisational priorities and with those activities which were most likely to drive the most significant consumer outcomes. The presentation also included a review of the Authority's most significant strategic risks.

23. There was a discussion of a number of general areas for improving the efficiency of working and the quality of outputs. These included ways of providing internal critical challenge during policy development, the need to assess regularly whether some areas of work were sufficiently valuable to consumers to be pursued further and how best to achieve more flexible and rapid redeployment of resources to meet changing priorities.
24. After discussion, the Authority endorsed the general approach and priorities set out in the presentation and noted that a number of areas covered would be discussed further at an Awayday at Millbank in December.
25. There was a discussion of the most significant risks to achievement of the Authority's strategy and of the actions being taken to mitigate them, to the extent that was reasonably practicable. It was noted that there had been progress in mitigating some of the risks that were more directly under the control of the Authority but that this had been counterbalanced by some increases in external risks.
26. It was agreed that the Audit and Risk Assurance Committee would review the strategic risk register at its next meeting and that the Authority would consider strategic risks again in about six months' time, following a detailed review by the internal Strategy and Risk Board.

Chief Operating Officer's update report

27. The Authority received a presentation reviewing recent operating trends and the activities of Corporate Support Services over the past six months and setting out priorities moving forward. It was noted that the initial response level to the recently-launched updated People Survey had been encouraging.
28. It was noted that the Head of the Business Improvement Team was working alongside one Division at present, assisting in optimising the management of the Division's major projects. A similar approach might be adopted with other Divisions.
29. There was an update on progress of preparations for a move to the new London office. It was intended that an announcement would be made at the Staff Conference on 2 November. The Technology Refresh programme was moving forward and a review of required IT support capabilities was nearing conclusion.
30. Total expenditure for the year was running below phased budgeted levels and it was anticipated that this position would be sustained throughout the current financial year. The challenge of meeting reducing real expenditure ceilings would, however, become more significant in subsequent financial years.

31. After discussion, the Authority noted the report and endorsed the priorities for Corporate Support services moving forward.

Strategy for engaging consumers in response to the CMA's final report

32. The Authority considered a paper summarising work being undertaken to implement the Competition and Markets Authority's (CMA's) recommendations on promoting greater engagement with the market. The cluster of work was comprised of two workstreams working closely together – one looking at prompts to engage and the other looking at designing and testing the proposed Disengaged Consumer Database. The CMA were being kept closely in touch with developments on the project.
33. It was noted that the expected introduction of the Database in some form already appeared to be having some influence on the behaviour of some major suppliers.
34. There was a discussion on the likely usefulness of a Database approach once smart meters were widely available and it was agreed that the lessons learned from interactions with consumers could have applications in facilitating straightforward and easily usable switching mechanisms in the smart meter era. Every effort should be made to ensure that the architecture of, and approach to, the Database could interface readily with the smart meter and faster switching architecture.
35. After discussion, the Authority noted the approach being taken for implementing the Consumer Engagement remedies, and in particular how it was intended to design and test the Database service in the second half of 2016/17, and noted that it was proposed to use this learning to inform the Authority's decision on how to proceed with further development of the Database service in 2017/18.
36. The Authority noted that all necessary decisions on the introduction of a new domestic supply licence condition (SLC 32A) that would enable the Authority to direct suppliers to conduct trials and other related activity would be taken under delegated authority. The new domestic supply licence condition would be based closely on the draft licence condition published by the CMA.
37. There would be a further update on progress early in 2017.

Report of the September meeting of the Audit and Risk Assurance Committee

38. The Authority noted the Report.

Information paper - relaunching our Supply Market Indicator

39. The Authority noted the paper

Information paper – Decision Log update

40. The Authority noted the paper.

Date of next meeting

41. The next meeting of the Authority would be on **Thursday, 10 November 2016** in Edinburgh. It would be preceded by informal briefing sessions, and a dinner with Scottish stakeholders, on 9 November.

Those present

David Gray

Dermot Nolan

Christine Farnish

David Fisk

(For paragraphs 1 - 34)

Rachel Fletcher

Paul Grout

Nicola Hodson

Jim Keohane

Keith Lough

(For paragraphs 1 - 24 and 32 - 41)

Andrew Wright

Those attending

Jonathan Brearley

Sarah Cox

Martin Crouch

Chris Poulton

Others present

David Ashbourne

(Legal Adviser to the Authority)

Peter Jones

(Secretary to the Authority)

Simon Crine

(Director of Communications)

Wendy Watson

(Secretary-designate to the Authority)

Mark Wiltsher

(Associate Director, Communications – for paragraphs 1- 19 and 25 - 41)

Anna Saksonov

(Senior Legal Adviser – for paragraphs 9 -41)

Leanne Pallott

(Executive Adviser to Chief Executive – for paragraphs 8 -24)

For specific agenda items

<i>Name</i>	<i>Subject</i>	<i>Paragraphs</i>
Amar Kadri	Customer credit balances	9 - 12
Lesley Nugent	" "	" "
Rob Salter-Church	" "	" "
Jonathan Spence	" "	" "
Kersti Berge	RiIO Innovation Review	13 - 18
Geoff Randall	" "	" "
Shaun Scullion	Setting ourselves up for successful delivery and COO's update report	24 - 27
Lisa Symes	" "	22 - 31
Fiona Cochrane-Williams	CMA consumer engagement remedies	32- 37
Paul Fisher	" "	" "
Paul Huffer	" "	" "