

## **Minutes of a Meeting of the Gas and Electricity Markets Authority**

**Thursday, 15 December 2016 at 8.15 am**

**9 Millbank, London**

### **Apologies for absence**

1. Apologies were received from Paul Grout.

### **Minutes of the Authority meeting held in November 2016**

2. The minutes of the meeting held on 10 November 2016 were agreed.

### **Introductory remarks by the Chairman**

3. 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; 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.
4. The Chairman and the Authority members thanked the outgoing Secretary to the Authority, Peter Jones and Director of Communications, Simon Crine, for their valuable contributions to the work of the Authority since their respective appointments in the Autumn of 2014.
5. The Chairman reported on meetings with Ministers, senior civil servants and senior stakeholder representatives.
6. The Chairman also reported that the recruitment process for two Non-executive Directors of the Authority had begun.

### **Report by the Chief Executive**

7. The Chief Executive reported on discussions and correspondence with Ministers, senior civil servants and other senior stakeholders and gave an update on current Enforcement cases.
8. It was noted that an open letter on Embedded Generation had been published since the last meeting and ahead of the Capacity Market Auction in December.
9. It was noted that the Flexibility paper had been jointly published by Ofgem and BEIS and had generated a great deal of interest.

10. The Authority discussed the publication by Ofgem of data relating to standard variable tariff customers per energy company. There had been substantial media take up of the figures.
11. The Senior Partner, Consumers and Competition summarised the work that had been undertaken in relation to the insolvency of GB Energy Supply and the transfer of its customers to Co-Op Energy. It was noted that Co-Op Energy had agreed to honour the terms of all GB Energy Supply's customers' existing contracts. The Authority expressed their appreciation to the team that had secured the successful transition, noting that intensive work had been required over a period of days including a weekend.
12. There was discussion of recent developments in the retail energy market generally. It was agreed that urgent consideration would be given to the scope for any measures that might be taken in the short term to have some positive impact on customers' propensity to switch supplier, to complement the longer-term work being pursued to implement the Competition and Markets Authority's recommendations.
13. The CEO also reported his appearances at the House of Lords Committee on the future of energy systems and at the Climate Change Committee.

#### **Report by the Chief Operating Officer**

14. The Chief Operating Officer reported that the people survey of staff (undertaken as part of the Civil Service-wide survey) had shown an increase in the overall engagement score but that there was still work to do in some areas.
15. The COO reported on the financial outlook which showed that there was likely to be a small underspend in this financial year but that further work was needed to bring the spending within agreed limits for the financial year 2017/18. Changes to the way that the organisation was managed and resourced would contribute to addressing this problem.
16. The COO reported that more work was underway to provide clarity on accountability of individuals; all Senior Responsible Officers of projects and programmes had received accountability letters which included the scope of their delegated authority. In addition a review of the top six to eight projects would take place in the New Year to drive up the pace of delivery.

#### **Property acquisition and consolidation - Glasgow**

17. The Authority considered a paper proposing to consolidate staff based in Glasgow into Commonwealth House to improve the staff experience and achieve business efficiencies and savings.
18. There was a discussion of the capital cost of the building refurbishment. It was agreed that the objective should be to achieve a similar look and feel

to the Glasgow office to that which would be achieved with the new London office while optimising value for money.

19. After discussion, and subject to finding an organisation to take on a lease of at least two floors of the Cornerstone office, the Authority:
  - agreed to close Cornerstone and move Ofgem staff currently based there to Commonwealth House during the first half of 2017;
  - approved the capital spend of £960,000 inclusive of VAT to cover the refurbishment and fit-out of the new space, with a proviso that the COO would work to reduce this overall amount if possible; and
  - delegated authority to the Chief Operating Officer to sign the lease agreement.
20. The Authority agreed to accept the risk that it may not be possible to find an organisation to lease the Lower Ground Floor of Cornerstone.

### **Future of Be An Energy Shopper campaign**

21. The Authority considered a paper which set out options for the future of the Be An Energy Shopper campaign (BAES). Authority members expressed concern that marketing did not and should not form part of the core functions of an economic regulator. There were organisations that were more suited to serving consumers directly. The Authority recognised, however, that there might be benefits to retaining BAES at a reduced level for up to a year while alternative options were explored and while the work on implementing the CMA remedies continued in case this required us to communicate directly with consumers.
22. After discussion, the Authority gave the executive team the authority either to close the campaign imminently or keep it going in some capacity for up to a further year, with a strong steer that March 2018 should be a strict deadline for Ofgem's involvement with it. The decision should be taken in the context of the need to prioritise resources effectively to operate within existing budget constraints.

### **Electricity System Operator (SO) incentives for Balancing Services incentive Scheme (BSIS) from 1 April 2017**

23. The Authority considered a paper outlining options for incentivising NGET's Balancing Services and Black Start costs.
24. It was noted that the proposals currently under consideration for both were limited to the financial year 2017/18 with a view to longer term solutions being determined with effect from April 2018.

25. The Authority discussed some elements that should be considered for a long term Balancing Services incentive scheme. These might include more specific behavioural incentives and the possibilities for an open source model, which would enable greater engagement of stakeholders in the target setting process. The Authority recognised the importance of incentivising the right behaviours in order to achieve the best results for consumers, rather than incentivising the creation of more complex products which maximised National Grid's return.
26. After discussion the Authority agreed to:
  - consult on removing Black Start from BSIS for 2017-18 and establishing a cost disallowance scheme in respect of it; and
  - consult on the introduction of a revised incentive scheme for 2017-18 with significantly reduced caps, floors, sharing factors and with a back stop mechanism, using improved BSIS models and with an enhanced governance framework including improving the clarity of the economic licence condition.
27. The Authority delegated the final decision on the licence modifications to implement the revised arrangements to the Senior Partner, Energy Systems and gave him some latitude to make changes in response to consultation.

### **Consumer Impact Report Pilot**

28. The Authority considered a paper seeking guidance on how to proceed with our Consumer Impact review following some pilot studies.
29. There was a discussion on the benefits of being able to demonstrate impact and on the importance of both numerical and qualitative narrative driven analysis, noting that it was necessary to combine the two to present an accurate picture of impact. This analysis should be linked to Ofgem's five Consumer Outcomes and should also help Ofgem make good prioritisation choices. It was agreed that care was needed to avoid criticism for spurious accuracy or misinterpretation of figures.
30. Robust external verification of the work would be essential to its credibility if it were to be published externally.
31. After further discussion, and subject to budget prioritisation decisions by the executive team, the Authority requested the team to:
  - work towards developing the net benefits figures for internal use to further prioritisation decisions, alongside better impact assessment analysis and evaluation;
  - develop a stronger narrative around Ofgem's impact recognising the areas where impact was highly sensitive to the assumptions made.

In such circumstances, net benefits figures should be used to enhance the narrative rather than being the focus of it, making clear that they were subject to a range of uncertainty.

- work towards publishing the narrative in the 2017-18 Annual Report.
- the approach might be to present the total expected impacts of Ofgem's activities in the previous financial year, while excluding particularly uncertain and long-term impacts from the main calculation. The team would return to the Authority with further development of the work well in advance of preparation of the 2017-18 Annual Report.

### **RIIO mid-period review (MPR) parallel work**

32. The Authority considered a paper setting out options for consultation on treatment of issues needing resolution in relation to specific outputs under the transmission and gas distribution price controls.
33. This covered issues where the output definition was not entirely clear or the output had not been delivered in the precise way envisaged at the time of Final Proposals and areas where Ofgem or others had raised concerns about whether mechanisms were working as intended.
34. After discussion, the Authority agreed to:
  - Consult on pursuing a principled approach to the issues which would focus on the high level purpose of the outputs and avoid adjusting the price control. The Authority would, however, propose under this option to consult on delaying the Western HVDC allowances because of late delivery, and also on a refund offered by National Grid in respect of deferral of work on London medium pressure gas mains; and
  - To delegate the drafting of the final details of the consultation and the decisions after the consultation to the Senior Partner, Networks, in consultation with the Chief Executive Officer.

### **Networks Division update**

35. The Authority received a presentation summarising progress of Networks Division's re-organisation, the Division's activities for the past three months and its priorities for the next six months.
36. There was a discussion of work being undertaken to assess the current status of RIIO and improve the effectiveness and efficiency of monitoring of the network companies. Potential improvements to the RIIO determination process were also being considered in preparation for RIIO-2, by reference to issues in the RIIO-1 process which were now being identified as being

potentially amenable to a more effective approach. Initial proposals on a broad framework and approach for RIIO-2 would be considered by the Authority early in the New Year.

37. It was noted that there was considerable investor interest in Round 5 of the offshore tendering programme.
38. A joint project on future networks strategy in conjunction with Energy Systems Division was now under way, the project board for which would also oversee development of proposals for RIIO-2.
39. After discussion, the Authority noted the actions which were being taken to address capacity and capability issues in the Division and endorsed the Division's priorities looking forward.

### **Ofgem's Forward Work Programme 2017-18 – for consultation**

40. The Authority considered the final draft of its Forward Work Programme 2017-18, an earlier draft of which had been considered at the previous meeting.
41. After brief discussion, the Authority thanked the drafting team for their efforts in producing so readable and concise a document and delegated to the Chief Executive approval of the final version of the Forward Work Programme for publication for consultation, after taking into account some amendments proposed in discussion.

### **Report on the activities of the UK Regulators Network**

42. There was a discussion of the current activities and profile of the UK Regulators Network (UKRN). It was noted that the environment had changed since UKRN was established and that it was proving valuable to have a forum in which to share information and potentially develop common lines amongst regulators on issues of general concern. Potential developments in the role and public profile of UKRN were discussed.

### **Information paper – REMCO update**

43. The Authority noted the paper.

### **Communication of network companies' complaints handling procedures – change to Statutory Instrument.**

44. The Authority noted the paper

### **Information paper – update on Project Nexus go-live**

45. The Authority noted the paper.

### **Information paper – gas security of supply update**

46. The Authority noted the paper.

**Information paper – Decision Log update**

47. The Authority noted the paper.

**AOB and Date of next meeting**

48. There was a discussion of circumstances in which it might be constructive to comment publically on relevant Government policies, as recommended in the CMA Energy Markets report, noting that it might be most helpful to comment while policies were still under development.

49. The next meeting of the Authority would be on **Thursday, 16 February 2017** at 9 Millbank. It would be preceded by informal briefing sessions on 15 February.

**Those present**

David Gray  
 Dermot Nolan  
 Christine Farnish (for paragraphs 1 – 27)  
 David Fisk  
 Rachel Fletcher  
 Nicola Hodson  
 Jim Keohane  
 Keith Lough  
 Andrew Wright

**Those attending**

Jonathan Brearley  
 Sarah Cox  
 Martin Crouch

**Others present**

David Ashbourne	(Legal Adviser to the Authority)
Peter Jones	(Secretary to the Authority)
Simon Crine	(Director of Communications)
James Robinson	(Acting Legal Director, E-Serve)
Anna Saksonov	(Senior Legal Adviser – for paragraphs 20 - 48)
Wendy Watson	(Secretary-designate to the Authority)
Mark Wiltsher	(Associate Director, Communications- - for paragraphs 1 - 21)
James Kilmartin	(Head of Parliamentary Relations – for paragraphs 1 – 21)
Ben Woodham	(Executive Adviser to Chief Executive)
Douglas Board	(Consultant on Board performance)



***For specific agenda items****\*By teleconference*

<b><i>Name</i></b>	<b><i>Subject</i></b>	<b><i>Paragraphs</i></b>
Rachel Ramsay	Future of BAES campaign	20 - 21
Tom Corcut	Electricity SO incentives BSIS from 2017	23 - 27
Leonardo Costa	" "	" "
Philippa Pickford	" "	" "
Merce Almuni	Consumer Impact Report pilot	28 - 31
Joe Perkins	" "	" "
Kersti Berge	RIO Mid Period Review (parallel work)	32 - 34
Geoff Randall	" "	" "
Lisa Symes	Ofgem's Forward Work Programme for consultation	40- 41