

Minutes of a Meeting of the Gas and Electricity Markets Authority

Thursday, 16 November 2017 at 9.00 am

9 Millbank, London

Apologies for absence

1. None.

Minutes of the Authority meeting held in October 2017

2. The minutes of the meeting held on 12 October 2017 were agreed.

Introductory remarks by the Chairman

3. The Chairman reported on meetings since the last meeting, including meetings with senior Government and industry representatives and a visit to a smart village in Scotland where the community have grouped together to participate in a collective switching scheme and have invested in renewable technology.

Report by the Chief Executive Officer

4. The Chief Executive reported on discussions and correspondence with Ministers, senior civil servants and other senior stakeholders since the last meeting and on his appearance at the Business, Energy and Industrial Strategy Select Committee as well as some recent speeches.
5. There was a discussion on developments with price caps and it was reported that Ofgem was on track to deliver the price cap for vulnerable consumers this winter and to expand this to more customers for the following winter. There was also joint work ongoing with BEIS so that the Price Cap on standard variable tariffs can be implemented as effectively as possible as soon as the legislation is enacted.
6. The Authority was updated on progress on Network company returns. It was agreed to proceed with the plan to make public the recent discussions and name those that have made a voluntary contribution and those that have not. This would be undertaken with a clear narrative of the benefits the price control has delivered to consumers.

Report by the Chief Operating Officer

7. The Chief Operating Officer gave an overview of finances, progress in IT, and the key strategic risks in Ofgem.

8. The Authority discussed the headline figures from the people engagement survey and it was agreed that a fuller discussion would take place in December when the underlying data has been analysed.

Norther Ireland RHI Inquiry Update

9. The Authority was given an update on progress with the inquiry which included the beginning of the oral hearings and the issues that had been raised by the Inquiry for Ofgem.

Report from E-serve Board

10. The Chief Operating Officer of E-serve updated the Authority on progress with assurance, Business planning and funding, operational transformation and digital transformation.
11. There was a discussion on the creation of the new E-serve Risk and Assurance Committee which is a Committee of the E-serve Board. The Authority noted this new addition to give greater assurance on delivery in E-serve and were reassured that it will work closely with the main Ofgem Audit and Risk Assurance Committee and can escalate issues directly to the Authority if necessary.

Forward Work Programme 2018/19: Consultation document

12. The Authority discussed the draft forward work programme consultation document.
13. The Authority was very supportive of the shorter format and to enable people to access more detail and engage with us through meetings, workshops and relevant pages on the Ofgem website as necessary.
14. After discussion, the Authority agreed to publish the report as drafted with some minor amendments and delegated sign off of the final document to the Chief Executive Officer.

Future Electricity System Operator (ESO) Regulatory and Incentive Framework

15. The Authority were updated on proposals to amend and improve the regulatory and incentive framework as the current one has not created the right incentives and needs revision to cope with the challenges such as a more complex and a more uncertain system.
16. The Authority discussed the proposed model, the scorecard approach, and agreed that the model of principles and KPIs was a good one.
17. The proposal for a new panel to advise the Authority on the performance of the Electricity System Operator was welcomed by the Authority and it was suggested that absolute clarity is required on the extent and the scope of

this panel. It was agreed that the panel must fully represent the views of a range of stakeholders and that the consumer voice must be adequately represented and supported as necessary. The question of who should chair this panel was discussed and it was agreed that this should be raised as part of the consultation to gather views. It could be someone from Ofgem or a strong independent person.

18. Following discussion, the Authority agreed, subject to consultation:
- To approve the scorecard framework for the ESO incentives scheme;
 - To approve the proposal to establish a new ESO Performance Panel subject to a further discussion on its composition at GEMA;
 - To approve the maximum pot size of £20 - £30million for the 2018/19 incentives scheme; and
 - To delegate the decision on finalising the detailed aspects of the framework's implementation to the Energy Systems Senior Partner.

Hinkley-Seabank (HSB) – Decision on project need and minded to position on delivery model.

19. The Authority considered a paper which outlined the case for the transmission link and proposed a model to deliver it.
20. The Authority noted the responses to the consultation and recognised the clear benefit to consumers of building a link to the Hinkley Point C nuclear development.
21. A few models were discussed. The Authority supported the introduction of competition into the process to drive cost savings for consumers. The responses to the consultation were discussed and the Competition Proxy solution was felt to be the best way of achieving efficiency and fairness. Under this model, Ofgem would set an initial level for the permitted and operational costs based on benchmarks of parameters that may be delivered through a competitive process.
22. Following discussion, the Authority:
- Decided that there is a clear economic and technical case for HSB;
 - Agreed a minded to position that the Competition Proxy delivery model should be used for HSB;
 - Agreed to delegate the final decision on the delivery model for HSB, assuming nothing materially changes through our minded-to consultation, to the Senior Partner for Networks.

Shetland: Options for New Energy Solution

23. The Authority considered a paper setting out a change in circumstances since its decision to consult on a 'minded to' position in June 2017.
24. The Authority discussed the impact of a recent change at an EU level to a document that sits under the Industrial Emissions Directive. The effect of this was that the Lerwick Power Station would not be required to close in 2020 as had been expected and was now expected to be able to continue to operate until at least 2025. The Authority also noted the UK Government's announcement of the planned timetable for the next Contracts for Difference (CfD) round.
25. Following discussion, the Authority agreed to reverse its 'minded to' decision to approve the NG Shetland Link Ltd-Aggreko proposal to build a distribution link from Shetland to the GB mainland. It also supported proposals to run a process to ensure Shetland's enduring security of supply once the outcome of the next round of CfD is known.

RIIO 2 – Strategic views

26. The Authority discussed the overview of the key decisions that will be made under RIIO 2 over the next few years and began to discuss a range of options that could be implemented to tackle the key challenges of the price control.
27. The Authority provided a clear steer to the team to continue to engage with a wide range of stakeholders to seek out views and innovative solutions to the challenges to inform future decisions.

Ombudsman and Alternative disputes resolution

28. [This paragraph has been redacted as it contains market sensitive content]
29. [This paragraph has been redacted as it contains market sensitive content]

Modelling Quality Assurance

30. The Authority noted the paper.

State of the Market Report

31. The Authority noted the paper

Decision Log update

32. The Authority noted the paper.

Date of next meeting

33. The next meeting of the Authority would be on **Wednesday 13 December 2017** at 9 Millbank. It would be preceded by an informal briefing session on 12 December.

Those present

David Gray
Dermot Nolan
Rachel Fletcher
Paul Grout
Christine Farnish
Jim Keohane
Keith Lough
Andrew Wright

Those attending

Sarah Cox
Jonathan Brearley
Martin Crouch

Others present

David Ashbourne (Legal Adviser to the Authority)
Wendy Watson (Secretary to the Authority)
Leanne Pallott (Executive Adviser to Chief Executive)

For specific agenda items

<i>Name</i>	<i>Subject</i>	<i>Paragraphs</i>
Sukhinder Lalli	Norther Ireland RHI	9
Patricia Dreghorn	E-serve Board update	10-11
Akshay Kaul	RIIO 2	26-27
Marcia Poletti	" "	
James Veaney	" "	
Declan Tomany	" "	

34.

