

ofgem

Making a positive difference
for energy consumers



ForwardWorkProgramme
2019-2021

Who we are



We are the independent Great Britain energy regulator, working to protect the interests of current and future energy consumers.

Our core purpose is to ensure that all consumers can secure good value services from the energy market. In support of this, we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change, while protecting consumers.

We will ensure that Ofgem operates as an efficient organisation, driven by skilled and empowered staff. We will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experience and the operation of energy systems and markets.

Our Forward Work Programme

Our core purpose shapes the work that we do to protect consumers and helps them to benefit from:

-  **Lower bills**
-  **Lower environmental impacts**
-  **Improved reliability and safety**
-  **Better quality of service**
-  **Better social outcomes**

Our Forward Work Programme sets out how we plan to use our resources to have the greatest positive impact on consumers. For the 2019-21 period, we have set out a strategic view of how our planned activities (the 'what') link to the consumer outcomes we seek to influence (the 'why').

Activities that will be started in the second year of this work programme – 2020/21 – have been identified throughout this document. All other activities described are planned for the 2019/20 financial year.

We have also incorporated our business simplification activities into the main body of our Forward Work Programme, helping to demonstrate how we are reducing industry burdens, improving our effectiveness and making our processes more efficient.

Chief Executive's Foreword

Welcome to our Forward Work Programme for 2019-21.

Seeking feedback on our work programme has always allowed Ofgem to understand and respond to stakeholders' views on how we should play our role in ensuring that all consumers receive fair, competitive services from the energy market.

Recognising this, we sought feedback at conferences on the future of the energy sector, in London, Glasgow, Manchester and Cardiff. We heard some hard-hitting and at times difficult accounts from frontline advisors and consumers in vulnerable situations, as well as those who are innovating to help consumers to get the most from smart technologies and live more sustainably in the future. I would like to personally thank all of those who took part in our conferences, and those who responded to our formal consultation. We value your input.

Our final work programme sets out the areas where we think we can make the biggest difference to consumers over the next two years, and beyond. New priorities may arise from time to time, which will require us to make in-year changes. Where these arise, we will signal any changes clearly and we will refresh our work programme next year to reflect changing conditions and priorities.

At the heart of everything we do is a commitment to make a positive difference for all energy consumers, now and in the future. We want to see a retail market that delivers good outcomes for all consumers, and we will continue to focus - across all our work - on protecting consumers in vulnerable circumstances.

I have been saying for a number of years that the energy system is undergoing rapid changes, and that we expect the scale and pace of these changes to continue. To support this, we will play our role in facilitating the UK's transition to a decarbonised energy system and to enable smarter and more flexible system arrangements that will benefit consumers.

The renewable energy and social schemes that we deliver on behalf of government, will also remain

at the forefront of the country's efforts to reduce carbon emissions and to improve energy efficiency. In regard to these schemes, we will strengthen our ability to detect and tackle unethical behaviour, fraud and non-compliance. We will also improve value for money in the way we administer them and the level of service that we offer.

Our ability to do any of this work depends on the effectiveness of our systems, processes and people. We will continue to focus on smarter, joined up working to deliver on our ambitions for agile regulation. This will help us to respond effectively to the pace of change the sector is experiencing, and re-define what the role of the regulator should be in the future.

In recent months we have thought a lot about our diversity as an organisation, and we think it's hugely important for us, and the wider sector, to put more effort and resources into becoming more inclusive. Not just because it's the right thing to do, but also because we think it will help us to make better decisions by becoming more representative of the consumers we serve.

I believe this is an exciting programme of work, and I look forward to working with you all to deliver real and lasting benefits for all consumers – now and in the future.



Dermot Nolan
Chief executive officer, Ofgem

For the period 2019-21, our key priorities are:

1. Making retail markets work for all

We want to see a market that delivers good outcomes for all consumers – whether or not they engage and make active decisions to change their supplier or tariff. We will introduce the necessary protections for vulnerable customers to secure positive outcomes from the market and consider the case for changes in protections for microbusinesses. Over time, we will seek to increase levels of customer engagement. We want the energy market to be one where participants have robust levels of financial resilience and offer all customers a level of care befitting an essential service.

2. Enabling future markets and system arrangements

We will continue to implement key programmes and will work closely with Government to support the roll-out of smart metering. We will also work with Government to continue to evolve regulation to support the whole-of-Government delivery of the Clean Growth Strategy and to make any further changes needed to enable future markets and system arrangements. We will continue to evaluate the activities and arrangements of system operators, including at distribution level, and consider if further changes are needed, alongside our ongoing work to reform network access and charging rules.

3. Network preparedness and performance

At a time of significant change for regulated networks, we will work to make network companies deliver system security, innovation and value for money for consumers. We aim to do this by effective administration of existing price controls (RIIO-1), as well as finalising the overall approach to our new set of price controls (RIIO-2) and introducing more competition in network activities (in 2020/21). Together, this can improve outcomes for consumers and deliver a resilient, cost-effective network, fit for the future.

4. Excellence in statutory and core functions

To support improved outcomes for consumers, we will strive for excellence in delivery of our statutory duties and core functions – these include market monitoring, ensuring effective licensing and market arrangements and robust compliance and enforcement. They also include the efficient and cost-effective delivery of renewable energy and social schemes, which help reduce carbon emissions and fuel poverty, and improve energy efficiency. More broadly, we will aim to make our systems, processes and our use of resources as efficient and effective as possible.

UK planned withdrawal from the European Union

In addition to these four key priorities, we have a further overarching priority, to respond to the United Kingdom's (UK) planned withdrawal from the European Union (EU). Our aim is to ensure that our regulatory framework is fit-for-purpose in a range of potential EU Exit scenarios.

During 2018/19, we worked extensively with the Government and key stakeholders including the

system operator, interconnector owners, industry code administrators and market participants, as part of preparations for the UK's withdrawal from the EU.

At the time of publication of our Forward Work Programme, the terms of the UK's exit from the EU were still to be determined. We will continue to adapt the scope of our work to respond to developments as necessary.

1. Making retail markets work for all

What we aim to achieve

Consumers engage with the energy system first and foremost through the retail market. We want to see a significant improvement in terms of value for money for consumers, overall customer satisfaction and market functioning.

The introduction of the Price Cap (on 1 January 2019) is the start, rather than the end of this transformation. While those consumers who have not switched will have their prices capped to prevent over charging by suppliers, a range of competitive tariffs still exist in the market and we want it to be as easy as possible for consumers to find the best deal. At the same time, we will be vigilant in terms of supplier performance, and ensure that the introduction of price protections does not lead to a reduction in supplier standards of conduct or customer service.

In terms of market functioning, we have seen a number of suppliers exit the market in 2018 and early 2019. While this is to be expected in a properly functioning market, we will conclude the review of our approach to licensing and regulating suppliers to raise standards around financial resilience and customer service.

Smaller businesses experience many of the same issues as domestic consumers. We will take steps to better understand the issues faced by microbusinesses, so that they are able to access a competitive retail market and secure adequate levels of protection.

We will focus on the needs of consumers in vulnerable circumstances across our work in retail markets and also in our network reform proposals.



How we plan to achieve it

There are **two aspects** of our work to making retail markets work for all.

A. Improving current licensing arrangements to protect consumers and ensure that regulatory burdens are proportionate

Retail licensing

In 2018 and early 2019, a number of suppliers ceased trading, requiring us to act quickly to appoint a 'supplier of last resort'. For these energy company failures, Ofgem stepped in to ensure that the credit balances of around 800,000 customers were protected, and that they continued to receive a seamless supply of energy. While it is typical for suppliers to both enter and leave a normal functioning market, these failures can cause confusion for customers and extra cost for bill payers. Furthermore, supplier failures have generated a great deal of coverage in the national media and were identified as a concern during the consultation process for our Forward Work Programme.

It is important to emphasise that Ofgem's 'supplier of last resort' process – the way that we protect consumers and ensure that they are appointed a new energy supplier – is functioning well. We will, however, continue our review of supplier licensing arrangements, to assess whether minimum standards for new and existing supplier licensees are sufficiently robust. In particular, we will be seeking to understand if our customer service standards and financial requirements are stringent enough to ensure that consumers are protected.

Microbusinesses and the energy market

Microbusinesses can face challenges when engaging with the energy market, and these challenges are often similar to those faced by domestic consumers. We will take steps to understand the consumer experience at each key stage of the microbusiness customer journey to identify the case for possible reforms. Our goal is that microbusiness' needs and preferences are met by the market, that they can access competitive offerings and that they are adequately protected where necessary.



Consumer outcomes

**Lower bills, better quality of service,
improved social outcomes**

B. Understanding where consumers' needs are not being met and developing effective policy solutions to address them

Vulnerable consumers

Where consumers' needs are not being met, and this is due to reasons other than supplier conduct (dealt with through compliance or enforcement activity), wider policy solutions may be required. We will continue to seek to understand what those needs are, particularly for the most vulnerable consumers, and develop policy solutions to address them.

A key piece of work in our Forward Work Programme is to finalise the development of our updated Consumer Vulnerability Strategy, in order to deliver positive impacts for consumers in vulnerable situations.

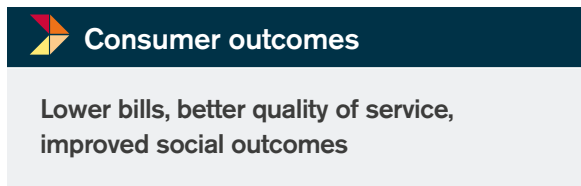
Vulnerable consumers can face barriers to accessing an affordable and stable energy supply for a variety of reasons. There are a number of issues in the market, such as vulnerable groups of consumers struggling to engage because of the complexity of billing or not having access to the internet or bank accounts. There are also issues with affordability of energy, and with debt. For example, many people with disabilities struggle with higher energy costs as a direct result of their condition. We are seeing increasing levels of consumers in energy debt, with around 1.2m electricity customers owing money to their supplier in 2017. Debt is a particular concern, as there are links with mental health.

In developing our Consumer Vulnerability Strategy, we will work across government and Ofgem to protect those at risk. For us, this means consumers in vulnerable situations are not left behind in the transition to smarter technologies and are able to take advantage of the opportunities provided by the evolving market.

Consumer engagement in the energy market

We will continue to look at ways of improving customer engagement in the energy market, by using the information we have gained from research and trials. We will embed learnings from the trials we have carried out to date and test emerging conclusions with industry and other interested parties.

We will continue work on initiatives to enable access to and sharing of customer data in a safe yet convenient way, to enable new products and services to emerge, which help customers to engage with the energy market.



The graphic consists of a dark blue header bar with a yellow and red triangle icon on the left and the text 'Consumer outcomes' in white. Below this is a light grey box containing the text 'Lower bills, better quality of service, improved social outcomes' in dark blue.

2. Enabling future markets and system arrangements

What we aim to achieve

The energy system is undergoing rapid change - from both a planned perspective to achieve carbon reduction and manage increased diversity of energy sources - but also from more innovative forces such as new business models, new technological applications and the increasing digitalisation of consumer data.

As the Great Britain energy regulator, we have a responsibility to support and enable innovations that work in the consumer interest (both in terms of delivering direct consumer value and reducing overall system costs), while maintaining a focus on fair allocation of costs, consumer protections and system security.

We will encourage innovation and promote consumer protection by ensuring that the regulations and market rules which govern industry keep pace with market developments. We will also ensure that the critical infrastructure that will underpin many of these innovations is delivered in a timely manner.



How we plan to achieve it

There are **four aspects** of our work to enabling future markets and system arrangements. We also set out how we intend to simplify our processes and reduce regulatory burdens.

A. Implementing new systems and rules for a smarter, more flexible energy system.

Smart metering

Our goal is for today's consumers to understand and take advantage of the benefits of smart metering, and match their needs with products and services in order to create a smarter, more flexible energy system.

We will continue to lay the foundations for a future energy market driven by smart metering, by supporting technological changes and increased flexibility in the market.

To achieve this, we will continue to provide regulatory oversight of the roll out of smart meters to homes and microbusinesses across Great Britain, and will hold suppliers to account for their performance, as well as for delivering a positive installation experience for householders and business owners.

We will also continue to monitor the activities of the Data Communications Company (the DCC), a company that we have licensed to set up and manage smart metering data and communications infrastructure, to ensure that it complies with the Smart Energy Code. This means facilitating a smooth installation process and maintaining an effective network between energy suppliers and consumers.

New products and services facilitated by smart meters will encourage more consumers to take advantage of the benefits that monitoring and controlling their energy use can provide. We will continue to plan and progress work on electricity settlement, which will in time, allow us to make decisions on the design, implementation and timetable for market-wide settlement reform. This will result in suppliers being more accurately charged for consumers' electricity use, a key building block for a smart and flexible energy system, which will save money for consumers and support a low-carbon future.

Our overall goal is to improve the quality of smart metering services, and for consumers' bills to come down as a result of increased uptake.



Consumer outcomes

**Lower bills, better quality of service,
improved social outcomes**



B. Working with innovators and stakeholders to develop sustainable energy solutions and systems for future consumers

To enable future energy markets and system arrangements, we plan to continue to update our regulatory frameworks so that they can support the needs of tomorrow's consumers and enable innovators to develop new business models, products and services.

Regulatory frameworks

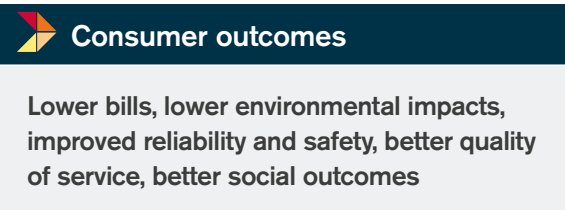
Following the announcement by the Secretary of State for Business, Energy and Industrial Strategy (BEIS) in November 2018, we will carry out a joint review with the Department to consider design of the future retail market arrangements. The intention will be to identify reforms required to ensure that the market is fit for the future, by promoting competition and driving innovation, whilst protecting consumers from harm, so as to unlock benefits for all consumers. We expect the Government to publish a White Paper in July 2019, outlining its wider aims for the energy sector.

Central to the review will be identifying appropriate protections for consumers when the Price Cap is removed by 2023 (by the latest). 2019 saw the introduction of the Cap, which currently ensures that 15 million loyal customers on default tariffs always pay a fair price for their energy. To identify possible new solutions, we plan to carry out consumer trials.

Ensuring that the cost of energy remains fair and our power supply remains reliable are key considerations for our energy future. Having the right price controls in place (through our RII0-2 framework – Key Priority 3B) will also help the energy system to decarbonise. This approach will be central to how we regulate electricity systems and network companies in the future, to contribute to the whole-of-Government delivery of the Clean Growth Strategy.

Supporting innovation

In terms of championing innovation in the energy market, we will continue to offer our Innovation Link service, which assists entrepreneurs to bring sustainable and affordable energy business models, products and services to the market. This includes offering innovators 'Free, Frank and Fast' feedback, to help them navigate the sometimes complex world of regulation.



Consumer outcomes

Lower bills, lower environmental impacts, improved reliability and safety, better quality of service, better social outcomes



C. Developing improved network access, charging and system operation arrangements to enable efficient future energy markets

Networks

The energy system is changing rapidly. As the responsible regulator, it is our role to monitor the electricity network and to ensure that it remains effectively regulated. This means understanding the relationship between network owners, operators and users, the costs of the network and how they are recovered.

To act on these changes, we are developing reforms for access to the electricity network and forward-looking charging arrangements¹, working closely with stakeholders. Current and future trends will transform how we use the electricity networks. We want to ensure they are used efficiently and flexibly, reflecting users' needs and allowing consumers to benefit from new technologies and services, while reducing the need for investment in new networks and so avoiding unnecessary costs on their energy bills.

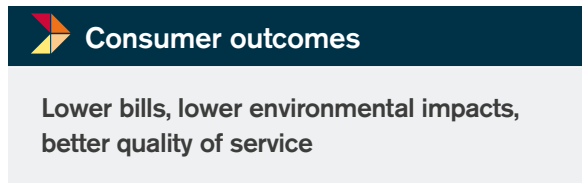
We plan to publish our decision on reforms for electricity residual charges². Through our Targeted Charging Review, we have proposed reforms designed to ensure that these charges are shared fairly amongst all those who may want to use the electricity networks.

Work to reform gas transmission network charges is also continuing. Industry is bringing forward changes to these arrangements to reflect changing usage of the gas networks and ensure compliance with an EU code to harmonise transmission tariff structures. We will decide on these proposals being led by National Grid in the coming year.

Systems

An effective energy system in a more flexible, decentralised world needs to be operated in an efficient, coordinated way. A new, legally separate Electricity System Operator (the ESO) will be established within National Grid from April 2019. Once its independence is established, the ESO will be well placed to respond to and help facilitate the transformation of the system. In the run up to the ESO's new price control in April 2021 (see ESO price control – Key Priority 3B), we will refine its principles-based incentives regime, with the help of our independent panel and stakeholder feedback. We will continue to seek improvements that encourage the ESO to develop transparent and stretching forward plans, that address stakeholder feedback, and deliver tangible progress.

At distribution level, distribution network operators are becoming more active in managing their networks, and they and other third parties are looking at trialling the best way to do this. As we monitor these developments, we will consider where we need to intervene or support initiatives, including as we evolve the policy framework for the next round of network price controls (RIIO-2 framework – Key Priority 3B) and explore future system developments. In the meantime, we have been clear to all network and system operators that they need to work together to ensure coordination and efficient outcomes across the whole energy system.



Consumer outcomes

Lower bills, lower environmental impacts, better quality of service

¹ Forward looking charging is designed to reflect users' impact on network costs, including current and future investment costs.

² Residual charges are designed to be a 'top-up' charge, ensuring the network's costs can be covered after forward-looking charges have been levied.

D. System stability and security

By effectively engaging and planning with key partners, we intend to maintain and improve the stability of the UK regulatory environment and energy system for all consumers.

In terms of the UK's planned withdrawal from the EU, our aim is to support competitive markets to maximise consumer benefits, and ensure that the impacts on the energy system and markets are managed appropriately to provide continued stability and security. To achieve this, we have been working extensively with Government and industry to ensure that the regulatory structure continues to work effectively after withdrawal and that the impact of EU Exit on issues such as cross-border energy flows and trading is understood and managed appropriately. This important work will continue throughout 2019-21, as the final position in the negotiations is acted upon. We expect that our EU planning will become integrated and actively managed across Ofgem's relevant activities.

We will continue to work with Government to manage the impact of the suspension of the Capacity Markets, with the aim of ensuring that the appropriate frameworks are in place to support the security of energy supply. We will also complete our five-year review of Capacity Market Rules.

We will continue to work with Government and industry partners to ensure that there is an effective system security framework in place, for restoring energy supply to homes and businesses in the event of a total system failure.

Finally, we will continue to develop our regulatory framework for the joint Network and Information Security (NIS) Regulation Board, alongside BEIS, to ensure that essential services operators in the energy sector, have appropriate security and reporting requirements in place to comply with NIS regulation.



Consumer outcomes

Lower network bills, lower environmental impacts, improved reliability and safety



Reducing burdens and improving consumer outcomes

What we achieved by the end of 2018/19

We have made good progress against planned activities for 2018/19, with multiple procurements underway for the systems and activities to deliver the **new switching arrangements**. We have also progressed implementation of the new regulatory framework (Retail Energy Code) required for industry governance. Overall, these activities help to build the foundation for faster, more reliable consumer switching.

Our **Future Retail Regulation** project was completed in December 2018, with changes to how energy suppliers communicate with their customers going live in early 2019. This will result in a more principles-based approach to regulating suppliers and lead to better outcomes for consumers, with suppliers taking more responsibility for treating customers fairly in the way that they communicate with them.

In order to **assist innovators in navigating the regulatory framework**, our Innovation Link team continued to offer support to organisations launching new products and services.

We launched our joint review with BEIS into **code governance reform** proposals, which will focus on identifying potential options for strategic changes to reduce and remove distortions to incentives, and barriers to entry and innovation.

We also initiated work to establish the technical infrastructure to ensure that **consumers' data** can be accessed and shared to provide them with information and services, helping to increase their engagement with the energy market.

What we plan to achieve in 2019/20

In 2019, the switching programme will enter the 'design, build and test phase', which will include all of industry working towards delivering the new arrangements. We expect this phase will continue into 2021 and when complete, **faster more reliable switching**, will encourage more consumers to engage with switching and experience a fast, robust and positive process.

We intend to build on our support for innovators throughout 2019-21 to inform our **Future Retail Markets Review**.

We also intend to **continue our work on code governance reform** (subject to planning for the UK's withdrawal from the EU and responses to our proposals on the potential options for reform in 2018/19, as detailed above).



3. Network preparedness and performance

What we aim to achieve

The electricity and gas networks form the backbone of both the current and future energy system, and are fundamental to ensuring security of supply, enabling innovation and keeping costs down. Networks are also critical to achieving our decarbonisation objectives, both through enabling low-carbon energy sources to connect as well as managing demand through enhanced flexibility.

As natural monopolies, the existing network companies are subject to regulatory price controls to ensure that they deliver services at an affordable cost to consumers. The changing nature of the energy system is also affecting the services provided by network operators, with the most efficient and cost-effective means of delivery increasingly involving whole systems coordination, use of flexibility solutions, smart data and enhanced consumer engagement.



How we plan to achieve it

There are **two aspects** of our work to ensure that UK networks are effectively managed, and deliver the best value for current and future consumers. We also set out how we intend to simplify our processes and reduce regulatory burdens.

A. Using competition to deliver value for money

By putting competition at the heart of network development and decision-making, we aim to drive down network operating costs to create savings that can be passed on to consumers through lower energy bills. We are clear that competing elements of the network must provide excellent value to consumers for both cost and service, and will consider whether the time is now right to look at long-established areas of competition such as independent networks.

Offshore competition

We will continue to appoint licences to Offshore Transmission Operators (OFTOs) through a competitive tender process, delivering significant savings for consumers and supporting renewable offshore wind generation. Tender Rounds 5 and 6 are expected to be completed by March 2021, with Tender Round 7 to be launched during this period.

Granting further OFTO licences will also increase energy capacity from renewable sources, which should help in achieving targets set out in the Government's Clean Growth Strategy. By 2020, the Government expects that 15% of all the UK's energy needs will come from renewable sources.

Onshore competition

We will continue to explore and develop ways to bring the benefits of offshore competition models to onshore activities, including in the financing, construction and operation of onshore electricity networks.

For construction projects, we will consider whether and how to apply competition models to 'Strategic Wider Works' proposals that are submitted to Ofgem to create additional capacity in the network. These are central to RIIO-1 price control activities (see RIIO-1 – Key Priority 4B). We plan to finalise a competition model for the Hinkley-Seabank transmission project, which aims to create a safe connection to the planned Hinkley Point C nuclear power station. We are also considering whether to apply competition models to proposed transmission links to remote Scottish islands (Orkney, Shetland and the Western Isles), should we ultimately decide that these links are needed.

Looking forward to 2020/21, we will consider how such competition models can be used as part of our next set of network price controls (see RIIO-2 development – Key Priority 3B) for future development of the gas and electricity networks.



Consumer outcomes

Lower network bills, lower consumer bills, lower environmental impacts, improved reliability and safety, better quality of service, better social outcomes

B. Preparing networks for the future

Great Britain's gas and electricity networks (and the operation of the energy system as a whole) are essential to the functioning of society and our economy. They move energy from where it is produced to homes, businesses and other premises across the country, and ensure a reliable supply wherever and whenever it is needed. The cost of operating, maintaining and strengthening these networks is significant, currently averaging around £12.5 billion each year. These costs are ultimately reflected in energy bills. It is vital that all consumers, including those in vulnerable situations, can continue to rely on safe and secure energy at an affordable price.

Energy networks are monopolies (customers cannot choose which companies distribute their electricity or gas to their homes), so Ofgem sets controls for the maximum amount the companies can recover to fund the operation and investment in their networks. This limits how much customers are charged. We call these limits network price controls, or our RIIO framework (Revenue = Incentives + Innovation + Outputs). RIIO is designed to encourage network companies to:

- put stakeholders at the heart of their decision-making process
- invest effectively to ensure continued safe and reliable network services
- innovate to reduce network costs for current and future users, and
- play a full role in delivering a low-carbon economy and wider environmental objectives.

Our current price controls for gas transmission and distribution, and electricity transmission – RIIO-1 (see Key Priority 4B) will come to an end in 2021, and in 2023 for electricity distribution.

In 2018/19, we continued to design and set up our new set of price controls for RIIO-2, by publishing a consultation on sector-specific methodologies for electricity and gas transmission, and gas distribution, which closed in March 2019. Once final decisions have been made for sector-specific methodologies,

network companies will develop and submit their business plans. These plans will be challenged as they are developed through our enhanced engagement process, before we publish our initial and final decisions.


In addition, following our recent consultation we will develop and introduce a new price control for the Energy System Operator (the ESO – see Key Priority 2C). This price control will follow the overarching RIIO-2 design principles, but will be tailored to reflect the unique nature of the ESO, and the expected changes in its activities across the price control period.

Electricity interconnectors

Electricity interconnectors are physical links, which allow electricity to be traded across borders. We have approved up to ten new projects which could deliver significant consumer benefit through increased competition and security. In 2019-21, we will continue to deliver regulatory decisions for these links (most notably through our cap and floor regime) and we will work with developers and regulators in other countries as these projects progress through construction and operation. We will also work with industry to understand the impacts of the UK's exit from the EU, and to ensure that our regulatory regime remains fit for purpose.

Network security

In terms of energy security and decarbonisation, we will continue to work with our partners in Government and industry to explore how new nuclear energy generation, or indeed other low-carbon generation, could be financed, delivered and regulated at the least cost to consumers. Such an increase in low-carbon energy sources would support the Government's Clean Growth Strategy. We will assist Government in considering if investment in new nuclear or other low-carbon energy capacity represents value-for-money, through a Regulated Asset Base (RAB) model.

**Consumer outcomes**
Lower network bills, lower environmental impact, improved reliability and safety

Reducing burdens and improving consumer outcomes

What we achieved by the end of 2018/19

We set out the **building blocks of the RIIO-2 programme**, including the Framework Consultation in early 2018, the subsequent decision during the summer and sector-specific methodology consultation in December. As part of this, we have taken a strategic-level approach to designing in efficiencies in process, engagement and timings.

In onshore competition, we made a decision that National Grid Electricity Transmission should be funded to deliver the **Hinkley-Seabank project** through a mechanism which seeks to reflect the outcome of an efficient competitive process for the financing, construction and operation of the project (the 'Competition Proxy' model).

We continued to **competitively tender OFTO licences**, granting two licences to connect generation assets that will provide a combined 660MW of renewable energy to Great Britain consumers, with a further licence for the 573MW Race Bank project expected to be awarded in mid-2019.

The **Nemo Link electricity interconnector from Great Britain to Belgium**, approved under our cap and floor regulatory regime, came into operation in early 2019, delivering significant consumer benefits through increased competition and security.

What we plan to achieve in 2019/20

In setting the next price controls, we want to **learn from our experience to date**. We will continue to take into account the lessons learned from current network price control processes, ensuring they feed into the design of RIIO-2 delivery and monitoring processes (in 2020/21). This will allow us to deliver a more efficient and effective network price control, ultimately lowering consumer bills.

Network companies must continue to provide safe, secure and reliable energy networks and systems for existing and future consumers. To support this, we are considering a **simpler outcomes-based framework**. This will enable us to set outputs and incentives which reflect what consumers really value.

Our proposals will also mean that customers in vulnerable situations, or those who are poorly served, will see improvements in service through **strengthened licence obligations**, and funding provided through the price control.

To ensure these companies adapt and respond to changing consumer requirements, we intend to strengthen **the voice of the consumer** so that consumer advocates can challenge company spending plans, and make sure they fully reflect what consumers need and value.



4. Excellence in statutory and core functions

What we aim to achieve

At a time of significant change and uncertainty, it is imperative that consumers can rely on the regulator to protect their interests and ensure good value and services from the energy market.

To ensure this level of protection is maintained, we are committed to achieving excellence in the delivery of our core and statutory functions.

These functions include market monitoring, compliance, enforcement and delivery of initiatives and schemes in partnership with Government.

How we plan to achieve it

There are **four aspects** of our work to ensure excellence across our statutory and core functions. We also set out how we intend to simplify our processes and reduce regulatory burdens.

A. Ensuring effective licensing and market arrangements

Our goal for our licensing and market arrangements is to help ensure that the network remains reliable and safe to use, and customers remain connected to an ever more efficient network, with effective protection from poor practices.

Retail licensing

We plan to implement the outcomes from our supplier licensing review (see Key Priority 1A) to ensure that our approach to our core role of licensing is proportionate and effective.

We will be seeking to understand if our customer service standards and financial requirements are appropriate, in order to protect customers from supplier failure and continue to operate our licensing process for parties in an efficient manner. We will embed the outcomes from our supplier licensing review within these processes.


Wholesale licensing and market arrangements

Changes to energy system and retail market arrangements, as well as the UK's withdrawal from the EU, have the ability to impact the functioning of wholesale markets and related markets such as capacity, ancillary services and balancing markets. We will continue to oversee the effective operation of wholesale electricity and gas markets through our regulatory regimes and, where necessary, develop proposals for reform to facilitate their efficient functioning.

Through our Authority, we will deliver effective decision-making for code modifications, proposals and exemptions for our wholesale electricity connection and network charging work. We will also consider revised gas methodologies and new generation operation procedures to improve the smooth-running of gas market arrangements.

We will also develop and implement a regulatory framework to replace powers given to us through the EU's REMIT regulations.

This will allow us to monitor, investigate and enforce against breaches in the wholesale market, therefore ensuring that a consistent approach is maintained across the European wholesale energy market.

 **Consumer outcomes**


Lower bills, improved reliability and safety

B. Proactive market monitoring and consumer protection

During the period, we will be vigilant in monitoring and risk-assessing sector activity. We will continue to learn from our analysis of market behaviour and respond to non-compliance with effective supervisory approaches and enforcement activity to demonstrate a credible deterrent. Our goal in undertaking this active monitoring is to help drive positive changes in reducing consumer harm.

Throughout 2019-21, we will continue to monitor the retail and wholesale markets, to ensure that customer harm is minimised, and that identified harms can be put right quickly through effective casework. We will also continue to monitor and ensure the effective delivery of the four price controls under our RII0-1 framework and the core energy system operators. We will monitor compliance with the energy Price Cap and oversee the policy to ensure it is having the desired impacts.

By monitoring markets, we can carry out targeted compliance and enforcement activity, which allows us to ensure that licensees deliver what their consumers need and value. Well-functioning markets not only minimise consumer harm, they also increase reliability and safety, and reduce bills.

 **Consumer outcomes**

Lower bills, lower environmental impacts, improved reliability and safety, better quality of service, better social outcomes

C. Effectively delivering large-scale renewable energy and social programmes

Throughout 2019-21, we will continue to administer and deliver our responsibilities for the portfolio of renewable energy and social schemes and programmes, entrusted to us by our partners at BEIS and the Northern Ireland Department for the Economy.

Our portfolio of scheme-delivery includes:

- The Renewables Obligation (including Northern Ireland)
- Domestic Renewable Heat Incentive (RHI)
- Non-Domestic RHI
- Northern Ireland RHI
- Energy Company Obligation (ECO)
- Warm Home Discount (WHD), and
- The Feed-in Tariff (FIT).

Compliance

We will strengthen our ability to detect and tackle unethical behaviour, fraud and non-compliance in our schemes by:

- Designing and delivering an overarching audit strategy, based on emerging and known scheme risk, with transparent delivery methods.
- Building our capabilities to ‘mine’ our data to improve performance and identify non-compliance.
- Strengthening our ability to counter behaviour contrary to the perceived intention associated with our schemes – what we call ‘gaming’.
- Working in partnership with Action Fraud and other enforcement bodies to investigate, and wherever possible, seek to prosecute fraud on our schemes.
- Reducing tariffs and revoking participation where we identify non-compliance, in order to protect the public purse.

Effective, efficient delivery

We will strive to improve value for money in the way we administer our schemes, and improve the level of service we offer by:


- Using our available resources (primarily funding and people) to maximise the throughput and management of application and amendment queues, while maintaining robust controls.
- Delivering efficiencies and quality improvements through automation of processes and the introduction of robotics in our systems.
- Providing targeted, useful information for consumers and stakeholders.

 **Consumer outcomes**

Lower environmental impacts, better social outcomes

D. Enhancing our industry-specialist skills and capabilities

During the period, we aim to deploy the expertise of our staff to ensure that our support and delivery services are effectively and efficiently contributing to our policy delivery. Our engineering, legal, economic, social research, regulatory finance, operational delivery, network and information security and data services teams will be deployed on an agile basis, to deliver targeted results.

 **Consumer outcomes**

These activities support the regulatory functions of Ofgem to deliver their activities, and so contribute to all of the consumer outcomes



Reducing burdens and improving consumer outcomes

What we achieved by the end of 2018/19

We continued to:

- **Streamline the Information Requests process**, helping to reduce burdens on industry and establish smarter, more efficient processes
- Carry out assessments of the **economic impact of our regulatory provisions on business**, helping us to better understand how our work affects businesses and how to mitigate these impacts.

We established our Research Hub and Steering Committee in 2018/19, and published a **Future Insights series paper on Electric Vehicles**.

In response to feedback, we continued to **reduce the number and frequency of our consultations** and focused on making our stakeholder engagement more accessible, less burdensome and more representative.

The UK Regulators Network (UKRN) provides the structure for regulators to consider common issues and policy projects with relevance across utility, financial and transport sectors. During 2018/19, we continued to be an active participant in the Network.

We built our stakeholder engagement for the 2018/19 Forward Work Programme, as well as for the development of this 2019-21 Forward Work Programme through our **Ofgem Energy Conferences**, which took place across England, Scotland and Wales in early 2019.

What we plan to achieve in 2019/20

We will continue our work on **'horizon scanning'** (identifying potential threats, risks, emerging issues and opportunities) throughout 2019-21, **alongside further 'Future Insights' papers and outputs** from our **Research Hub** (guided by our Academic Steering Committee). This activity is intended to lead to better awareness of evidence and research among policy makers, helping to deliver positive outcomes for consumers.

We will review the effectiveness of the market making obligation in the light of the changing market structure. We will continue to monitor liquidity and consider potential action if evidence suggests that this would be in the interest of consumers.

We intend to explore the potential for **electronic licensing** in 2019/20 – currently we are required by law to issue paper licenses and associated updates. We will explore the possibility of an updated statutory instrument (with BEIS) leading to smarter, more efficient processes and reduced burdens on industry.

In line with our leading the joint Cyber Competent Authority role³ (with BEIS) for the security of **Network and Information Systems Regulations**, as well as our increasing role for ensuring security of smart metering, we are expanding our team to assess, advise and monitor the operators of essential services. Additionally, we are strengthening our internal **capabilities for data governance and protection, cyber operations, assurance and architecture**.

In order to promote better outcomes for consumers, we intend to continue to collaborate and share lessons/approaches through joint UKRN research groups, including projects on **sharing data on vulnerable customers**, and **working together to improve the quality and openness of infrastructure data**.

³ Under the Network and Information Systems Regulation 2018

Our finances

We are now approaching the final two years (2019-21) of the Spending Review settlement agreed with government. Over the full five years of this spending period, the settlement aimed to deliver a reduction of 15% in real terms.

These figures do not represent Ofgem's total expenditure in each year as HM Treasury may approve in-year funding for specific activities in excess of the Spending Review settlement amounts.

£m	2018/19	2019/20	2020/21
Total resource Spending Review Settlement	£83.9	£82.0	£82.0

