

Ofgem Simplification Plan
2012-13



Ofgem is the Office of the Gas and Electricity Markets. Our principal objective is to protect current and future consumers in Great Britain. We do this by promoting competition wherever appropriate and by regulating where necessary, including the monopoly companies which run the gas and electricity networks. The interests of gas and electricity consumers include the reduction of greenhouse gases and maintaining secure gas and electricity supplies.

Better regulation is at the heart of Ofgem's work. We consider whether any regulatory requirements we are proposing will be effective in achieving our objectives and we seek to find the best ways of achieving the right outcomes.

We will continue to look for opportunities to simplify and reduce the regulatory burden where this is consistent with protecting the interests of gas and electricity consumers and our other statutory duties. We keep the way we regulate under constant review so if you would like to discuss this with us please contact Andy MacFaul:

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Foreword by Alistair Buchanan, Chief Executive

In 2005, when Parliament first required us to have regard to the principles of best regulatory practice, I spoke about what better regulation means at Ofgem. I had two key messages: that better regulation is synonymous with competition, self-regulation and the consumer interest: and that at heart it is about mindset not systems. I wanted Ofgem to be an organisation that truly embraced the better regulation agenda, not one that saw it merely as a piece of bureaucracy to be tolerated.



Nearly seven years later, this Simplification Plan shows how the vision has become reality. Some of the actions set out here are of course about processes – the way in which we ask for information, how we consult, how we analyse costs and benefits. But the Plan's description of what we will do in the year ahead, and our account of what we have done in the last 12 months, is really a story about culture. I believe it shows the extent to which Ofgem has embraced and embedded the spirit of better regulation, with a thirst for innovation, a single-minded focus on outcomes and a desire to encourage a new spirit of responsibility in regulated businesses.

The new RIIO framework for network regulation, for example, is a truly groundbreaking way of attracting the significant investment required to deliver sustainable energy supplies. It will reduce the regulatory burden by introducing longer price controls and, for companies with a proven record of delivery, a fast-track assessment process. We are using the new fast-track process now with the Scottish transmission companies.

Our recent reform of industry codes is increasing the extent of self-governance in modifying the multilateral agreements that determine how the energy networks are used by market participants. We are now undertaking a further review to see whether further simplifications can be made for the benefit of smaller participants in particular.

And even though our Retail Market Review includes some significant regulatory proposals and has not yet been finalised, it has already had a better regulation impact. Many suppliers have sought to pre-empt our plans by acting now to provide consumers with simpler tariffs and better information. Alongside this, our Standards of Conduct plans in particular represent a move to a more principles-based approach, in which we set out our expectations – developed in conjunction with consumers – and then hold suppliers accountable for delivery.

We are conscious that we ourselves need to demonstrate the efficiency that we expect of others. Our self-imposed RPI-3% cost control delivered £12 million of savings to licence fee payers between 2005 and 2010 despite major additional workload. The current control maintains the pressure for efficiencies. We expect savings of at least £12.5 million to 2015, which will be passed on to licensees and their consumers.

I believe this Simplification Plan is a powerful set of actions, which says much about our organisation. We will continue to look for opportunities to simplify and reduce the regulatory burden where this is consistent with getting the right outcomes for current and future consumers; and we remain committed to working with consumer bodies, regulated businesses and other stakeholders on this important agenda.

Introduction

The Regulatory Enforcement and Sanctions Act 2008 requires Ofgem to report on the progress we have made in removing burdens that we consider unnecessary. We do this in an annual Simplification Plan, which sets out the activities that we will undertake in the year ahead to reduce or remove burdens, and a short report on our performance against the previous year's Plan.

On pages 5-9, we set out actions in the 2012-13 Plan under five headings:

- Efficiency
- Regulatory processes
- Industry-facing regulation
- Consumer-facing regulation
- Regulatory strategies.

We also have a duty to have regard to best regulatory practice. This is defined as the principles of good regulation ('transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed') and other best practice. We have analysed each action against these five principles – see pages 10-11.

The Plan has benefited greatly from input by regulated businesses, consumer groups and other stakeholders, both direct to Ofgem and via the Government's Red Tape Challenge, and we have also incorporated suggestions made by Ofgem staff.

The final chapter of this paper contains our report on the 2011-12 actions.

*'transparent, accountable,
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Efficiency

Internal cost control for 2010-15

In 2010, we made our second five-year commitment to an RPI-3% cost control regime, which means we have to achieve real-terms savings of three per cent a year. The year to March is the second year of that commitment. So far, our savings add up to £4.9 million.

The RPI-3% cost control regime allows us to increase or decrease the overall budget cap to reflect major new pieces of work (or major reductions in our workload). If we need to change our budget, we need approval from our Audit Committee

In 2011-12, the cost control regime saw our budget cap reduced. The next financial year will see an increase in the RPI cap because of the costs involved in two major new pieces of work: implementing our Retail Market Review and administering the Government's new Energy Company Obligation scheme

E-Serve Performance Improvement Project (PIP)

Following the significant growth of the work it undertakes since its formation in September 2009, Ofgem E-Serve decided to undertake a process improvement project. Looking across the whole range of E-Serve activity in the round, the aim is to identify and make recommendations for improvement in relation to our delivery of effective end to end processes, our management of risks, the way we learn lessons and identify synergies and other opportunities for efficiencies.

The project seeks ways of improving value for money in our administrative processes and efficiencies in our systems, to build on our delivery excellence to our stakeholders such as consumers, suppliers and licensees.

We are currently undertaking a review of our processes and expect to draw up an action plan for improvement in the autumn.

Regulatory processes

Publishing a consultation schedule

Ofgem conducts a considerable number of consultations prior to action, so that regulated businesses, consumer groups and others can input to our thinking and help shape our proposals. We published our revised consultation policy at the end of 2011. While welcoming our commitment to consultation, some stakeholders – particularly smaller suppliers and consumer groups – have said that the volume of consultations can at times put pressure on very limited resources. This is said to be particularly significant when several important consultations are published close together.

While we are not always able to say precisely when we will publish a consultation document, and occasionally documents need to be released at short notice, we will in future publish a regular schedule containing approximate timings for future consultations, to allow respondents to plan more effectively. This will start in Autumn 2012.

Review of Information Request processes

Ofgem has the power to obtain information from regulated energy businesses by making Information Requests. Gathering information can help us focus our work, so fulfilling a useful better regulation function. A similar power is also held by Consumer Focus. We recognise that it is important that there is no duplication, either between Ofgem and Consumer Focus requests or between different Ofgem requests. We are also aware that complying with requests can on occasion create additional work for companies.

Later this year we will commence a review of our Information Request processes, looking for example at how they are logged and sign-off arrangements. The objectives will be to ensure that we avoid duplication and we make the most efficient use possible of the information.

We have also proposed to government that a Memorandum of Understanding be established between Ofgem and the Regulated Industries Unit (which will replace Consumer Focus next year), to include arrangements relating to Information Requests.

Revision of Impact Assessment guidance

Ofgem has a duty to undertake and publish Impact Assessments (IAs) where the matter is important – essentially defined as involving a major change or having a significant impact on regulated businesses or consumers – but not so urgent that this would be impractical. IAs are a vital part of the policy-making process and provide a valuable framework for assessing the impact of important policy proposals. We have sought to take a rigorous approach to IAs in line with best practice, while ensuring that our decisions are consistent with our wider statutory duties and, in 2009, we carried out a review of our approach and published revised guidance.

However, in the intervening period the UK government has made some significant changes to its own IA guidance. While it is appropriate for there to be some differences between economic regulators' IAs and those published by central government departments, it is important that we learn from and reflect changes in government guidance where appropriate. We will therefore review and if necessary update our guidance on Impact Assessments over the coming 12 months.

Industry-facing regulation

RIIO

The over-riding objective of the new RIIO model is to encourage energy network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for money for existing and future consumers. It does this by rewarding those companies that demonstrably deliver the network services that consumers value and the networks needed to drive the transition to a low carbon energy sector.

RIIO reduces the regulatory burden by:

- Increasing the length of the price control period thereby reducing the need for more frequent reviews
- Putting the onus on the network companies to be a driver of their review outcome through the development of a well-justified business plan
- Provide a basis for 'fast-tracking' in which companies that perform well may settle their price controls early and then get on with running their businesses without having to focus as much resource on the price control review.

We have fast-tracked the price control settlements of two of the transmission network companies - SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd. We published final proposals for those companies in April 2012.

We are due to publish Initial Proposals for National Grid Electricity Transmission Plc, National Grid Gas Plc and the Gas Distribution Networks (GDNs) in July 2012. We intend to publish Final Proposals for those companies in December 2012.

We published our initial consultation on the electricity distribution price control in February 2012. We intend to publish our next paper, a consultation on strategy for the review, in September 2012 and our decision on strategy in February 2013. The distribution network operators are due to submit their business plans in May 2013.

The new price controls for all transmission and gas distribution networks will start on 1 April 2013. The electricity distribution price control is due to start on 1 April 2015.

Retail Markets Standards of Conduct

As part of the Retail Market Review, we propose to introduce legally binding Standards of Conduct (SOC) that would govern energy suppliers' (and their representatives') interactions with consumers. These SOCs would take the form of high-level principles and would be applicable as standalone regulatory rules, but would also apply alongside other regulatory rules in the supply licence.

We consider the proposed SOC will encourage improvements in consumers' experience of the market. This should benefit consumers by directly improving their interactions with industry and the energy markets as a whole. This will enable consumers to have more confidence in suppliers, their representatives and the market, which in turn should promote greater levels of consumer engagement.

As well as providing a broad level of protection for consumers and addressing concerns raised about industry practice that are not covered by current regulatory rules, the new SOCs would enable us to limit the need for more prescriptive regulatory rules in the future. In addition, the principles-based nature of the new SOCs will give suppliers a degree of flexibility regarding implementation. This will allow them to adapt their approach over time while still delivering the outcomes we, and consumers, expect. This is an important feature given the technological and market innovations that may result from developments like the roll-out of smart metering, for example.

Code Governance Review 2

In April 2012, we wrote an open letter stating our intention to undertake a second phase of the Code Governance Review extending the developments made to the Balancing and Settlement Code, Connection and Use of System Code, and Uniform Network Code into the remaining industry codes and agreements. Our aim is to ensure more effective and efficient decision-making and to ensure long-term value for industry participants and consumers.

In order to achieve optimum outcomes in delivering consistent and effective governance arrangements, we consider that:

- Increasing industry self governance and further aligning codes to a set of common governance principles would be positive steps forward in reducing unnecessary regulatory burden and reducing code fragmentation
- Ease of access to and participation of smaller parties in the code arrangements can help to promote effective competition
- Including all industry codes within the significant code review procedures should ensure a fully joined-up consideration of issues and reduce the potential for consequential piecemeal changes

Following development of proposals in consultation with industry parties, we will publish a consultation and draft licence conditions by the end of the summer.

Consumer-facing regulation

Retail Market Review – Billing information simplification

As part of our work on the Retail Market Review, we will be coordinating a series of roundtable discussions with stakeholders, including industry and consumer representatives, in order to provide a forum for debate around consumer bills and communications. The group will be looking at the types of information provided to consumers on energy bills and other industry communications, and will be considering how best to communicate relevant information as well as discussing what information could be streamlined or rationalised. This process will begin at the end of June.

Confidence Code

The Confidence Code accredits energy switching sites and is designed to encourage consumers to use these services by giving them confidence that sites' recommendations can be relied upon.

Responsibility for the Confidence Code will pass from Consumer Focus to Ofgem by spring 2013. The Code, as a voluntary approach, represents an effective alternative to more traditional regulation.

We will consult on the scope and content of the Code, engaging consumer groups, suppliers and current and potential switching site operators to ensure that the Code is fit for purpose and fully aligned with our Retail Market Review.

Guaranteed and overall Standards of Performance

Guaranteed Standards of Performance exist to protect domestic energy consumers and involve some payments to consumers and reporting and communication requirements. Overall Standards of Performance provide insight into aspects of company performance and similarly create reporting requirements. Both have existed for a number of years, and some concerns have been raised with us about the extent to which they remain relevant to the consumer experience of energy.

We will review the standards to ensure that these arrangements remain fit for purpose, reflect consumer needs and do not create unnecessary burdens.

We aim to undertake an initial review of the issues in autumn 2012, with a view to deciding whether more substantial work is needed.

Smart Meter Installation Code of Practice

The Smart Meter Installation Code of Practice (SMICOP) is a code of practice that suppliers will be required to adhere to when installing smart meters in domestic and micro-business premises. The code is underpinned by licence conditions that will be enforced by Ofgem.

We have worked with DECC to ensure that the licence conditions underpinning the code are based on a number of overarching objectives which are designed to encourage suppliers to take a holistic view when implementing protections, rather than adopting a 'check list' mentality. This design aligns with our broader aim of introducing greater outcome-based regulation in the industry.

We have encouraged the adoption of a self-regulatory approach to the development of the code itself. While we will hold the power to designate a code that suppliers must adhere to, we have been strongly supportive of a supplier-led design process. As part of this process, we have welcomed the inclusion of consumer representatives and small suppliers alongside the larger energy suppliers. We believe that this broad representation aligns well with our wider agenda to ensure that competition and consumer interests play a key role in the design of the regulatory framework.

Minimum code requirements are currently being applied to the installation of smart-type meters by the six large energy suppliers. The code is due to take effect formally in early 2013.

Regulatory strategies

Reputational regulation

Publishing data on regulated businesses' performance can be an effective alternative to more traditional regulatory approaches, by allowing consumers, NGOs and the media to compare and contrast companies and hold them to account for their performance. This approach, which has been termed 'reputational regulation', can impose less of a burden on companies and give them more space to innovate. Alongside this, the publication of performance data can enable third parties to create new services. Switching websites could, for example, allow users to see which company has the best performance in terms of complaints-handling alongside which one has the cheapest tariff.

We already undertake and publish a regular survey on consumers' experiences of company complaints processes; and we publish quarterly and annual data on companies' debt and disconnection practices. We have recently asked suppliers to publish data on back-billing of non-domestic consumers, with a view to allowing small businesses and their representatives to observe different company performance.

We recently outlined our proposals to enhance our monitoring of the domestic retail market. We recognised a significant volume of information is currently collected and that it would be timely to review its usefulness. Through this work we are currently considering the scope/breadth of information we collect and publish for the domestic retail market. We aim to publish an update to these proposals for consultation before the winter.

Publishing quantitative research data

Ofgem undertakes a considerable amount of qualitative, quantitative and deliberative consumer research every year. While we already publish reports on this research, in the case of quantitative consumer research, we have tended not to publish the underlying data in full. Over the course of 2012-13, we will move to publish all underlying quantitative consumer research data in an accessible format. We will also explore publishing historic research data.

Enforcement Review

We are carrying out a wide review of the Ofgem Enforcement Guidelines and our general enforcement approach. Areas that the review will cover include:

- Options for swifter enforcement action or quicker investigations
- Our communications with consumers and others regarding our enforcement activities and scope of powers
- Ensuring the best use of our resources
- Alternative methods of regulation, for example placing greater emphasis on compliance work.

We have received feedback from stakeholders as part of our call for evidence and initial updating of the Guidelines, which was published in December 2011. Going forward, we will be talking further to stakeholders, and putting together proposals for changes. We will present our initial thinking on the review by March 2013. In accordance with our better regulation duties, we will be focusing on the need for accountability, transparency, proportionality, consistency and targeting in our enforcement.

Initiatives in Simplification Plan 2012-13

The table below considers how the 2012-13 actions deliver against the principles of better regulation.

Theme	Initiative	Principles of good regulation				
		Transparent	Accountable	Proportionate	Consistent	Targeted
Efficiency	Internal cost control for 2010-15	✓	✓			
	E-Serve Performance Improvement Project		✓	✓	✓	✓
Regulatory processes	Publishing a consultation schedule	✓		✓		
	Review of Information Request processes	✓		✓	✓	✓
	Revision of Impact Assessment Guidance	✓	✓	✓	✓	✓
Industry-facing regulation	RIIO	✓		✓	✓	✓
	RMR - Standards of Conduct			✓	✓	✓
	Code Governance Review 2	✓	✓	✓		

Theme	Initiative	Principles of good regulation				
		Transparent	Accountable	Proportionate	Consistent	Targeted
Consumer-facing regulation	RMR - Billing information simplification			✓		✓
	Confidence Code	✓		✓		✓
	Guaranteed and overall Standards of Performance	✓		✓		✓
	Smart Meter Installation Code of Practice	✓	✓	✓		
Regulatory strategies	Reputational Regulation	✓		✓	✓	
	Publishing quantitative research data	✓	✓			
	Enforcement Review	✓	✓	✓	✓	✓

Simplification Plan 2011-12 progress report

The information below sets out our performance against our commitments in last year's Simplification Plan.

Process initiatives

Initiative

The new RPI-3% internal cost control for 2010-15

Consumer First - improving our understanding of energy consumers' priorities

Outcome

2009-10 was the last year of Ofgem's first five year cost control regime. We saved £11.9 million over the previous cost control and licensees' fees were substantially reduced. The new control maintains the pressure for efficiencies and we anticipate savings of at least £12.5 million. Cost reductions will be passed on to licensees.

Consumer First provides insight into consumer views and experiences of the energy market through primary consumer research, analysis of published data and enhanced stakeholder engagement. It ensures consumer insight is embedded into our policy development leading to improved decision making.

The Consumer Challenge Group provides consumer expertise and insight during the development of network price controls (undertaken through Ofgem's output based 'RIIO' model) where issues are more complex and views are not always easily gained through primary research.

Current status

Ofgem is now operating a further five year RPI-3% cost control regime from 2014-15 with a maximum year-end carryover of any savings of £5 million. In 2012-13 budgeted gross expenditure of £82.2m exceeds the adjusted budget ceiling by £2.3 million and this will be offset by agreed carryover savings brought forward.

A particular focus over the last year has been on insight to inform the development of the 'Retail Market Review' proposals.

We have also continued to seek to understand the specific challenges faced by vulnerable consumers, for example by engaging with customers in debt to their energy supplier.

The Consumer Challenge Group has provided inputs to the transmission and gas distribution price controls (RIIO T1 and GD1), including scrutiny of the network companies' business plans.

A Challenge Group has been set up for the next electricity distribution price control (RIIO ED1).

Ofgem policy initiatives

Initiative	Outcome	Current status
Retail Market Review – financial reporting	In October 2011, we appointed accountancy firm BDO to review how the Big 6 energy companies produce their Company Segmental Statements (the Statements). BDO concluded their review in January 2012, making eight recommendations to improve transparency and cross-comparability.	In April, Ofgem published a consultation proposing various forms of six of BDO's recommendations. Our proposals aim to focus the emphasis on improving the transparency and clarity of the Statements. We are now asking the companies to base the profit figures in their statements on the information published in their Group Accounts presented to the investor community.
Retail Market Review – tariff simplification	We are seeking to make it easier for domestic consumers to compare tariffs and choose a better deal.	In December 2011 we proposed to restrict the number of tariffs for standard evergreen products from each supplier to one per payment method with suppliers competing on a single 'per unit' price. Suppliers may offer an unrestricted number of fixed term products quoting prices readily comparable to their evergreen tariff unit price. We are currently considering these proposals in light of responses to our December 2011 and February 2012 consultation documents.
Retail Market Review – consumers' access to tariff information	We are considering the information that suppliers must provide to consumers about tariff information. We will take steps to improve transparency while ensuring that any burdens we impose on suppliers are proportionate.	In December 2011 we proposed information remedies, including proposals for suppliers to use consistent language and terminology when describing key concepts, with the general goal of helping to improve information transparency and comparability. We are developing these proposals further in the light of consultation responses, consumer testing and expert input.

Initiative

Outcome

Current status

Rolling out the RIIO conclusions

Ofgem received the network companies RIIO-T1 business plans in July 2011 and the RIIO-GD1 business plans in November 2011. Following consultation, we decided that the plans of SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd were suitable for fast-tracking. We published Initial Proposals for those companies price controls in February 2012 and Final Proposals in April 2012. All other transmission and gas distribution companies have submitted revised business plans.

We are due to publish Initial Proposals for the companies who have submitted revised business plans in July 2012.

Reviewing the gas transmission licence

Consider the scope for simplifying the licence held by National Grid Gas.

The decision on the timing for a wide-ranging review of the licence will be made later in the year.

Reviewing gas distribution licences (focusing on the elements of the licence relating to Gas Distribution Networks)

We aim to improve the clarity of the Standard and Special Standard Conditions without making substantive changes to underlying policies and obligations. We will concentrate on restructuring and consolidation, including removal of redundant conditions and simplifying and redrafting to improve clarity and certainty.

Simplification of Gas Licences has been put back until after licence drafting for both the RIIO-T1 and RIIO-GD1 price controls has been concluded.

Where we are changing any condition or indeed introducing any new conditions as part of RIIO-GD1 or RIIO-T1 then we are modernising these conditions in line with the ED licences.

Networks regulatory reporting requirements

We have continued our work in reforming and rationalising the compliance arrangements surrounding the provision of data by the licensees to Ofgem and have put our proposals to the industry. We have also commenced work on the first RIIO price control for the electricity distribution businesses. As a part of this project, we will be reviewing the ongoing appropriateness of the reporting requirements for the companies in this sector.

We are currently working on a licence condition that will come into effect during the RIIO price control periods. This will bring into force the new compliance arrangements that have been developed as a part of this workstream.

Ofgem E-Serve initiatives

Initiative

Updating procedures for administering the existing environmental programmes including the Renewables Obligation, the Feed in Tariff, the Carbon Emissions Reduction Target and the Community Energy Saving Programme

Introducing new Government environmental programmes including Renewable Heat Incentive and Warm Home Discount

Developing the offshore transmission regulatory regime

Outcome

Our intention is more effective application and efficient administration through effective use of business process design techniques and compliance powers.

We intend to administer these schemes cost effectively and efficiently, drawing on our experience, facilities and teams from existing environmental programmes and social tariff schemes. We will use standard and consistent business process design approaches. We will maximise reuse and use compliance powers effectively.

The regime is:

- Delivering fit for purpose transmission infrastructure
- Providing best value for consumers

attracting new players to bring innovative technical, operational and financial solutions to the sector.

Current status

Quarterly risk reviews feeding back into changes to our processes. Reviews are also under way to take account of revised Government requirements.

We are advising DECC in relation to the Renewable Heat Incentive and the Warm Home Discount and are undertaking detailed design of our administration and compliance processes for these schemes. We are introducing a standard approach to the development of new schemes.

The competition for the first round of tenders, for assets worth £1.1 billion, attracted an initial investor appetite of around £4 billion. The second tender round is now underway and we are in the process of tendering for assets worth over £1 billion. This approach is already delivering considerable savings for consumers and generators, with similar benefits expected going forward.

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