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For Information

Title:	E-Serve Quarterly Report
Period	Quarter 3 (Oct – Dec) 2011-12

Summary

Offshore Transmission:

- **Tender Round 1**: Four out of nine projects now have a licensed Offshore Transmission Owner (OFTO) in place. The National Audit Office has presented initial findings from its review and the verbal feedback was very positive.
- **Tender Round 2:** The deadline for Invitation to Tender (ITT) stage submissions for the Lincs project is now 1 February 2012 following agreement from the European Investment Bank to invest in this and other Tranche A projects. The London Array ITT stage began on 30 November.
- **Future Tender and Regulatory Regime:** On 15 December we published two reports by our consultants on offshore coordination to support our technical and economic analysis. We also published a consultation on refinements to the enduring regime on 16 December. The GB legislation for implementing the Third Package Directives came into force on 10 November, which require OFTOs to be certified as ownership unbundled. We have since received applications from existing OFTOs.

Other Ofgem Activities:

- **Licence Exempt Networks Database:** A feasibility study was completed which identified the optimum business system for managing the legislative requirements of licence exempt networks. The recommendation was to implement the spreadsheet and SharePoint based system and take a decision as to whether the CRM is needed when submissions from licence exempt networks and third parties exceeds 250. The interim system was delivered and in place ahead of the transposition of the EU requirements in to UK legislation.

- **Energy Markets Review (EMR) :** The E-Serve team continue to be engaged with Markets colleagues on their discussions with DECC which relate to implementation of the Energy Market Reform (EMR).

- **Retail Market Review:** As the Markets team work towards a consultation document in late Spring 2012, E Serve will be helping to undertake an analysis on the delivery challenges of different options for implementation of mandatory auctions.

Summary (Cont)

Low Carbon Schemes:

Schemes in development:

- **Northern Ireland RHI:** The draft feasibility study identifying the costs and timetable for delivering and operating a RHI scheme for Northern Ireland has now been completed. We expect final confirmation of the policy and consequently any amendments to the study in January 2012. We will seek Authority approval before agreeing to develop or administer this scheme.

- **Energy Company Obligation (ECO):** In November DECC issued an OJEU notice and a PQQ for the role of ECO administrator. In parallel to this DECC have asked Ofgem to provide details of our technical and professional abilities. We have confirmed with the Authority that we should respond to this information request. We will carry out due diligence and return to the Authority beforepreparing full proposals for the role.

Schemes in operation:

- **CERT:** Suppliers show good progress against their overall obligations; however, some need to increase activity against their sub-obligations. Letters have been sent to suppliers requesting them to detail their progress towards compliance.

- **CESP:** 96% of scheme submissions were reviewed within ten days. Proposals for 63% of the CESP target had been submitted by December2011. We have concerns that some energy companies could fail to comply with their CESP obligation. Letters were sent to the obligated parties asking them to outline in detail their progress towards compliance.

- **Renewable Heat Incentive (RHI):** The scheme went live on 28th November. In the first two weeks of operation 39 applications were submitted and a further 339 were partially completed. This level of applications is manageable operationally but it is not yet possible to gauge how closely it matches predictions for the first year of the scheme.

- **Feed In Tariffs (FITs):** The number of registered FIT installations far exceeds the predictions for the scheme. There have been three amendment orders in the last 6 months in addition to the announced comprehensive review part 1. Sixteen audits of large PV installations have been completed and we are assisting DECC and Gemserv with the issues to mitigate the risk of fraud.

- **Renewables Obligation (RO) + Combined Heat and Power (CHP), including RO Sustainability:** Accreditation was granted to 74 stations during Q3. Guidance for RO sustainability requirements for biosolid and gaseous fuels has been published. The Infinis JR decision was in favour of the claimant. As agreed by GEMA, we are currently seeking leave to appeal the decision and anticipating a response by the end of the year. The RO 2012 consultations have been published. We will be working with DECC on the detailed drafting of the legislation. The total amount redistributed to suppliers for 2010-11 was, £358,308,373. The 'worth' of a ROC for 2010-11, as calculated by Ofgem is £51.34. This has decreased when compared to last years value of £52.36. The investigation into misreporting by Opus Energy is ongoing.

Summary (Cont)

- **Warm Homes Discount (WHD):** The focus in Q3 has continued to be on the approval of supplier Broader Group (BG) and Industry Initiatives (II) proposals. To date 25 proposals have been approved and 6 are currently being assessed. We appointed external auditors to conduct supplier audits of the scheme and consulted with suppliers on their reference tariffs.

Key: Relates to the RAG dashboard summary tables in main text

	On target to achieve target or has been achieved.
	Risk of failure to achieve target, remedial action may need to be taken. Clarify actions to be taken.
	Targets are not being met or will not be met. Remedial action is required which should be detailed here.

Policy Delivery	Ofgem budget estimated over/under spend for 2011/12	KPI & Process
Metric and/or description to show how policy delivery is progressing against target. This may include actual progress, rate of change and estimated rate going forward.	Provides the overspend or under spend figure along with explanation if required to indicate impact on programme.	Scheme KPI achieved or not met.

Offshore Transmission

Offshore Transmission: Tender Round 1 (TR1)

A competitive tendering process to deliver cost effective offshore transmission links

Project Value: TR1 = £1.1bn Project Delivery	Ofgem 11/12 budget est. over/under spend	Offshore KPI
4 out of 9 TR1 projects worth £250m have now been granted licences. 45% complete in project terms and 23% complete in capital value terms. Only 4 out of the 9 projects are fully operational. Other projects have outstanding technical issues that require resolution prior to licence grant.	Costs are forecast to be within budget for the project.	All KPIs were met for the last quarter

TR1 is granting licences for nine transmission projects, valued at £1.1 billion and linking 2.1 GW of capacity. Four projects now have a licensed Offshore Transmission Owner (OFTO) in place – Robin Rigg, Gunfleet Sands, Barrow and Walney I.

An OFTO licence was granted to Blue Transmission Walney 1 Limited on 20 October 2011 and the project reached successful financial close on 21 October.

We expect the licences for the remaining projects to be granted by quarter 2 of 2012 with the exception of the Greater Gabbard project where, due to project specifics, there is significant uncertainty around the timings.

The National Audit Office (NAO) is conducting a review of TR1 focusing on Robin Rigg, Gunfleet Sands, Barrow and Walney I. The NAO presented their initial findings on 17 November and, although they raised some minor points, the overall feedback was generally very positive. We anticipate that the full report will be finalised by March 2012.

Offshore Transmission: Tender Round 2 (TR2)

Ensuring an effective enduring regulatory regime for offshore transmission

Project Value: TR2 = £2.1 bn **Project Delivery**	**Ofgem 11/12 budget est. over/under spend**	**Offshore KPI**
In TR2A all 3 projects have had bidder shortlists identified. 2 out of the 3 project are currently at the ITT stage. None of the three projects are yet operational and appointments of preferred bidders will be made once projects are closer to completion. The tender process for TR2B is not due to commence until later in 2012.	**Costs are forecast to be within budget for the project.**	All KPIs were met for the last quarter

TR2 will grant licences for up to six transmission projects, split into two tranches of three *projects. These are valued at c£2 billion, connecting 2.6 GW of capacity.*

Offshore Transmission

Tranche A: The deadline for Invitation to Tender (ITT) stage submissions for the Lincs project has been extended from 20 December 2011 to 1 February 2012. The extension was due to the European Investment Bank indicating its appetite to invest in Tranche A projects and that it will provide bidders with indicative financing terms. We met with the Lincs developer on the 19 December 2011, discussed the additional analysis undertaken by our advisors and agreed next steps. The ITT stage for London Array began on 30 November 2011 with submissions due on 21 March 2012. The ITT stage for Gwynt y Mor is due to begin in summer 2012 based on the current assessment of project timings.

Tranche B: We will be undertaking the tender entry process in the spring 2012 with a view to beginning the tender process sometime thereafter.

Following our consultation on Interest During Construction (IDC), we published our decision letter on 28 October setting out the reduction in the cap on IDC from 10.8% to 8.5%, applicable from 1 December.

Future Tender and Regulatory Regime

Establishing an innovative enduring regulatory regime for offshore transmission

Offshore coordination: This is a joint Ofgem/DECC initiative that seeks to ensure that there are no regulatory barriers to the efficient development of an offshore network. On 15 December we published the final reports by our consultants TNEI/PPA Energy and Redpoint, to support our technical and economic analysis. Discussions are continuing with DECC and industry on key issues. The emerging conclusions of the project were discussed at the December GEMA meeting and a joint Ofgem/DECC conclusions report and Ofgem consultation is planned for February 2012. This will include consulting on a mechanism to allow anticipatory investment in the offshore regime.

The Coordination Project's stakeholder engagement strategy is being implemented. Our focus has been to engage with the broad range of stakeholders from the Project's stakeholder community. We will continue to proactively engage with stakeholders in the lead up to, and during, the consultation. Weekly meetings with DECC's offshore transmission team, and monthly meetings of the Ofgem/DECC project board, continue to take place.

Enduring regime: On 16 December we published a consultation document on refinements to the enduring regime focussing in particular on the OFTO-build model, adjustments to the generator-build model and initial thinking on phased projects. In parallel we are continuing to engage with generators of future offshore projects, including Hornsea, Dogger Bank and Moray Firth, together with potential OFTO bidders and financiers, to determine if any changes are needed to the tender and licensing process to ensure a competitive process is maintained. The first enduring tenders are expected to begin in late 2012 at the earliest.

A stakeholder engagement strategy has been developed for the enduring regime and we are currently identifying key contacts to be part of the stakeholder community. We will be engaging proactively with stakeholders during the consultation, through a range of activities including briefing events and bilateral meetings.

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Offshore Transmission

Third Package certification: The GB legislation for implementing the Third Package Directives came into force on 10 November meaning that OFTOs need to be certified by us as ownership unbundled. We are continuing to engage with existing and potential licensees to help them apply. We have since received applications from existing OFTOs, which we are assessing.

Energy Bill: Ofgem has been working closely with DECC to draft instructions for Parliamentary Counsel to address the commissioning issues that must be solved for the regime to fully commence. While DECC has assured us that this is a priority, approval for inclusion in the second session Energy Bill has still yet to be given. We note significant and current industry pressure for clarity on full commencement.

Other Ofgem Activities

Licence Exempt Networks Database

An IT solution to support Ofgem's statutory obligation to approve charging methodologies to be used by license exempt networks

On behalf of Ofgem's Smarter Grids and Governance: Distribution division (SG&G:D), a feasibility study was completed in September to analyse the options available to Ofgem to deliver an IT system to capture and record the information required to fulfil our legislative obligations, under the Third Package, for license exempt networks.

The EU Third Package has created a number of new requirements and obligations. One particular new legislative requirement for Ofgem will be to approve the charging methodologies used by Exempt Networks Operators.

The study provided recommendations on the best value for money option for implementing a new system, concluding that this may best be implemented using an interim system based on a spreadsheet database and SharePoint for file storage, until volumes make it worthwhile to implement a CRM system. The recommendations were considered by the SG&G: D and E-Serve's Management Committee, . Based on the unknown quantity of likely submissions from third parties and exempt networks, the spreadsheet and SharePoint filing system was implemented ready for the transposition of the Third Package in to UK legislation. The necessity for the CRM system is still to be decided by the SG&G division and is dependent on the number of submissions received. The feasibility study recommended a decision be taken when submissions reach in excess of 250. However, there is discretion for SG&G to make a decision ahead of reaching this figure. No formal submissions have yet been received by the team from third parties or licence exempt networks.

Energy Market Review

DECC's proposals to reform GB energy markets

The E-Serve team continue to be engaged with Markets colleagues on their discussions with DECC which relate to implementation of the Energy Market Reform (EMR). This includes looking at some of the challenges that would exist for E-Serve to be involved in any future aspect of delivery (noting that DECC have issued their technical update which states their intention to use NGET as the delivery body for the EMR).

Retail Market Review

An investigation into the markets for electricity and gas for households and small businesses in Great Britain

The E-Serve team have also been providing advisory support to the Markets team as they develop their proposals in relation to Mandatory Auctions as part of the Retail Market Review and attempts to introduce liquidity in wholesale markets. In late 2011 this focussed on helping to properly understand risks in relation to delivery and implementation, including scoping out an approach to developing the high level commercial strategy and procurement. As the Markets team work towards a consultation document in the late Spring 2012, E Serve will be helping to undertake an analysis on the delivery challenges of different options for implementation of the auctions following further discussions at GEMA.

Low Carbon Schemes in Development

Renewable Heat Initiative (RHI)

A world first scheme providing a tariff based subsidy to renewable heat installations

RHI Phase 2 will include support for domestic premises as well as extending the scheme to some new technologies. DECC's work on policy for phase 2 is now beginning but is unlikely to be sufficiently advanced to allow for formal consultation to begin in mid-December as scheduled. DECC are undertaking a major baselining exercise for their Phase 2 plans. DECC have retained the services of a consultancy firm to advise on planning the programme for Phase 2 and the first meeting between these consultants and Ofgem took place in December.

An important part of Phase 2 will be measures to introduce "cost controls" into the scheme to ensure that the budget is not exceeded if demand is higher than anticipated (as happened with FITs). DECC are considering measures such as automatic 'degression' of tariffs when certain volumes are reached. E-serve has temporarily seconded a member of the RHI development team to help DECC in this area.

Energy Company Obligation

The replacement to CERT and CESP, that will realise household energy efficiency savings

During the summer, we were invited by DECC, as part of a market testing exercise alongside other organisations, to provide a high-level proposal about how we might carry out ECO administration. In November DECC launched an open PQQ for the role of ECO administrator. This PQQ has been issued in accordance to OJEU requirements for large scale procurement. In parallel they have asked Ofgem to provide an overview of our relevant technical and professional abilities.

We have confirmed with the Authority that we will provide this information to assist DECC in their decision making. The award of this role will be based on the best value provision as such we are currently exploring options, including outsourcing functions to the private sector, to strengthen our offering

The ECO forms an intrinsic part of the Green Deal by providing energy efficiency measures to low income consumers or for measures that would not produce sufficient savings. Given the overlap with this important Government policy we will carry out a process of due diligence in order to ensure that Ofgem E-Serve taking on board the role of ECO Administrator will not conflict with Ofgem's independence and core purpose. We will go back to the Authority early in the new year with the results of this process and, if appropriate, to seek their approval to actively pursue the role of ECO administrator.

Low Carbon Schemes in Development

Northern Ireland Renewable Heat Incentive

Feasibility Study to explore options for Northern Ireland's introduction of a Renewable Heat Incentive scheme

Northern Ireland's Department of Enterprise, Trade and Investment (DETI) approached Ofgem in July to develop and operate a Northern Ireland Renewable Heat Incentive (NI RHI). It is envisaged that that the NI RHI will be very similar to the GB RHI scheme. As such, work has been carried out to complete a feasibility study for Ofgem's administration using the existing systems developed for the GB RHI. We have now delivered a draft of this feasibility study to DETI for their consideration.

The feasibility study is based on a scheme with minimal differences from the GB RHI and which comes into effect in April 2012. However, as final policy decisions are now only expected in January 2012 we have indicated that this start date would be unrealistic as we will require a sufficient lead time to adapt and develop our systems to accommodate the NI RHI. We intend to provide the final version of the feasibility study once these policy decisions have been taken.

We will seek GEMA approval before agreeing to administer the scheme, and this will be conditional on agreement of a suitable contractual arrangement that provides sufficient funding and legal protection for the development and administration of the scheme.

Low Carbon Schemes in Operation

Carbon Emissions Reduction Target (CERT)

An obligation on energy suppliers to promote energy efficiency measures to householders.

Scheme Value: Apr08 to end Dec2012 £5.5 billion **Policy Delivery**	**Ofgem 11/12 budget est. over/under spend**	**KPI**
Main Obligation - On target **with 74%** of overall 293 Mt CO2 target achieved, 74% of the way through the programme. Half of suppliers are currently not on target to meet their **sub-obligations** targets of 73.4 MtCo2 for IO and 16.2MtCO2 for SPG. Progress is measured since 1 Aug 2010, **which is 47%** of way through the programme from this date. Insulation Obligation – **32%** of target achieved Super priority group – **16%** of target achieved	**£158386** (Team staffing costs and estimated legal spend has been lower than expected.)	All KPIs were met for last quarter

As of September 2011, **the 'Big 6' had achieved 219 Mt CO_2 savings, 74% of their overall target** of 293 Mt CO_2 to be met by December 2012. 43% of all installations are qualified as being priority group installations which exceeds the CERT target of 40%.

There is concern that some suppliers will not meet the two sub-obligations introduced in August 2010. As of September 2011, which is nearly half way since the sub-obligations were introduced, **suppliers had achieved only 32% of their Insulation obligation (IO) and 16% of their Super Priority Group (SPG) obligations**. We have written a letter to all suppliers asking them to clarify how they will comply with these obligations.

DECC announced that the **customer numbers threshold** in both CERT and CESP **will increase to 250,000** and the **transfer deadline** has been extended to 31 Dec 2012.

Following an investigation by the energy companies into the sale and use of cheap Compact Fluorescent Lights (CFLs), the Executive approved a proposal for 11% of all CFL measures (and associated savings) promoted between 1 January and 31 March 2011 to be disregarded under CERT. This decision, which could have disregarded between 2 and 25% of activity, was reached following investigation into the number of CFLs that have been or are likely to be installed before the end of CERT. Suppliers have accepted this decision.

A formal investigation into the **misreporting of CFLs by Eon** is ongoing. Letters, reiterating the importance of effective monitoring of third parties and accurate reporting of activity, have been sent from Stuart Cook to all the "Big 6" suppliers. Eon has been informed that its scheme will not be approved until the results from a programme of independent auditing have been received. Auditors will report to both Eon and Ofgem, and we are working with Eon to inform the scope for this audit.

The quality of quarterly data submissions is improving. During 2011 the KPI to review 95% of scheme stages submissions within ten working days was consistently met.

Low Carbon Schemes in Operation (CERT cont)

Table 1: Schemes received since the beginning of CERT as of 7 December 2011.

CERT	Number of Schemes (%)
Schemes Received	292
Schemes Approved	221
Schemes Unapproved: With Ofgem With energy companies	25 7 (28%) 18 (72%)
Schemes on Hold	46

Low Carbon Schemes in Operation

Community Energy Saving Programme (CESP)

An obligation on large energy suppliers and generators to promote energy efficiency measures to low income domestic customers

Scheme Value: £377 million - Oct09 to end Dec2012 **Policy Delivery**	**Ofgem 11/12 budget estimated over/under spend**	**KPI**
Carbon savings of all submitted schemes estimated to be 12.1 MtCO2 which is 63% of the overall programme target. We expect 400 schemes are needed to reach this target; currently 58 schemes out of 245 have been approved. No banking or completions have taken place.	**£5574** Discussions ongoing for extra budget for 2011/12.	All KPIs were met for last quarter

We have been providing DECC with monthly updates on the obligated party progress towards complying with their obligations and the progress against resolving the some of the bigger issues that are slowing down the approval of submissions.

If all the savings predicted by obligated parties came to fruition, they would represent around 63% of the 19.25 $MtCO_2$ target to be reached by December 2012. As of June 2011, the last received reports on actual carbon savings, **obligated parties had achieved savings of 1.4 Mt CO_2** (lifetime) against the overall CESP target of 19.25 Mt CO_2. The next half yearly progress report is due to be published in Mar-2012.

The percentage of approved schemes has **decreased slightly from 23% in September to 22% this quarter**; this is predominantly due to an increased rate of scheme submission. This quarter, **96% of all scheme submissions were reviewed within ten days**, continuing to exceed the KPI target of 95%.

We have concerns that some energy companies could fail to comply with their CESP obligation. A letter has been sent to all obligated parties requesting data and an action plan detailing how they will achieve compliance by December 2012. Six of the suppliers are not expected to comply with their CESP Obligation.

Any difficulties of obligated parties obtaining Local Authority declarations should have been resolved with the publication of an information note from the LGA in October. We are monitoring progress and will be following up this matter with all stakeholders over the next month. We have also made **progress resolving issues around factory gate glazing** double-counting and the assessment of non-standard wall construction types.

We are undertaking planning for the final year of the Programme which takes account of the much higher than expected volumes of schemes to be processed, and the wide-ranging technical and administrative challenges of CESP.

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Low Carbon Schemes in Operation (CESP cont)

Table 2: Schemes received since the beginning of CESP– as of 7 December 2011.

CESP	Number of Schemes (%)
Schemes Received	268
Schemes Approved	59 (22%)
Schemes Unapproved: With Ofgem With energy companies	200 40% 60%
Schemes on Hold	9

Low Carbon Schemes in Operation

Feed In Tariffs (FITs)

An environmental programme to provide widespread uptake of a range of small-scale renewable and low-carbon electricity generation technologies in Great Britain

Scheme Value : The total value of the FIT scheme so far this year is £37,643,834.92 **Policy Delivery**	**Ofgem 11/12 budget estimated over/under spend**	**KPI & Process**
Current level is **147,512** installations (ahead of projections to meet DECC target of 800,000 installations by 2018). Uptake on the scheme accelerated throughout Q3 of year 2 There is a high risk that the scheme costs will exceed DECC's spending envelope.	**£1348** Change control submitted to DECC.	Feed-in Tariffs levelisation process KPI met. The percentage of generator applications exceeding the 10 day KPI target was 14% in October and 19% in September. A significant proportion were FITs related due to the FIT amendment made 1 Aug2011.

The number of registered FIT installations on 7 December was 147,512, the vast majority being PV installations. This is up from 30,201 at the start of the financial year, more than triple DECC's 2009 projection of 60,000 by April 2012.

The number of applications exceeding the 10 day KPI target was 14% in October and 19% in September; this is due to high volume of applications being made to us in late July in light of changes made to FIT legislation.

The Third FIT Amendment Order was published on the 18 October 2011 to change the extension rules for FITs installations. Extensions which did not get commissioned and provide notification to Ofgem by 18 October 2011 will receive a significantly lower tariff. Most installations affected in this way are large PV installations which were trying to avoid the reduced tariffs as a result of the recent tariff reduction for large PV installations.

As a result of the third amendment order we received notification that 60 installations had extended prior to the 18 October deadline. In conjunction with our robust accreditation process, **we have appointed independent auditors to conduct pre-accreditation audits of six of these installations** that are of particular concern. Following the success of the 10 August audits, this is to ensure that that there is compliance with the revised legal requirements and to prevent the opportunity for fraud. Audit results have just been received and a determination on what further actions are to be taken will be made by mid-January.

We are currently working with IT to implement the Third Amendment Order extension changes to the Central FITs Register. This has been delayed due to issues with DECC funding but is expected to be completed by the end of January. **The volume and frequency of legislative changes have made extensive demands on Ofgem resources** and have led to additional IT User Acceptance Testing, changes to guidance, and large increases in stakeholder enquiries. This is in addition to the surge in the volume of generator applications.

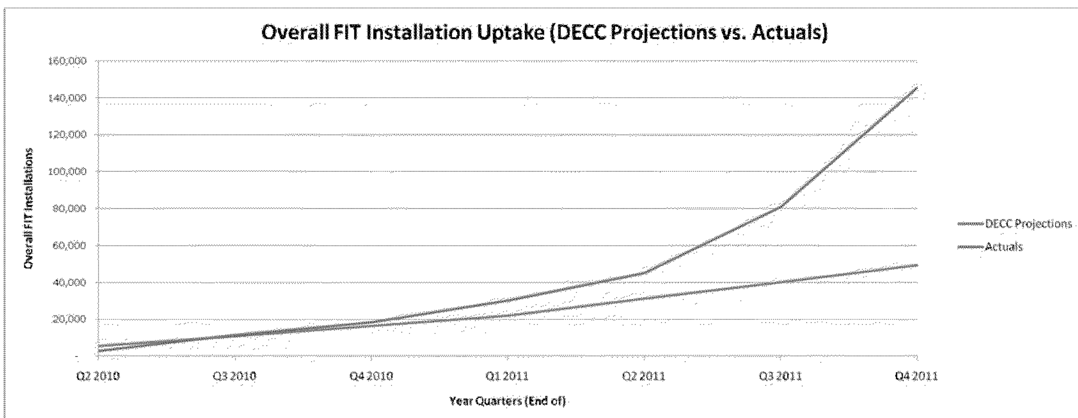
Low Carbon Schemes in Operation (FITs cont)

Change Requests were submitted to DECC before the end of December to cover funding for the first phase of the FITs Comprehensive Review and funding to cover increased costs for higher volumes of installations.

DECC published their Comprehensive Review (Phase 1) consultation at the end of October. We sent a private response to DECC on their proposals in December. We also remain ready to engage with DECC prior to and once Phase 2 of the Comprehensive Review is published early in the New Year.

One of the concerns arising from the Comprehensive Review (Phase 1) is the risk of fraud due to the combination of weaknesses in MCS governance and planned tariff reductions for micro-generators eligible on or after 12 December 2011. We have written a letter to DECC regarding this issue and are engaged in discussions with DECC, Gemserv and FIT Licensees. **A plan of action to detect and prevent fraud has been agreed between DECC and Gemserv**.

The second periodic levelisation for FIT Year 2 was successfully completed in November. All suppliers complied. The FIT Licensees reported a total of £24.6 million payments due to generators.



Low Carbon Schemes in Operation

Renewables Obligation (RO) and Combined Heat and Power (CHP)

The main support scheme for large scale renewable electricity projects in the UK. It places an obligation on UK suppliers of electricity to source an increasing proportion of their electricity from renewable sources

Scheme Value: The actual value of the scheme in 10/11 was £1.29bn. DECC 2011/12 estimate of the RO scheme value is £1.4bn. **Policy Delivery**	**Ofgem 11/12 budget estimated over/under spend**	**KPI & Process**
10.9m Million ROCs have been issued for the first four months generation of 2011-12 which is **2.8** Million more than in the same period in 2010. This equates to 32% of the 34.54m (-10% headroom target) ROCs target set by DECC for 11/12. The volume of ROCs issued could increase or decrease subject to seasonal variation. This is particularly relevant to ROCs generated from on-shore and off-shore wind.	**£257,880** £158k is IT work that will be undertaken this year. £55k relates to the Consultancy budget, which we will look to reforecast in the new year.	(1) Oct-11 ROCs issued on time 99.54% up from 79% in Jun 11. (2) Number of applications exceeding KPI 10 day target 14% (due to the FIT surge in applications)

We granted full accreditation to 74 generating stations in September, October and November 2011. This includes the **150MW and 300MW offshore wind farms, Ormonde and Sheringham Shoal**. 10.9M ROCs were issued from April to August this year, compared to 8.1M ROCs for a similar period in 2010. Not all application met our accreditation KPI mainly due to the large influx of ROO-FIT applications submitted to us.

DECC and the devolved administrations have published their consultation documents in respect of ROO 2012 which will change the support given to renewable technologies from April 2013 onward. We will be working with them on the detailed drafting of the legislation to ensure the scheme is administratively clear and that the policy intent is realised. E-Serve will be making a private response to the consultation outlining our concerns regarding certain areas of the proposals that are either unclear or might create risk for the Authority/stakeholders.

On 9 November GEMA sought leave to appeal the **Infinis High Court decision**. We anticipate a response to our application by the end of the year. DECC legal are being kept informed.

The Renewables Obligation guidance: **Sustainability Criteria for Solid and Gaseous Biomass for Generators** (greater than 50 kW) was published on the 19 December. Business processes are also being developed for the generators auditing requirements for the end of each obligation period. This will be implemented by April 2012.

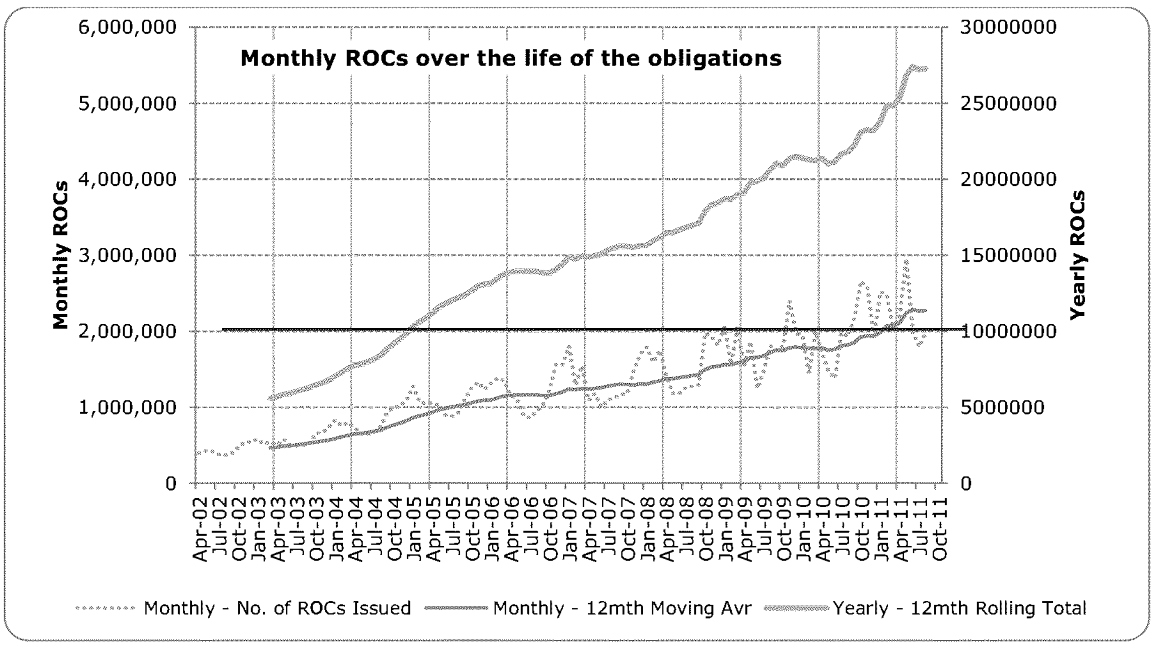
The investigation into **misreporting under the RO by Opus Energy is ongoing**. The investigations team are considering legal advice and our next course of action in light of this and are drafting a response to Opus.

All electricity suppliers met their renewables obligation for the 2010-11 obligation period; the buyout funds were recycled to suppliers on 30th September

Low Carbon Schemes in Operation (RO cont)

2011. Three suppliers made late payments to meet their obligation; these late payment funds were recycled on 30th November.

The total amount (after removal of costs and accrual of interest) redistributed to suppliers for 2010-11 from the combined payment funds was, £358,308,373. **The total number of ROCs presented for this compliance round was 24,969,364** which equates to £14.35 per ROC presented. **The 'worth' of a ROC for 2010-11**, as calculated by Ofgem from a combination of the buyout price and the recycle payment to suppliers per ROC presented, is **£51.34**. This has decreased when compared to last year's value of £52.36.



Renewables Customer Satisfaction Survey

A customer satisfaction survey was undertaken to better understand how stakeholders view our activity and our performance under the renewable schemes. A set of twelve questions were sent to all the Renewables and CHP Register super-users. **We received 281 responses to the survey which is a 27% response rate.**

Over half and sometimes up to 70% respondents rated **Ofgem's performance as either good or excellent**. Less than 15% of respondents rated Ofgem's performance as below average or poor.

There were six main issues raised by stakeholders including perceived difficulty of our accreditation processes, the response time to stakeholder queries, and the proneness of the IT system to 'crash'. An action plan has been prepared to address these issues and to carry out telephone interviews to understand them in a more detail. These actions are scheduled for completion by the end of March 2011.

Warm Home Discount (WHD) Scheme

A mandatory scheme for domestic energy suppliers to provide direct and indirect support arrangements to fuel poor customers over four years

Scheme Value: Total scheme value for Yr 1: 2011/12 is £250m. Non-Core group element administered by Ofgem is £153m Total programme value = £1.13bn **Policy Delivery**	**Ofgem 11/12 budget estimated over/under spend**	**KPI**
Current estimated spend approved on Non-core group = £38.3m. **RAG=Green** because (1) overall BG min spend exceeded (2) overall Below II cap and (3) Good relationships with suppliers.	**£203,575**. Low staff cost due to recruitment delays. Reduced legal input administering the scheme. Reduced Consultancy spend. No impact to programme.	All completed notifications approved within the 28 day requirement.

The sixth, and final, WHD Operational position has now been filled on a permanent basis in Glasgow. The new staff member is expected to start in January 2012.

A key focus for Quarter 3 continues to be **assessing and approving scheme notifications.** To date we have approved 25 Broader Group (BG) and Industry Iniative (II) proposals for all suppliers. 6 II proposals are currently being assessed, and we expect to receive one final proposal before the Chistmas break.

As a result of experience in assessing notifications for scheme year 1, **we have created new BG and II notification templates**. These have been designed to support suppliers in submitting more complete notifications and to make Ofgem's approval process more efficient. The templates have been issued to suppliers for comment and we expect them to go live during January 2012.

We have conducted **1-1 sessions with all suppliers** to determine progress on their non-core spending obligations. Suppliers are meeting their oligations in a variety of ways, for example, British Gas have opted to significantly exceed their BG minimum spending obligation, but not maximise their legacy spend cap and ScottishPower are spending to their BG minimum, but expect to maximise their legacy spend cap. No concerns around non compliance were identified.

We also **consulted with suppliers on setting their reference tariffs** to support assesement of scheme year 1 legacy spend. All six suppliers have responded that they agree with our proposed reference tariffs and we will now formally confirm these to them.

External auditors have been appointed to conduct audits of suppliers schemes. All suppliers BG schemes and a selection of II schemes will be audited. A risk rating tool was created to determine which schemes to audit. The first supplier audit (EDF) took place on 12 December. All proposed mid year audits will be completed by 10 Jan 2012.

Elexon have been appointed as the reconciliation operator for WHD. We have worked with DECC and Elexon to produce a process document, outlining Ofgem's role in providing data, as specified in Reconciliation Regulations. All required information was submitted to Elexon on 2 December, ahead of required timeline for the first scheme year 1 reconciliaiton run.

We have been working with DECC on to finalise the **WHD Service Level Agreement**. Three KPIs and two metrics have been agreed. We will provide progress reports to DECC on a monthly basis through the WHD Implementation Board.

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Renewable Heat Initiative (RHI)

A world first scheme providing a tariff based subsidy to renewable heat installations

Scheme Value: £860 million over four years **Policy Delivery**	**Ofgem budget estimated over/under spend for 2011/12**	**KPI & Process**
Stage1 launch due w/c 28Nov volumes uncertain, stage 2 due early Feb and currently on track. Phase 2 scope and timing currently being considered by DECC.	Forecast spend 2011-12: currently predicting £914 under spend	Enquiry handling KPI has been met.

The scheme went live on 28th November. In the first two weeks of operation **39 applications were submitted** and a further 339 were partially completed. The operational team is currently keeping up well with demand and whilst the number of enquiries have increased substantially since go live it has been possible to deal with these within the KPIs we have set for the scheme's administration.

Projections on application numbers: DECC have asked for leading indicators to be provided to help identify potential for expenditure beyond the funded levels. Reports on application numbers are being provided on daily and then weekly basis for the first month after go-live. Draw down forecasts based on applications received will be provided in the period before information based on accreditations becomes available.

Risks: This scheme will distribute significant sums. Work has been undertaken with the Serious Organised Crimes Agency and others to minimise the risks associated with money laundering etc. A contract is now in place with a credit rating agency for ID and bank account verification of applicants. A Deloitte audit of payments systems and processes will take place in January prior to go-live of those systems.

Audit: Deloitte has recommended audit levels considerably higher than those currently funded. DECC is being formally approached to increase funding to allow this work to take place. DECC has provided fast track agreement to a change request for funding for accreditation site checks to take place up to April 2012.

Communications: DECC retains responsibility for promoting the scheme, Ofgem's role is to inform potential applicants about the administration of the scheme to ensure that installations are compliant with requirements. However, there are some indications that the heating and ventilating industry may not yet be sufficiently well trained to ensure that renewable heat installations are designed and installed correctly. The RHI Team is considering what might need to be done to address this and in particular how a code of practice on heat metering could be developed.

IT: The IT system has stood up well to the initial flurry of activity. On the first day only four minor issues arose and these were dealt with on the day.

Grants: We are seeking additional legal advice on the rules concerning grants within the RHI. The outcome of this advice may significantly impact how we treat applicants in receipt of public money under the scheme. This is a result of experience on the FITs scheme. There may be delays to accreditation of some applications where public money has been received until this is resolved.

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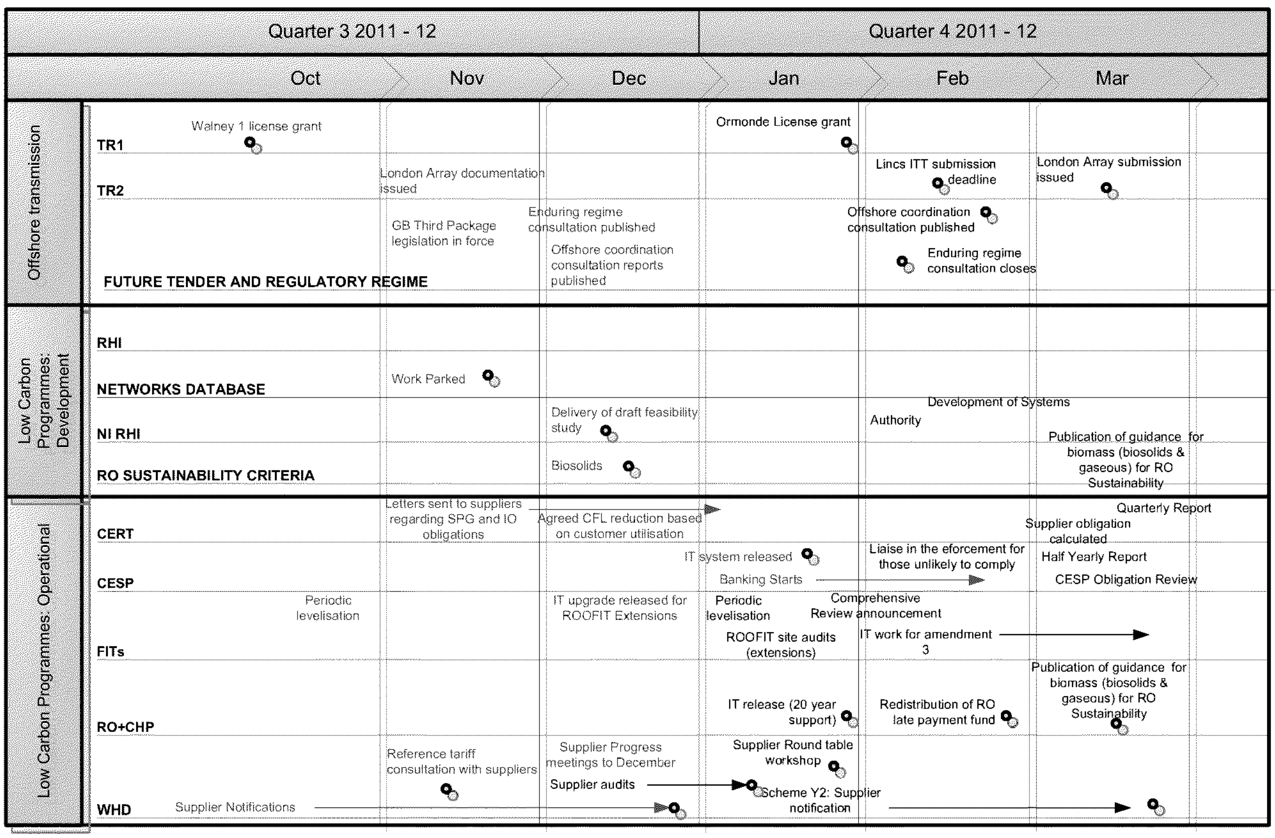
E-Serve Key Deliverables and Milestones Jul – Dec 2011



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E-Serve High Level Risk Report Q3 2011

Selected High Level Key E-serve Strategic Risks	High level controls in place	After Mitigation Score
1) Environmental programmes team unable to deliver on DECC requirements	• Effective governance in place for making robust decision making • Escalation process in place to Management Committee for guidance and decision making • Monitor progress towards meeting interim Environmental Programmes KPIs • Legal advice sought and considered	
2) RHI team unable to deliver on DECC requirements	• Effective project management • Adequate resources in place • Robust independent assurance in place around design	
3) Shortcomings in legislation expose E-Serve to ambiguous obligations	• Engage DECC in amendment of legislation as ambiguous obligations identified	
4) Fraud activities take place within E-Serve due to poor management.	• Ensure design and implementation of suitable process audits to prevent internal fraud • Dual key approval processes exist covering all financial approvals • Fraud awareness training conducted across E-Serve	

Selected Team/Project Level Risks that feed into strategic risks numbered above	High level controls in place	After Mitigation Score
1) Energy Efficiency: There is a risk of delay in the IT systems used to administer the schemes.	• Support contracts • Manual Back-Up system in place for schemes submitted under CESP • Contingency plan	
1) RCHP: There is a risk that increases in volume and complexity in the existing schemes result in a significant increase in our administration costs and pressures.	• Ensure areas of responsibility are clear and Ofgem are not put in a position of dealing with enquiries outside our remit	
2) RHI: Misunderstanding/ differing assumptions between Ofgem and DECC	• Clear communications arrangements • Options and impact assessments • Regular updates on progress and plans	
3) Energy Efficiency: There is a risk of uncertainty over possible legislative changes by DECC.	• Full engagement and effective dialogue with DECC at all levels – ensuring the are clear on the impact of any possible changes	
4) RHI: Overall Risk of Fraud risk with reference to separate fraud risk register as a control where all fraud risks are recorded. 4) All teams/projects consider and record fraud risks across the organisation.	• RHI Fraud Risk Register – with comprehensive list of detective and preventative controls	

KEY RISK MANAGEMENT ACTIVITIES

- Management Committee have undertaken two risk management workshops with the Corporate Risk Manager and E-Serve Risk Coordinator to identify and discuss risks and score them.
- A new E-Serve risk register has been produced and is being monitored and updated by the E-Serve Risk Coordinator. Tangible and meaningful controls are being reviewed/put in place to mitigate risks.
- Most Project Managers in E-Serve have undergone basic risk management training with the Corporete Risk Manager and project risk registers are now consistent across E-Serve in terms of format and process.
- Senior Management engages regularly with the risk managers across E-Serve and review project risk registers on a regular basis. This ensures there is linkage between controls and risks on all levels.
- Key Risk Indicators are being developed to further ensure we capture risks and mitigate them effectively.