

**DRAFT Minutes of the Meeting of the E-Serve Programmes Committee of
the Gas and Electricity Markets Authority**

Ofgem Boardroom, Wednesday 12 October 2011 at 10.00 am

Attendees:

Jim Keohane – GEMA (chair)
 David Harker – GEMA
 Alistair Buchanan – Ofgem
 Stuart Cook – Ofgem E-Serve
 Robert Hull – Ofgem E-Serve
 Liz Hillman – Ofgem E-Serve
 David Pimm – Ofgem
 Matthew Harnack – Ofgem E-Serve (acting secretary)
 Irrelevant information redacted by the RHI Inquiry DECC (observer)
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 Charles Hargreaves – Ofgem E-Serve (until item 5)
 Paul Heseltine – Ofgem (for item 4 only)

1. Chairman's & Managing Director's opening remarks

- 1.1. The Chairman welcomed all attendees to the meeting and asked Stuart Cook, MD of E-Serve, for opening remarks.
- 1.2. Stuart stated that the establishment of this Committee builds on the existing good governance of E-Serve schemes. A key purpose of the Committee will be to challenge E-Serve's delivery, and we welcome challenge from DECC attendees as well as other attendees. The meetings will also enable DECC to build their understanding of E-Serve, and will focus on the challenges E-Serve faces. Finally Stuart invited comments on the papers submitted.

2. Terms of Reference

- 2.1. The Committee agreed the Terms of Reference and agreed that they be reviewed every year. The Committee noted that when they are reviewed they should have regard to item 5 of the Delivery Landscape Review Action Plan.
- 2.2. It was noted that the Committee's role is to perform a review and challenge function, and it recommends decisions to GEMA. There may however be specific cases where we seek delegation to make decisions.

**ACTION 1: Secretary to put review of ToR on agenda for summer 2012
Committee meeting**

3. Quarterly E-Serve Report

- 3.1. The Committee welcomed the Quarterly Report as providing a good overview of delivery for each scheme. Stuart Cook drew attention to the key issues listed in Section 3 of the cover paper. He also asked that substantial discussion on FITs, RHI and EMR be left until Agenda Item 5.
- 3.2. **ECO** - Alistair Buchanan asked for clarity on any possible funding link between ECO and ROCs. Irrelevant information redacted by the RHI Inquiry stated that she didn't expect the two to be linked in the future.

- 3.3. **ECO** - Alistair also asked when DECC might make a decision on ECO. Irrelevant information redacted stated that DECC will be consulting later in October and would hope by the end of the year to have more clarity on the timing.
- 3.4. **CERT and CESP** - Some suppliers have expressed concern about their ability to deliver under the CESP and CERT schemes. The Committee encouraged E-Serve to reaffirm its commitment to the successful delivery of suppliers' targets. The Committee endorsed a twin-track approach whereby E-Serve would consider creative solutions to the barriers to successful delivery, whilst also preparing for potential enforcement action.
- 3.5. The Committee noted that it would be helpful for the Quarterly Report to provide company specific information so that we could see which companies (and what proportion of the total) are on track to comply / are performing well and which are not. This would be helpful for all schemes.
- 3.6. **NI RHI** - The Committee also clarified that the decision on whether to operate the Northern Ireland RHI scheme will be taken by the Committee, not GEMA.

ACTION 2: Charles Hargreaves to put a plan together of how to address CERT/CESP compliance and share this with DECC.

ACTION 3: Charles Hargreaves to provide an update on CERT and CESP compliance at the next meeting.

ACTION 4: Future quarterly reports to EPC to indicate which individual companies are compliant/performing well for each scheme and which are not.

4. Programmes Financial Report

- 4.1. Paul Heseltine joined for this item. Paul noted that the information provided to this meeting is based on existing reports and is an opportunity for the Committee to review a 'first cut' of information. We will develop the reporting in future months, including any enhancements proposed by the Committee
- 4.2. The Committee noted the report and suggested improvements to the presentation of financial reporting and performance monitoring information. These suggestions aligned with the intentions of E-Serve's Management Committee to enhance the quality and presentation of management information. Suggestions included:
- 4.2.1. Inclusion of traffic lights (suggested by JB)
 - 4.2.2. Actual v. variance on quarterly, YTD and forecast spend (suggested by JB)
 - 4.2.3. Capture additional funding needs for FITs in full year forecast (suggested by DH)
 - 4.2.4. Include information on cost breakdown so that E-Serve is able to compete with other service providers on a like for like basis (suggested by TV)
- 4.3. Charles Hargreaves clarified that Infinis JR costs were being recovered from the RO Buyout Fund.
- 4.4. Stuart Cook clarified that E-Serve's goal is for full cost recovery over the course of a financial year.
- 4.5. Stuart Cook noted that the DECC – E-Serve MOU will need to have more detail to addressing agreement of funding.
- 4.6. It was noted that DECC and Ofgem are currently discussing the overhead approach for next financial year.

ACTION 5: Implement suggested improvements to the presentation of financial reporting and performance monitoring information (several comments to incorporate from JK, DH and TV)

ACTION 6: Agree FITs funding needs with DECC

5. Key Issues

- 5.1. The committee noted the key issues covered in the presentation and provided the following comments.

Feed in Tariffs

- 5.2. The Committee noted E-Serve's commitment to undertake an exercise with DECC to capture the lessons from the recent FIT experience – FIT scheme volumes have substantially exceeded expectations, with resourcing and potential policy implications. The Committee also noted E-Serve's intention to work closely with DECC to help develop flexible policy solutions to address this situation.
- 5.3. It was recorded that DECC and E-Serve are equally sensitive to the potential for fraud under the FIT scheme, and that further measures have been introduced to gain independent verification of the capacity and commissioning date for all FITs installations being accredited by Ofgem. It was agreed that E-Serve engage early with the DECC FITs team on potential fraud.

ACTION 7: Stuart Cook to hold internal FITs lessons learned session and following that a joint FITs lessons learned session with DECC.

ACTION 8: E-Serve to work closely with DECC to identify flexible solutions to address the volumes issue under FITs.

Renewable Heat Initiative

- 5.4. There were no additional comments on key issues for the RHI.
- 5.5. Matthew Harnack clarified that the NI RHI is proposed to be very similar to the RHI, with key differences likely to be the tariff rates, and restrictions on eligibility of the 17 largest industrial sites. DETI are also considering inclusion of air source heat pumps in the NI RHI prior to their inclusion in the GB RHI, but we believe they are unlikely to do this due to the cost of doing so as well as the time needed to resolve technical issues.

NO ACTIONS

Electricity Market Reform

- 5.6. Information was presented on the proposed approach to defining and seeking GEMA agreement to any involvement of E-Serve in support of the Government's EMR programme.
- 5.7. The Committee was advised that, given the potential complexity of any role, it might take three months for E-Serve to complete a feasibility assessment, prior to any decision that GEMA makes.
- 5.8. This prompted a discussion on the possible timing of DECC's decisions on EMR institutional arrangements. DECC officials suggested they may need Ofgem to agree the nature of its involvement early in December.
- 5.9. The compressed nature of this timetable was highlighted, and E-Serve agreed to meet with DECC as soon as practical to clarify the scheduling of key decisions, with

a view to allowing GEMA adequate time to make a decision on E-Serve's involvement.

- 5.10. The spectrum of potential roles for E-Serve was also discussed. It was noted that decisions on this would need to be taken by the Authority. It was observed that, if E-Serve were to operate the CfD or capacity payment processes, those decision-making processes would need to be defined as tightly as possible, and that any role carried out by E-Serve must not conflict with our wider duties as regulator.

ACTION 9: E-Serve and DECC to urgently look at decision making timetable for EMR, to ensure E-Serve are able to give DECC a decision on our involvement in time for DECC's decision making

6. Process for Developing E-Serve Strategy

- 6.1. The Committee endorsed the proposed approach to developing E-Serve's strategy, recognising the important links to external developments and decisions, and the need for alignment with Ofgem's wider strategy development.
- 6.2. It was noted that the presence of DECC observers on the Committee presented an opportunity to align E-Serve's strategy with the needs of its main delivery partner.

NO ACTIONS

7. Memorandum of Understanding, Key Performance Indicators & Service Level Agreements

- 7.1. It was noted that E-Serve and DECC are aiming to agree a draft MOU with DECC by 4 November. The ability to do this in this short timeframe was challenged, but it was noted that this is an aspirational target.
- 7.2. Key issues for the MOU were noted. Stuart Cook pointed out that one key area to address in the MOU is the process for agreeing funding, and what is done in the event that an agreement on funding cannot be reached. Jim Keohane suggested that where there is a difference of views, we consider going to an independent expert.
- 7.3. Stuart also noted that the MOU will need to recognise that E-Serve is bound to deliver the schemes in accordance with the legislation.
- 7.4. On SLAs, Stuart noted that we are committed to making performance data available for the schemes. It was also noted that scheme specific SLAs will be progressed once the model SLA is agreed (the WHD SLA is being considered the model SLA). Work on KPIs will continue in the interim.
- 7.5. Robert Hull noted that we need to consider whether to publish the MOU.

ACTION 10: Seek to include clause in MOU to address disagreements over funding levels

8. Internal Audit Work

- 8.1. It was acknowledged that there have been a number of audits conducted of many E-Serve schemes over the past 18 months.
- 8.2. David Pimm noted that the establishment of this Committee does not diminish the role of the Audit Committee.

- 8.3. It was agreed that Audit Committee Papers relating to E-Serve would normally go to this Committee prior to sending to the Audit Committee, unless the timing and critical nature of any decisions require otherwise.
- 8.4. It was noted that this Committee also has the ability to commission work on audits if needed.

ACTION 11: Send copies of Audit Committee papers to JK

ACTION 12: Secretary to coordinate timing of audit papers with Gavin Jenkins

9. E-Serve Risk Footprint

- 9.1. The E-Serve risk footprint was reviewed by the Committee.
- 9.2. Irrelevant information redacted by the RHI Inquiry suggested that we show gross risk and net (residual) risk in our risk footprint.

NO ACTION

10.AOB

- 10.1. Jim Keohane noted that he is considering what expertise may need to be brought in to supplement the Committee, and asked the Committee to consider offering suggestions.

NO ACTION