



Department  
of Energy &  
Climate Change

# Strategy and Policy Statement

A consultation on the draft statement

URN 14D/271 August 2014



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The consultation can be found on DECC's website:

<https://www.gov.uk/government/consultations/strategy-and-policy-statement>

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# Introduction

The Government firmly believes that independent economic regulation is the best way to attract investment into energy markets and protect energy consumers. The regulator Ofgem has a good track record in helping to deliver secure and low carbon energy at best value for these consumers.

Nevertheless, we are not complacent and in 2010-11 we reviewed both the role of Ofgem and the regulatory arrangements to make sure they are fit to meet the challenges that our gas and electricity markets face now and in the future.

Our review confirmed that Ofgem's work is already supporting our aims but recommended that the regulatory framework should be strengthened by introducing a new Strategy and Policy Statement and associated duties to increase regulatory certainty. This will provide Ofgem regulation with a clear direction of the Government's strategic energy priorities and the policy outcomes we want to achieve to inform its regulatory decisions.

The Energy Act 2013 provided powers for the Secretary of State to designate such a Strategy and Policy Statement and we are now consulting on the draft statement. Once designated, the statement should be taken into account in Ofgem's regulatory decision making, forward work plans and annual reports and help it play its full part in improving competition, helping consumers take control of their energy bills and costs, securing investment in energy infrastructure, and tackling climate change.

A strategy and policy statement is designed to provide context and guidance about the priorities and desired outcomes of Government to the regulator. It is Government's opportunity to define a strategic vision of the likely needs and priorities over the long term and to provide a policy context for regulatory decisions in the medium and short term. A strategy and policy statement is Government's opportunity to reaffirm the fitness for purpose of the regulators' responsibilities and clarify the respective roles and responsibilities of regulator and Government.

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# General information

## Purpose of this consultation:

The Government is seeking views on its proposed draft of the Strategy and Policy Statement prepared in accordance with the Energy Act 2013. In particular, the Government is seeking views from Ofgem, Scottish and Welsh Ministers as well as a wide range of stakeholders with interests in regulation of the gas and energy sectors.

**Issued:** 14 August 2014

**Respond by:** 17 October 2014

## Enquiries to:

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Consultation reference: URN 14D/271 – Strategy and Policy Statement

## Territorial extent:

England, Scotland and Wales.

## How to respond:

Your response will most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Responses should be sent in hard copy or by email to the above addresses.

## Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at

<https://www.gov.uk/government/consultations/strategy-and-policy-statement>

Other versions of the document in Braille, large print or audio-cassette are available on request. Please contact us under the above details to request alternative versions.

## Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website at [www.decc.gov.uk/en/content/cms/consultations/](http://www.decc.gov.uk/en/content/cms/consultations/). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

**Quality assurance:**

This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here:

<http://www.bis.gov.uk/files/file47158.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator  
3 Whitehall Place  
London SW1A 2AW  
Email: [consultation.coordinator@decc.gsi.gov.uk](mailto:consultation.coordinator@decc.gsi.gov.uk)

# Executive Summary

The Ofgem Review<sup>1</sup>, which reported in 2011, found that the framework for regulation of gas and electricity markets has generally provided good value for consumers and helped attract significant investment into the energy sector. Over the years, however, the framework has struggled to keep pace with wider policy developments. Previous Governments have attempted to address this by revising Ofgem's duties and requiring it to have regard to Government guidance on social and environmental matters.

The Ofgem Review's main recommendation was that the Government should address these issues by introducing a Strategy and Policy Statement (SPS) to provide more clarity about the roles of Ofgem and Government, the strategic context for Ofgem's independent regulatory role, and greater confidence that policy and regulation will be consistent and coherent. It was recommended that the statement should clearly set out:

- the Government's strategic priorities and other main considerations of its energy policy;
- the policy outcomes to be achieved as a result of the implementation of that policy; and
- the roles and responsibilities of those who are involved in implementation of that policy.

The Energy Act 2013<sup>2</sup> (the Act) provides powers for the Secretary of State to designate a SPS and imposed new duties on Ofgem to have regard to the strategic priorities when carrying out its regulatory functions and to carry out those functions in the way it considers is best calculated to further the delivery of the specified policy outcomes. Ofgem will be required to report each year in its forward work programme on its strategy for furthering the delivery of the policy outcomes and to report annually on the extent to which it has achieved its plans and the ways in which it has complied with its SPS duties under the Act. The strategy and policy statement is not a vehicle for setting out new policies or strategy, and reflects the Government's existing energy policy statements.

The Act requires that the Secretary of State consults on the draft SPS with Ofgem and the Scottish and Welsh Governments and with those other persons he considers appropriate. Following this consultation, he is required to make any revisions as he considers appropriate as a result of responses to this consultation and prepare a report summarising those responses and the changes (if any) he has made to the draft SPS as a result. He must then lay the draft SPS, accompanied by the report, for approval before each House of Parliament before the statement may be designated. Once it is designated, Ofgem's duties in respect of the SPS will come into effect.

A strategy and policy statement is designed to provide context and guidance about priorities and desired outcomes of Government to the regulator. It is Government's opportunity to define a strategic vision of the likely needs and priorities over the long term and to provide a policy context for regulatory decisions in the medium and short term. A strategy and policy statement

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/48134/2151-ofgem-review-final-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48134/2151-ofgem-review-final-report.pdf)

<sup>2</sup> <http://www.legislation.gov.uk/ukpga/2013/32/contents/enacted/data.htm>. Sections 131-138 set out the Strategy and Policy Statement provisions.

is Government's opportunity to reaffirm the fitness for purpose of the regulators' responsibilities and clarify the respective roles and responsibilities of regulator and Government.

This consultation invites views on the proposed text of the Strategy and Policy Statement at Annex One. Responses are required by 17 October 2014.

## Catalogue of consultation questions

<b>Consultation Question</b>	
1.	Do consultees consider that the draft SPS clearly sets out the strategic priorities and policy goals for gas and electricity markets and the roles and responsibilities of those involved in delivering them?
<b>Consultation Question</b>	
2.	Does the draft SPS clearly set out the main roles and responsibilities of those involved in delivering the policy outcomes?
<b>Consultation Question</b>	
3.	Does the draft SPS set out the right set of policy outcomes which reflect the Government's strategic priorities and policy goals and which Ofgem has an important role in delivering or helping to deliver?

# Strategy and Policy Statement

When the regulatory framework for gas and electricity markets was originally established in the 1980s, the focus was on driving efficiencies and keeping consumer bills down. Since then, the policy landscape has broadened as have Ofgem's objectives so that, alongside keeping prices down, it now also has to take into account a number of other factors, including the need to contribute towards sustainable development, reduce greenhouse gases and the interests of vulnerable consumers. Since 2000, Ofgem has had to have regard to Government guidance on social and environmental matters. Guidance was originally issued in 2002 and revised in 2004 and 2010<sup>3</sup>.

The Ofgem Review of 2010-11 examined the regulatory framework, focussing on the role of Ofgem. It found that the regulatory arrangements have been generally successful in terms of attracting investment into the energy sector and providing good value for consumers. The review also concluded that Ofgem's broader remit remains sensible. Major investment in energy infrastructure will be necessary to meet GB energy goals and Ofgem, as the regulator of gas and electricity markets, will have a crucial role in facilitating this while at the same time ensuring that this is done as cost effectively as possible.

The review also found that while previous remit changes had had some benefits they had not been entirely effective. They had introduced more complexity into the regulatory framework and led to a blurring of responsibilities between the Government and Ofgem. This has reduced the regulatory certainty that independent regulation is designed to provide.

The Government's Principles for Economic Regulation<sup>4</sup> provide a framework for assessing the current energy arrangements. Measured against these, the review identified a need for greater clarity between the roles of Government and Ofgem to help the regulator take decisions that are in the context of the Government's strategic energy priorities. It therefore recommended that a new Strategy and Policy Statement (SPS) should be introduced to support more regulatory certainty in the future.

The Energy Act 2013 provides for an SPS to be designated and gives Ofgem new duties in relation to it.

The Act stipulates that a SPS should set out:

- the strategic priorities, and other main considerations of the Government in formulating its energy policy for Great Britain;
- the particular policy outcomes to be achieved as a result of the implementation of that policy; and

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<sup>3</sup> The 2010 version can be seen at: <https://www.ofgem.gov.uk/ofgem-publications/74203/file37517.pdf>

<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31623/11-795-principles-for-economic-regulation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31623/11-795-principles-for-economic-regulation.pdf)

- the roles and responsibilities of those who are involved in implementation of that policy or who have other functions that are affected by it.

Once a SPS is designated, Ofgem must have regard to the strategic priorities set out in the statement when carrying out its regulatory functions. Both the Secretary of State and Ofgem must carry out their respective regulatory functions in the manner they consider is best calculated to further the delivery of the policy outcomes.

These regulatory functions are mainly set out in Part 1 of both the Electricity Act 1989 and the Gas Act 1986. Ofgem's relevant functions are chiefly their administration and enforcement of the gas and electricity licensing systems, including network price controls.

Ofgem is required to give notice to the Secretary of State if at any time it concludes that any policy outcomes set out in a SPS are not realistically achievable. This is one of the circumstances in which a SPS may be reviewed by the Secretary of State.

The Energy Act 2013 provisions also improve transparency and regulatory accountability by placing new reporting requirements on Ofgem in respect of a SPS. After a SPS has been designated, Ofgem will be required to:

- set out its strategy for implementing the SPS in its forward work programme each year; and
- report annually on how it has contributed towards meeting the policy outcomes.

There are a number of procedural requirements with which the Secretary of State must comply before he is able to designate a SPS. Firstly, he must prepare a draft and consult Scottish and Welsh Ministers and Ofgem. Once he has seen their views, he must revise the draft as he considers appropriate as a result of those views. He must then consult again with them and with other persons as he considers appropriate.

Once this consultation is finished, the Secretary of State must again make any revisions he considers appropriate before laying the revised SPS before Parliament along with a report summarising the responses he received and any changes he has made as a result of those responses.

The draft SPS must then be approved by a resolution of each House of Parliament before it can be designated. We plan to designate the SPS early next year after these procedural requirements have been completed.

In line with the aim of providing regulatory certainty, the SPS is intended to be an enduring document and last for at least the length of a single Parliament. Once the SPS has been designated, it will need to be reviewed after 5 years.<sup>5</sup> Broadly speaking, the Secretary of State may review the statement if, since it was first designated or last reviewed<sup>6</sup>:

- a Parliamentary general election has taken place;
- the Authority has notified the Secretary of State that, in its view, a policy outcome contained in the Statement is no longer realistically achievable; or
- a significant change in the government's energy policy has occurred.

Where an amended statement is not approved by Parliament, it may also be reviewed.

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<sup>5</sup> Section 134(1) of the Energy Act 2013

<sup>6</sup> Section 134(4) of the Energy Act 2013

We anticipate that a review of the statement will be carried out in the same way as any other policy review. Such a review will not necessarily mean that there will be a new SPS as the Secretary of State is entitled to leave the statement as it is or withdraw the statement altogether, although he will still have to consult on his decision to do so. If the Secretary of State decides to amend the SPS or designate a new SPS, he will have to consult fully and then obtain Parliamentary approval.

As required by the provisions of the Energy Act 2013, the Secretary of State consulted Ofgem and Scottish and Welsh Ministers on a draft SPS earlier this year and their responses have been taken into account in preparing the revised draft SPS at Annex One.

This consultation exercise also complies with requirements of the Act<sup>7</sup> and, in order to seek views from a wide range of perspectives, the Secretary of State considers it appropriate to perform a full public consultation.

It should be noted that the SPS is not a vehicle for setting new policy so its contents reflect existing policy statements, in particular last year's Annual Energy Statement<sup>8</sup>.

The draft SPS sets out those policy outcomes which Ofgem has a particularly crucial role in delivering, focussing on promoting competitive markets and network regulation. Ofgem has already taken steps which should help it contribute towards the further delivery of the policy outcomes, such as through its RIIO model of network regulation<sup>9</sup> and the changes to licence conditions it has introduced as a result of its Retail Market Reform programme<sup>10</sup>.

An SPS itself does not confer any new duties or roles on Ofgem nor does it fetter Ofgem's discretion. While it sets out policy outcomes at a high level, Ofgem is still free to make independent regulatory decisions on how to balance between the different requirements of its remit and what particular actions need to be taken to further delivery of the policy outcomes. It should take the SPS into account alongside these other considerations.

The Government recognises that Ofgem will not be solely responsible for the delivery of some outcomes but expects it to set out its own contribution, outline and justify its relevant regulatory decisions and explain what mitigating action it plans where progress is not on track.

Designation of the SPS will coincide with the repeal of the Secretary of State's guidance on social and environmental matters to which Ofgem currently has to have regard. The Ofgem Review found that this guidance had not been effective in ensuring consistency between the Government's energy strategy and the regulatory regime and recommended that it should be replaced by the SPS.

Ofgem's duties in regard of the SPS are stronger than those that apply to that guidance and will mean that the SPS will be a more effective mechanism. Repeal of the guidance should not lead to a decrease in social and environmental protection. Ofgem is already required to have regard to various social and environmental matters as part of its remit<sup>11</sup> and these duties will

<sup>7</sup> See section 135(5)(b) of the Energy Act 2013

<sup>8</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254250/FINAL\\_PDF\\_of\\_AES\\_2013\\_-\\_accessible\\_version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254250/FINAL_PDF_of_AES_2013_-_accessible_version.pdf)

<sup>9</sup> <https://www.ofgem.gov.uk/network-regulation-%E2%80%93-riio-model>

<sup>10</sup> <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/retail-market-review>

<sup>11</sup> Section 3A(5) of the Electricity Act 1989 requires that both the Secretary of State and Ofgem, in carrying out their functions under Part 1 of that Act, shall have regard to the effect on the environment of activities connected with the generation, transmission, distribution or supply of electricity or the provision of a smart meter communication service. Similarly, section 4AA(5) of the Gas Act 1986 requires that both the Secretary of State and Ofgem, in carrying out their

remain in place. In addition, the principles underpinning the guidance have been taken into account in drafting the SPS.

The final SPS will be published on the Government's and Ofgem's websites.

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functions under Part 1 of that Act, shall have regard to the effect on the environment of activities connected with the conveyance of gas through pipes or the provision of a smart meter communication service.

Section 3A(3) of the Electricity Act 1989 and section 4AA(3) of the Gas Act 1986 require that in performing particular duties set out in those Acts, the Secretary of State and Ofgem to have regard to the interests of:

- (a) individuals who are disabled or chronically sick;
- (b) individuals of pensionable age;
- (c) individuals with low incomes; and
- (d) individuals residing in rural areas.

## DRAFT: The Secretary of State's Strategy and Policy Statement

### ***Introduction***

1. Independent regulation has been a vital part of the UK's framework for economic regulation since the 1980s and remains central to the Government's approach. Independent regulation needs to take place within a framework of duties and policies set by a democratically accountable Parliament and Government. As the Government set out in the 'Principles for Economic Regulation' of April 2011, it is committed to ensuring that responsibilities are clearly divided between the Government and regulator on the basis that decisions which involve political judgement are taken by Government and day-to-day regulation is undertaken by independent regulators.
2. This Strategy and Policy Statement is designated under section 131(1) of the Energy Act 2013 following the meeting of the requirements of section 135 of the Act. This statement sets out the:
  - **Strategic priorities** and other main considerations of the Government in formulating its energy policy for Great Britain;
  - **Roles and responsibilities** of those who are involved in implementing that policy or who have other functions that are affected by it; and
  - Particular **policy outcomes** which are to be achieved as a result of the implementation of that policy.
3. The principal objective duty of the Secretary of State and the Gas and Electricity Markets Authority (the Authority) is to protect the interests of existing and future consumers. This applies to both domestic and business consumers. The requirement to act in a manner best calculated to further that objective, wherever appropriate by promoting effective competition, remains unchanged. Now, in addition, when they carry out their respective regulatory functions they are both required to do this in the manner best calculated to further the delivery of the policy outcomes set out in this statement. The Authority must also have regard to the strategic priorities when carrying out its regulatory functions.
4. The Government recognises the need for regulatory certainty and the intention is therefore that this statement will be in place for the life of a Parliament. The Energy Act 2013 requires that after designation this statement must be reviewed every five years and permits the Secretary of State to review it sooner in certain other circumstances<sup>12</sup>. Such a review will not necessarily lead to a revised statement.

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<sup>12</sup> Broadly speaking, the Secretary of State may review the statement if, since it was first designated or last reviewed:

- a Parliamentary general election has taken place;
- the Authority has notified the Secretary of State that, in its view, a policy outcome contained in the Statement is no longer realistically achievable; or
- a significant change in the government's energy policy has occurred.

Where an amended statement is not approved by Parliament, it may also be reviewed. For the detailed review provisions, please see section 134 of the Energy Act 2013.

***Strategic Priorities and main considerations for GB energy policy***

5. The energy sector is a critical part of the UK economy and is an important driver of growth. As well as contributing to growth, energy policy is underpinned by the need to reduce carbon emissions in order to mitigate climate change. It also seeks to ensure UK energy security, so consumers have access to the energy they need for light and power, heat and transport at affordable prices.
6. The Government has set three strategic priorities in delivering the UK's energy policies in the near term:
  - helping households and businesses take control of their energy bills and keep their costs down;
  - unlocking investment in the UK's energy infrastructure that will support economic growth; and
  - playing a leading role in efforts to secure international action to reduce greenhouse gas emissions and tackle climate change.

*Helping households and businesses take control of their energy bills and keep their costs down*

7. The Government is committed to a strong and stable regulatory framework overseen by an independent regulator that delivers transparent and competitive markets, consumer choice and enforcement that is proportionate, transparent and targeted.
8. The Government believes that competitive and efficient markets are the best way to deliver secure low carbon energy at affordable prices for consumers. Effective competition in the wholesale energy market is a key driver of competition and lower prices in the retail market. Suppliers should compete with each other to make better offers to their customers and provide higher levels of service.
9. The Government considers that consumers should be provided with the means and information to enable them to manage their consumption in a way that reduces their energy use and costs. This will include measures to increase energy efficiency and the roll out and use of smart meters, and to better inform consumers so they are able to choose the best deals that meet their individual requirements. The Government also believes that putting communities in control of the energy can also help people save money on their energy bills through encouraging competition and help to maintain energy security whilst tackling climate change. Community energy projects should not face undue barriers to their development.
10. A well-functioning and integrated EU internal market will play a key role in meeting the Government's energy objectives on security of supply, decarbonisation and competitiveness/growth. Increased co-ordination from Member States and regulators will be required if these objectives are to be achieved.
11. Reducing electricity use could provide a cheaper way to decarbonise the UK power system and help to reduce bills for those who install more efficient equipment. Demand reduction measures could help ensure the security of electricity supply.

12. The Government is committed to tackling fuel poverty. A particular priority is to help alleviate the impacts of bill increases on the most vulnerable households. Energy efficiency measures also have an important role to play in reducing the cost to the consumers. Vulnerable consumers may also need additional help to find the best deals in the market and switch suppliers.

*Unlocking investment in the UK's energy infrastructure that will support economic growth*

13. Substantial investment in generation, transmission and distribution infrastructure is needed by 2020 to ensure energy security, maintain system resilience and support the transition to a low carbon economy.
14. The UK will need to increase very significantly the proportion of its energy which is derived from renewable, nuclear, and other low carbon sources. This will require deployment of a range of technologies, some new, which will need connection to the existing networks and may also have implications for the operation of those networks. Investment in networks should contribute towards more energy security and support jobs. We will need to ensure that the networks do not act as a barrier to economic growth and commercial development in the future.

15. The Authority has a duty to have regard to the need to contribute towards sustainable development and its regulatory decisions should take account of economic, social and environmental factors.

16. Increased interconnection capacity is essential to help unlock the benefits of the European internal energy market. It will promote competition in wholesale markets, bringing associated benefit to consumers, and support integration of intermittent generation.

*Playing a leading role in efforts to secure international action to reduce greenhouse gas emissions and tackle climate change*

17. The Government is determined to reduce greenhouse gas emissions and the Climate Change Act 2008 has committed the UK to a reduction of at least 80% by 2050 (below the 1990 baseline). The UK also has a target to secure 15% of energy from renewable sources by 2020. Good progress has already been made towards meeting these targets but more action is needed if we are to increase the amount of energy the UK gets from low-carbon technologies. This action includes more innovation and investment in clean technologies and low carbon energy, the removal of barriers to the deployment of these technologies and the upgrading of transmission capacity and ensuring that developers can secure timely and cost-effective access to the network.

## ***Roles and responsibilities***

### Government

18. The Government is responsible for setting the strategic energy framework and policy goals, including putting legislation before Parliament to set the objectives and duties of the Authority and equip it with the right tools to enable it to fulfil its remit.
19. Certain functions in the energy sector are reserved for the Secretary of State, including defining the extent of the regulated industry by deciding on licence exemptions; and appointing members of the Authority. The Secretary of State is also a statutory consultee with respect to certain of the Authority's powers to set licence conditions and some decisions cannot be implemented if the Secretary of State objects. In addition, the Secretary of State's consent is required before the Authority can make particular regulations.

### The Authority

20. The Authority is the regulator of gas and electricity markets in England, Scotland and Wales. It takes its regulatory decisions independently and within its regulatory powers it is free to decide on the most appropriate regulatory approach to a particular issue. The Authority is accountable to Parliament rather than Government. The Authority also has competition powers and can take action under competition law.
21. The Authority is also designated as the independent National Regulatory Authority for Great Britain under the EU Third Energy Package<sup>13</sup>, and has an important role to play in influencing the development of European energy policy for the benefit of GB consumers.
22. The Authority's principal objective is to protect the interests of existing and future consumers. The Authority must consider whether it is appropriate to do so by promoting effective competition or by other means. The interests of existing and future consumers are their interests as a whole, including their interests in the reduction of greenhouse gas emissions, ensuring energy security and the fulfilment of objectives under the EU Third Energy Package and Energy Efficiency Directives. The Authority also has competition and consumer protection powers and can take action using its powers under relevant legislation.
23. The Authority must carry out its functions in the manner which it considers best calculated to further the principal objective, having regard to the need to secure that all reasonable demands for electricity and gas are met. It must also have regard to the need to secure that licensees can finance their regulated activities, and to the need to contribute to the achievement of sustainable development. Furthermore, it must have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.
24. Subject to these duties, the Authority is required to carry out its functions in the manner which is best calculated, amongst other aims, to secure a diverse and viable long-term energy supply. The Authority must, in carrying out its functions, have regard to the effect

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<sup>13</sup> EU Third Internal Energy Market Package, European Commission:  
[http://ec.europa.eu/energy/gas\\_electricity/legislation/third\\_legislative\\_package\\_en.htm](http://ec.europa.eu/energy/gas_electricity/legislation/third_legislative_package_en.htm)

on the environment of activities connected with the conveyance of gas through pipes or generation, transmission, distribution or supply of electricity. The Authority must also have regard to the principles of best regulatory practice, including the principles that regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases for which action is needed.

25. Unless they are exempt, companies need a licence to operate within gas and electricity markets. The Authority administers the licensing system which energy businesses must comply with. It is responsible for issuing, modifying and revoking licences; setting price controls in the natural monopoly licensed sectors; and enforcing licence conditions. The licences also require licensees to sign up to a number of multilateral industry codes which contain the detailed rules that govern market operation, terms for connection and access to energy networks. Some codes or parts of codes can only be modified with the consent, or at the direction of, the Authority. Through its price controls for networks, the Authority has a key role in the facilitation of efficient investment in our energy infrastructure. The Authority is also responsible for creating incentive schemes for the transmission system operator and for managing the competitive tender process through which offshore transmission licences are granted.

#### Other regulatory bodies

26. Other regulatory bodies, most notably the Competition and Markets Authority (CMA) and the Financial Conduct Authority (FCA), also have an interest in the regulation of the energy sector. The CMA has the same powers as the Authority in relation to competition in gas and electricity markets while the FCA has powers to investigate some aspects of the wholesale energy markets. It is therefore important that close and co-operative relationships exist between these regulators, and other sectoral regulators where appropriate, and that they share best practice and expertise. Under the concurrency arrangements, the CMA or the Authority will be responsible for a case depending on which of them is better placed to do so. The Authority and the UK's other economic regulators have established the UK Regulators' Network which aims to improve coordination on significant cross-sectoral issues in order to secure better outcomes for consumers.
27. The Authority is required to cooperate with the European Agency for Cooperation of Energy Regulators (ACER) which was established to promote cross-border competition and other single market activities. The Authority must comply with legally binding decisions of ACER or the European Commission.

### **Policy outcomes**

28. The Authority must, in discharging its principal objective duty, carry out its regulatory functions in the manner best calculated to further the delivery of the following policy outcomes:

- A competitive GB and EU energy market framework for both domestic and business consumers in which:
  - There is a high level of effective competition in retail and wholesale markets and undue barriers to entry and growth are addressed;
  - Consumers can easily identify the best deals available to them, manage their energy consumption effectively and there are no unnecessary barriers to switching;
  - There are high standards of customer service;
  - There is transparency of energy prices and the factors that contribute to consumer bills;
  - Costs do not fall disproportionately on low income and vulnerable households and suppliers meet their obligations under licence conditions towards these consumers;
  - Secure low carbon energy is delivered at least cost to consumers;
  - Market participants are appropriately incentivised to contribute towards system balancing, deliver reliable energy supplies and/or reliable energy demand management in order to keep prices down; and
  - High- level standards of energy security are maintained in GB.

- An energy network infrastructure that is:
  - Planned and operated in a coherent, impartial and proportionate way which takes account of both present and future needs;
  - Delivered efficiently, using competitive drivers and innovation;
  - Timely and cost-reflective in connecting supply and domestic and commercial demand, now and in the future;
  - Attractive to a diverse range of investors and supports wider economic activity; and
  - Reliable, resilient, sustainable and appropriately connected to other markets.

### **Co-operation**

29. While maintaining the Authority's regulatory independence, there will be occasions when it is sensible for the Government and the Authority (and business) to work together on furthering the delivery of the policy outcomes. For example, the Authority may recommend that a regulatory change is necessary which only the Government can implement or the Government may seek the Authority's advice and help in determining what action may be necessary to achieve a particular policy outcome. The Authority has duties to keep gas and electricity markets under review and to give advice and assistance to the Secretary of State when this is requested or when the Authority considers this expedient.

### ***Accountability***

30. It is for the Authority to develop its strategy to further the delivery of the policy outcomes and to report on this. It is required to publish a forward work programme which sets out this strategy before the start of each financial year. The Authority's annual report to the Secretary of State must cover the extent to which it has implemented its strategy and contributed towards the furthering of the policy outcomes set out in this statement. The Secretary of State shall then lay a copy of each annual report before Parliament.
31. The Authority will be required to give notice to the Secretary of State if it concludes that a policy outcome is not realistically achievable.

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