

Ofgem Review: Call for Evidence

July 2010

Introduction

When the gas and electricity industries were privatised some twenty years ago, a system of independent regulation was established to drive the move towards competition in gas and electricity supply and replicate the benefits of competition in the monopoly gas and electricity networks. The aims were to minimise energy prices for domestic and business consumers; encourage innovation in technologies and products; and deliver efficiency and quality.

These original aims remain important today. But the remit of the energy regulator, like that of the other economic regulators also established at privatisation, has evolved over time to encompass broader policy aims too, particularly on social and environmental issues. The wider remit has made decision making more complex for all regulators, and raises questions over where accountability rests for decisions that have a strategic impact.

There are significant challenges ahead for the energy sector: substantially reducing carbon emissions in line with the UK's trajectory to an 80% reduction in emissions by 2050, compared to 1990 levels; increasing the use of renewable technologies in line with our EU target for 15% renewable energy by 2020; and maintaining security of supply – while still ensuring that consumer bills are minimised. Substantial investment in new network and generation infrastructure is needed.

As independent regulator of the gas and electricity markets, Ofgem is a critical part of the landscape that enables the Government's ambitious energy and climate change objectives to be realised. With significant challenges ahead, the Government believes it is time to review Ofgem's regulatory role and consider whether any changes are needed to align the regulatory framework with the Government's strategic policy goals.

In addition to its regulatory role, Ofgem has also been tasked with a delivery role, administering an increasing number of government programmes to drive take-up of energy efficiency measures, promote low carbon energy sources, and support those in fuel poverty. Ofgem's delivery role will not be considered as part of this review as DECC is looking separately how best to streamline delivery of the functions needed to meet its energy and climate change objectives.

Terms of Reference

The review will consider:

- Government's objectives for independent regulation of the energy sector, taking account both of the Government's broader principles for economic regulation and its energy and climate change objectives;
- The boundary of responsibility between Ofgem and Government, reflecting the need for clarity, accountability for strategic choices, and for Ofgem's regulatory decisions to remain independent of Government so as to provide a stable and predictable regulatory regime;
- The boundary of responsibility between Ofgem and OFT;
- Ofgem's statutory duties, whether they are fit for purpose and how they are reflected through industry governance processes, particularly within the context of the Government's energy and climate change objectives. Ofgem's powers and duties are summarised on Ofgem's website¹;
- The effectiveness of Government's social and environmental guidance to Ofgem and how it is translated through Ofgem's decision making. The guidance is available on the DECC website²;
- The value for money Ofgem provides;
- Ofgem's approach to minimising the burdens from its regulatory activity; and
- The scope for learning lessons from other regulatory models and examples of good regulatory practice.

Approach and timing

The review will be led by the Department for Energy and Climate Change. It will be conducted in parallel with a complementary programme of work on electricity market reform. The Ofgem Review is expected to report in Spring 2011, alongside a White Paper on Electricity Market Reform.

¹ <http://www.ofgem.gov.uk/ABOUT%20US/AUTHORITY/Pages/TheAuthority.aspx>

² http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/markets/regulation/regulation.aspx

Call for evidence

DECC is keen to receive stakeholder views at this early stage of the review to help inform the issues considered and to ensure that the full range of perspectives are taken into account. We would welcome views from all interested parties on the issues set out above.

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Respond by: 24 September 2010

Enquiries and responses to:

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If you have any comments or complaints about the call for evidence process, please email consultation.coordinator@decc.gsi.gov.uk.

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