

**DRAFT SOCIAL AND ENVIRONMENTAL GUIDANCE
TO THE GAS AND ELECTRICITY MARKETS
AUTHORITY**

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**Presented to Parliament pursuant to section 4AB(4) of the
Gas Act 1986 and section 3B(4) of the Electricity Act 1989.**

Draft revised Social and Environmental Guidance to the Gas and Electricity Markets Authority proposed to be issued by the Secretary of State under section 4AB(1) of the Gas Act 1986 and section 3B(1) of the Electricity Act 1989 laid before Parliament pursuant to section 4AB(4) of the Gas Act 1986 and section 3B(4) of the Electricity Act 1989; draft to lie for forty days (taking no account of any time during which Parliament is dissolved or prorogued or both Houses are adjourned for more than four days), during which period either House of Parliament may resolve that the Guidance should not be issued.

SOCIAL AND ENVIRONMENTAL GUIDANCE TO THE GAS AND ELECTRICITY MARKETS AUTHORITY

Introduction

1. Section 4AB of the Gas Act 1986 and section 3B of the Electricity Act 1989 provide that

“The Secretary of State shall from time to time issue guidance about the making by the Authority of a contribution towards the attainment of any social or environmental policies set out or referred to in the guidance”

and that the Gas and Electricity Markets Authority (the Authority) “...shall, in carrying out its functions ...have regard to any guidance issued”.

2. The revised guidance is set out below. It replaces existing guidance and seeks to support the implementation of the Government’s energy strategy. The Authority is therefore required to have regard to the guidance when discharging the statutory functions to which its principal objective and general duties apply.
3. The Authority’s principal objective is to protect the interests of consumers existing and future, wherever appropriate by promoting effective competition. The Authority has several general duties, which relate amongst other things to security of supply, the protection of vulnerable customers, sustainable development and better regulation.
4. The Government has signalled its intention to clarify the principal objective of the Authority and the Secretary of State in sections 4AA of the Gas Act 1986 and 3A of the Electricity Act 1989 by way of amendment to those sections. Those amendments make it clear that the interests of consumers

include their interests in the reduction of emissions of greenhouse gases and their interests in security of supply. The Government expects that this Social and Environmental Guidance will be consistent with any such clarification.

5. The Secretary of State has the power to issue further guidance as he sees fit but the Government believes regulatory certainty is important and therefore in principle proposes that the guidance should last for several years. However, it may be necessary to revisit the guidance in the light of any revised social or environmental targets that may be set, particularly at an EU level.
6. The Government considers that the guidance is consistent with the Authority's statutory duties and responsibilities. If, however, at any point, the Authority foresees any actual or potential difficulties in reconciling the energy policy goals and targets set out in this guidance with its own regulatory responsibilities or policies, the Government encourages the Authority to seek early discussion of such issues.

Government social and environmental policies

1. The Government sees two principal long term challenges in energy policy: tackling climate change by reducing carbon dioxide emissions within the UK and abroad; and ensuring secure and affordable energy as the UK becomes increasingly dependent, in its consumption of fossil fuels, on imports.

2. Within this context the Government's social and environmental energy goals are to:

- increase renewable energy levels to 15% of total UK final energy consumption by 2020, as will be required by the proposed Directive on the promotion of the use of energy from renewables sources;
- reduce greenhouse gas emissions by at least 80% by 2050 from the 1990 baseline, and to establish and implement carbon budgets for the UK to chart the trajectory necessary for achieving this legally binding target as required by the Climate Change Act 2008; to reduce carbon emissions by at least 34% from the 1990 baseline by 2020; to meet our share of Europe's 20% reduction in all greenhouse gas emissions by 2020;
- eliminate fuel poverty as far as reasonably practicable among households in England, Scotland and Northern Ireland by 2016 and in Wales by 2018; and
- contribute to a 20% reduction in EU energy consumption by 2020.

3. Therefore over the next decade and beyond the UK will need to increase very significantly the proportion of its energy which is derived from renewable, nuclear, or 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. Energy efficiency can also contribute: it will be important for energy generators, suppliers and those involved in transmission and distribution to adopt best practice energy efficiency measures. It will be important to ensure that the UK energy infrastructure and systems are resilient to possible changes in the climate in the medium and long term.

4. Given the long lead times for the development, consenting and delivery of both network infrastructure and renewable and low carbon generation, urgent action is required to deliver the investment necessary for the UK to meet the renewable energy target above. As part of this, ensuring the efficiency of the processes by which new generation will gain access to these networks will be crucial.

5. The Government considers that the Authority has an important role, consistent with its principal objective, general duties and functions, in bringing about an energy system that encourages substantial carbon emission

reductions in a timescale consistent with the above targets. This role will include but not be limited to the Authority making an appropriate contribution to:

- enabling timely delivery of an effective offshore transmission regime;
- enabling timely investment in necessary capacity for the electricity transmission and distribution networks (the 'electricity networks');
- ensuring connection to the electricity networks for new generation, including renewable, nuclear and other low carbon generation, in a timeframe consistent with their development programme whilst maintaining security of supply;
- eliminating unnecessary regulatory and market barriers to the economic deployment of distributed energy;
- further progress towards the Government's statutory target of eliminating fuel poverty as far as reasonably practicable by the dates noted above, and as set out in the Government's Fuel Poverty Strategy; and
- ensuring that infrastructure and networks are sufficiently resilient to future climate impacts to maintain security of supply.

The Authority's principal objective and duties

6. The Authority's principal objective is to protect the interests of consumers, existing and future, wherever appropriate by promoting effective competition. 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 (so far as it is economical to meet reasonable demands for gas). 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, and it must have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, and residing in rural areas.

7. Subject to those duties, the Authority is required to carry out its functions in the manner which it considers is best calculated, amongst other aims, to secure a diverse and viable long-term energy supply. The Authority shall, in carrying out its functions, have regard to the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity. The Authority must also have regard to the principles of best regulatory practice and must have regard to statutory guidance on social and environmental matters issued by the Secretary of State for Energy and Climate Change.

8. The Government considers the Authority's duties to have regard to the interests of vulnerable consumers and to contribute to the achievement of sustainable development to be essential elements of its remit, and to be the basis upon which the Authority must make a significant contribution to the achievement of the Government's social and environmental objectives as set out in this Guidance. The Government considers that the Authority has an important and wide responsibility in relation to social issues, including having particular regard to the interests of low income and vulnerable groups, the fairness of the operation of competitive supply markets, and the ability of all customers to benefit from them.

9. The Government recognises that the Authority may carry out its functions by incentivising industry participants such as the Great Britain System Operator, the transmission and distribution network companies and others to act in particular ways rather than by intervening directly in the market.

Environmental issues

10. Given the Authority's duty to have regard to the need to contribute to the achievement of sustainable development, the Government expects the Authority to exercise its duties and powers (consistent with its principal objective and general duties including its sustainable development duty and its duty to secure a diverse and viable long-term energy supply) in the manner best calculated to support this goal.

Networks

11. The appropriate development of networks is key to achieving the transition to a lower carbon energy system while maintaining security of supply. The Government expects the Authority, within the parameters of its principal objective and general duties, to carry out its functions in relation to industry governance, charging or other regulatory arrangements, in the manner best calculated to bring about:

- improved access to the electricity networks for new generation, including renewable, nuclear and other low carbon forms of generation. Within its statutory remit, the Authority should identify any aspects of the regulatory framework which could act as an undue barrier to meeting the 2020 EU renewable energy targets and pursue the necessary changes to that framework;
- better resilience within electricity and gas networks and infrastructure, so that they will be better able to adapt to changes in the climate arising from global warming;

- an early start by network companies in identifying and planning necessary works, in dialogue with developers, to ensure that those plans are better placed in relation to new generation, including renewable, nuclear and other low carbon developments. The Government expects this to mean that more preparatory work will need to take place before firm commitments are given by generators;
- developer confidence in the network connection process. The Authority is asked to take appropriate steps to enable new generation, including renewable, nuclear and other low carbon forms of generation, to connect to the electricity networks and supply electricity in a timeframe consistent with their development programme. The Government expects this to include the incentivisation, where appropriate, of essential strategic investments ahead of firm commitments by generators; and
- the involvement and consultation by network companies of developers of new generation (and vice versa), including renewable, nuclear and other low carbon projects in the elaboration of their investment plans, including setting the plans out for developers so that network connection decisions can be made with clear knowledge of current and future network capability, to a timescale consistent with meeting the UK's EU 2020 renewable energy target.

12. In addition the Government expects the Authority to do all it can to ensure that the regulatory regime for offshore electricity transmission is delivered to the agreed timetable in line with Government decisions, and that the tender process delivers new Offshore Transmission Owners (OFTOs) as quickly as possible.

13. The Government expects the Authority to look for opportunities, within its role and the scope of its powers, to facilitate the transition to a low carbon gas and electricity system in Great Britain. This will require considering the sector as a whole and ensuring that the relative costs and benefits of different approaches, such as better demand management, are fairly allocated.

Energy Efficiency

14. Energy efficiency has a critical role to play in meeting our carbon emissions reduction targets in a cost-effective way, both in terms of energy demand reduction and of more efficient use of fuels, for example through effective Good Quality Combined Heat and Power (CHP). The Authority should have regard to the fact that improved household energy efficiency can also reduce costs to consumers and help to reduce fuel poverty. The Government expects the Authority, within the scope of its powers and responsibilities, to help secure energy efficiency targets set by Government, including by making sure that the appropriate incentives exist for energy generators, suppliers and those involved in transmission and distribution to pursue the most cost-effective delivery of their goals by adopting best practice energy efficiency measures.

Distributed energy

15. Progress towards the Government's low carbon energy goals will be facilitated if full advantage can be taken of the opportunities afforded by low carbon and renewable distributed energy (DE) and heat technologies for example household microgeneration, community scale CHP providing heat and electricity to local consumers, and larger scale renewables connected to the distribution network. The Government expects that the Authority will, within the scope of its powers and responsibilities and in conjunction with Government where appropriate, remove unnecessary regulatory and market barriers to the economic deployment of these technologies, such that:

- flexible market and licensing arrangements are made available for distributed energy parties and the costs and risks of trading and participating in these arrangements are proportionate;
- charging methodologies that reflect the costs and benefits that embedded generation can bring to electricity networks are delivered promptly; and
- all parties are treated fairly regardless of size.

Smart Metering

16. Smart metering can provide consumers and suppliers with detailed and accurate data about energy use. This has potential to enable customers better to understand how they consume energy, to contribute to energy efficiency, to improve the operation of the energy supply markets, and to enable more advanced forms of dynamic demand management. Given its remit, the Authority will have a key role to play in the provision of smart metering to ensure that the policy is implemented in an efficient and timely manner, and that the full benefits of smart metering, including for consumers, suppliers, and networks, are realised.

Technology and Innovation

17. Tackling climate change and ensuring continued security of energy supplies in the future will require significant investments in GB gas and electricity networks. Through its network price controls, and promotion of open and competitive markets, the Authority has an important role to play in enabling both the investment itself and expenditure on innovation and skills to support new designs and approaches.

18. The growth in low carbon technologies will require not only expansion of the networks, but also new ways of managing them. The Government expects the Authority to work effectively with the appropriate companies to promote the research and development, demonstration and trialling, of new approaches that would deliver carbon emission reductions for

example through increasing the efficiency of the electricity networks, facilitating the growth in low carbon and demand reduction technologies, or encouraging desired behaviour changes in business and residential consumers.

Social Issues

19. The Government is committed to tackling fuel poverty and has set itself the targets referred to above. The Government expects the Authority to take a strong lead, consistent with its principal objective and general duties, in coordinating and ensuring that consumers on low incomes (or who are otherwise vulnerable to fuel poverty) are able to benefit from competitive markets.

20. Ofgem should promote transparency in charging, including the provision of information on comparative charges for different payment methods to help consumers take advantage of the best tariffs available to them. Ofgem should ensure that there are no unnecessary barriers to switching.

21. Ofgem should:

- monitor the operation of the market, including the pricing and charging strategies of suppliers;
- ensure that consumers, including those paying by a prepayment meter or by standard credit, do not suffer any undue economic disadvantage as a result of their payment method;
- make recommendations and take appropriate steps to help ensure that
 - low income and vulnerable consumers are able to benefit from competition, and are not unfairly disadvantaged by suppliers' pricing strategies;
 - working with Consumer Focus as appropriate, low income and vulnerable consumers have access to high quality and easily comparable information on different tariff offers and appropriate advice on the benefits of changing tariff and/or supplier;
- address issues which have a particular impact on low income and vulnerable consumers and those in receipt of Pension Credit. In particular the Authority should work to reduce levels of disconnections and arrears, to eradicate mis-selling, and to improve the quality of service;
- monitor and report at intervals to be agreed with the Government on energy supply companies' social programmes to help low income and

vulnerable consumers including on clarity relating to eligibility, and qualitative assessment of effectiveness in the targeting of initiatives; and

- develop and maintain incentive mechanisms to encourage gas network extensions where appropriate in order to help address fuel poverty.

General

22. Where the Government wishes to implement specific social or environmental measures which would have significant financial implications for consumers or for the regulated companies, these will be implemented by Ministers, rather than the Authority, by means of specific primary or secondary legislation. The Government does not seek to do this through this guidance.

Better Regulation

23. The Authority has a duty to have regard to better regulation principles in regulatory decision making. The Government expects that the Authority will use Impact Assessments wherever appropriate to inform its regulatory decision-making, ensuring that short- and long-term social, environmental and economic factors are taken into account, while having regard where appropriate to the Government's Green Book guidance. In particular, the Authority should ensure that regulatory options are assessed using the revised carbon valuation approach as recommended by the Government Economic Service.

Accountability

24. The Government expects the Authority to demonstrate how it has helped the Government make progress towards the targets and aims set out in this Guidance and requests that the Authority do so in writing for publication on an annual basis. The Authority also needs to be informed of the ongoing development of relevant Government and international policy objectives and mechanisms. Ministers and Members of the Authority shall meet at least annually to discuss how the Authority's actions and priorities, within its existing resources, contribute to Government targets and how Government policies and mechanisms bear on the Authority's work in these areas.