



Department for  
Business, Energy  
& Industrial Strategy

# CALL FOR EVIDENCE: COST OF ENERGY REVIEW

A Call for Evidence following the Helm  
Review



November 2017

# CALL FOR EVIDENCE: COST OF ENERGY REVIEW

## A Call for Evidence following the Helm Review

The Call for Evidence can be found on the the Department for Business, Energy and Industrial Strategy section of GOV.UK:

<https://www.gov.uk/government/consultations/cost-of-energy-review-call-for-evidence>

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Any enquiries regarding this publication should be sent to us at [costofenergy@beis.gov.uk](mailto:costofenergy@beis.gov.uk).

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# General information

## Purpose of this Call for Evidence

This Call for Evidence asks for views on the matters that the Government should take into account in considering how to reduce the cost of energy in the longer term. The Government is now taking time to carefully assess the findings and recommendations set out in the Helm Review. As part of this process, the Government is asking for the views of stakeholders.

**Issued:** 7 November 2017

**Respond by:** 5 January 2018

**Enquiries to:**

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London, SW1H 0ET  
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**Territorial extent:**

Great Britain

## How to respond

Responses can be sent by email to [costofenergy@beis.gov.uk](mailto:costofenergy@beis.gov.uk), or in hard copy to the address above and marked 'Response to Call for Evidence on the Cost of Energy Review'.

**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/cost-of-energy-review-call-for-evidence>.

### 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 the [GOV.UK website](#). 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 Consultation Principles](#). 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: [beis.bru@beis.gov.uk](mailto:beis.bru@beis.gov.uk)

# Introduction

Homes and businesses depend upon reliable, affordable energy. The Government is ambitious in its plans to keep costs as low as possible for them over the coming decades, while delivering our carbon targets, ensuring security of supply, and seizing the economic opportunities of the low carbon transition. This is a core element of our modern Industrial Strategy.

The Government is already taking significant steps to reduce the cost of energy – including by upgrading our energy infrastructure and publishing draft legislation to cap poor value energy tariffs for millions of domestic consumers across Britain.

## Background to the Helm Review

In order to inform our longer-term approach, the Government asked Professor Dieter Helm CBE to carry out an independent Review of the cost of energy<sup>1</sup>. Professor Helm's review was published on 25 October 2017<sup>2</sup>.

Professor Helm looked at how the energy industry, Government and regulators can keep the cost of electricity as low as possible, while ensuring the UK meets its domestic and international climate targets. The Review considered the whole electricity supply chain – generation, transmission, distribution and supply. It looked for opportunities to reduce costs in each element and consider the implications of the changing demand for electricity, including the role of innovative technologies such as electric vehicles, storage, robotics and artificial intelligence<sup>3</sup>.

The Review sets out a broad range of findings and recommendations covering all areas of the electricity supply chain. The Government is now carefully assessing the findings and recommendations set out in the Review. It provides an important contribution to the debate on the future of the electricity sector, and how costs can be minimised. As part of that process the Government is now seeking views from businesses, consumer groups and other stakeholders to inform our approach to reducing the cost of energy for homes and businesses.

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<sup>1</sup> <https://www.gov.uk/government/news/independent-review-to-ensure-energy-is-affordable-for-households-and-businesses>

<sup>2</sup> <https://www.gov.uk/government/publications/cost-of-energy-independent-review>

<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/636800/Cost\\_of\\_energy\\_review\\_TOR.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/636800/Cost_of_energy_review_TOR.pdf)

## Call for Evidence

This Call for Evidence asks for views on the matters that the Government should take into account in considering how to reduce the cost of energy in the longer term, following the findings and recommendations of the Helm Review. It also asks for any additional relevant evidence to be submitted that stakeholders believe should be considered in trying to achieve this aim.

Responses are requested by 5 January 2018. Respondents may also wish to provide additional supporting material in annexes.

The Government will take responses to this Call for Evidence into account as it considers the findings and recommendations made by the Helm Review.

# Call for Evidence

The Terms of Reference of the Review asked Professor Helm to report on the full supply chain of electricity generation, transmission, distribution and supply, and consider the opportunities to reduce costs in each part<sup>4</sup>. The Call for Evidence mirrors this structure and asks for additional evidence and other views that respondents may wish to raise.

## Electricity generation

The Review considers three dimensions to the cost of electricity generation: the wholesale market; the capacity auctions; and low carbon support schemes. It outlines the evolution of the wholesale market, arguing that it is becoming less economically significant as a way of recovering the full costs of electricity generation. The Review points to the success of auctions in harnessing competition to bear down on prices, particularly the Capacity Market. It also considers the design of support mechanisms for low carbon generation.

The Review recommends that, in the long term, Contracts for Difference and the Capacity Market are merged into a unified equivalent firm power capacity auction. The Review also recommends that, in the interim, Contracts for Difference should be split into three parts for plant construction, operation and decommissioning to enable consumers to benefit from refinancing.

## Questions

Taking into account the findings and recommendations of the Helm Review:

- What are the longer-term challenges for electricity generation?
- What matters should the Government take into account in considering the policy framework for electricity generation?
- What additional evidence should the Government consider to reduce the cost of electricity generation in the longer term?

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Maximum total response 2000 words.

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<sup>4</sup> <https://www.gov.uk/government/publications/cost-of-energy-independent-review>

## Electricity transmission and distribution

The Review looks at the drivers of network costs and the model of network regulation, and provides a view on how this has worked in practice. It considers the challenges of anticipating evolving demand and rapid technological change several years in advance, and the impact on network company returns and consumer costs under Ofgem's price control regulation. The Review also looks at the capital structures of the network companies and potential challenges these pose for future investment.

The Review proposes moving towards a new regulatory regime that places greater emphasis on competition, moving away from price controls and significantly reducing the role of Ofgem. It advocates creating an independent National System Operator that is fully separated from National Grid and responsible for ensuring GB-level security of supply. At a regional level, it recommends establishing new Regional System Operators as public bodies with obligations to deliver security of supply and support decarbonisation. The Review recommends that the National System Operator and Regional System Operators hold technology-neutral auctions for the services they need to fulfil their obligations. It also recommends merging generation, supply and network licences into a single licence to support competition in auctions between supply, network and demand-side solutions.

## Questions

Taking into account the findings and recommendations of the Helm Review:

- What are the longer-term challenges for electricity transmission and distribution?
- What matters should the Government take in account in considering the framework for network regulation, and its associated institutional framework?
- What additional evidence should the Government consider to reduce the cost of electricity networks in the longer term?

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Maximum total response 2000 words.

## Electricity supply

The Review addresses the nature of retail costs, including the treatment of cost pass-through such as policy and network costs, and looks at the operating profit margins which suppliers make in their domestic retail businesses. It summarises how Ofgem and the Competition and Markets Authority have sought to remedy failings in the retail market, including overcoming the detriment borne by consumers as a result of such failings. The Review recognises the opportunities for new market entrants and new products and services, supported by smart meters and new digital technologies.

The Review recommends the introduction of a default tariff that provides full transparency on the costs that suppliers control and the margins they make on these costs. It notes that the alternatives are to rely on existing remedies to overcome consumer detriment or introduce caps on supplier margins for more vulnerable customers on standard variable tariffs.

## Questions

Taking into account the findings and recommendations of the Helm Review:

- What are the longer-term challenges for electricity supply?
- What matters should the Government take into account in considering the longer-term operation of the retail market?
- What additional evidence should the Government consider to reduce the cost of electricity supply in the longer term?

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Maximum total response 2000 words.

## Cross-cutting

The Review makes a range of other recommendations on issues including policy simplification, innovation, wider approaches to decarbonisation, and use of modelling.

### Questions

	What matters should the Government take into account in considering the wider recommendations of the Review?
	Are there any other matters that the Government should consider to reduce the cost of energy in the longer term?

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Maximum total response 2000 words.

