EXPLANATORY MEMORANDUM TO

THE SOCIAL AND ENVIRONMENTAL GUIDANCE TO THE GAS AND ELECTRICITY MARKETS AUTHORITY: ELECTRICITY NETWORKS GROWTH

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Energy Security and Net Zero and is laid before Parliament by Command of His Majesty.

1.2 This Memorandum contains information for the Secondary Legislation Scrutiny Committee.

2. Declaration

2.1 Michael Shanks MP, Minister of State at the Department for Energy Security and Net Zero, confirms that this Explanatory Memorandum meets the required standard.

2.2 George Howes, Deputy Director for the Industrial Strategy and Supply Chain Investment Unit at the Department for Energy Security and Net Zero, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Rachel Atcheson at the Department for Energy Security and Net Zero can be contacted by email at the following address with any queries regarding the instrument: rachel.atcheson@energysecurity.gov.uk. Alternatively, contact the department correspondence team by telephone on the following phone number: 020 7215 1000.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This guidance is to be issued by the Secretary of State to the Gas and Electricity Markets Authority (**GEMA**), the governing body of the Office of Gas and Electricity Markets (**Ofgem**), the gas and electricity markets regulator for Great Britain, pursuant to section 3B(1) of the Electricity Act 1989. The guidance concerns the making by GEMA of a contribution towards the attainment of certain social and environmental policies referred to in the guidance. In carrying out its functions under Part 1 of the Electricity Act 1989, GEMA must have regard to the guidance (once issued).

Where does the legislation extend to, and apply?

4.2 The extent of this instrument is Great Britain.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is Great Britain.

5. Policy Context

What is being done and why?

5.1 The Secretary of State for Energy Security and Net Zero intends to issue the document ‘Social and Environmental Guidance to the Gas and Electricity Markets Author city: Electricity Networks Growth’. The intention of issuing the guidance is to support Ofgem’s regulation of the procurement by electricity network owners of key network components, to make greater consideration of the contribution that this can make to social and environmental policies associated with economic growth (driven through clean energy industries). The Secretary of State considers that this is an area where Ofgem can better consider outcomes that deliver jobs and manufacturing in the UK, rather than prioritising only near-term lowest cost considerations.

5.2 The Secretary of State proposes to issue the guidance to support Ofgem and electricity network owners (Transmission Owners and Distribution Network Owners, together, **Network Owners**) in delivering growth. It does this through clarifying expectations in relation to GEMA's (and therefore Ofgem's) activities as regulator for the sector. It specifically focusses on asking GEMA to consider how it can: incorporate workforce standards into its strategic plans and regulatory approach to procurement; ensure that its regulation is enabling procurement approaches that strengthen domestic capability, improve energy security, and resilience in supply chains and skills (including by considering social value approaches), while supporting value for money for billpayers and delivery confidence; develop growth guidance for regulated entities; and report annually on its progress to delivering these outcomes. The guidance makes clear that Ofgem should support electricity networks to enable growth in a way that is consistent with its objectives, duties, and functions – and does not seek to review, change, or erode any existing duties. It is anticipated that the guidance will align with and support the implementation of Ofgem's existing growth duty (extended to Ofgem in 2024).

5.3 The guidance has been developed in response to feedback from the sector, including Ofgem and Network Owners, that further guidance will support them in contributing to the attainment of the government's objectives.

What was the previous policy, how is this different?

5.4 Prior to this guidance, the guiding instruments on delivering growth and regulating procurement in electricity networks have been the Utilities Contracts Regulations 2016 and the strategy and policy statement for energy policy in Great Britain designated under the Energy Act 2013 (the **SPS**). Neither of these are electricity networks specific, nor do they set out how GEMA and Ofgem can contribute to supporting the government's objectives on growth and industrialisation. More targeted guidance responds to this gap in government steer and is a necessary measure in addressing the gap.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 3B(1) of the Electricity Act 1989 provides that "the Secretary of State shall from time to time issue guidance about the making by the [Gas and Electricity Markets] Authority of a contribution towards the attainment of any social or environmental policies set out or referred to in the guidance". Section 3B(2) provides that GEMA "shall, in carrying out its functions […], have regard to any guidance [so] issued".

6.2 The Energy Act 2013 later provided for the Secretary of State to designate an SPS setting out, amongst other things, the government's strategic priorities in formulating its energy policy for Great Britain, as well as the policy outcomes to be achieved as a result of the implementation of that policy. In part, the provision in the Energy Act 2013 for the designation of an SPS would also be able to cover guidance on the contribution by GEMA towards the attainment of social and environmental policies. This is reflected by section 138(1) of the Energy Act 2013, which has not yet been brought into force. Accordingly, the statutory power to issue that more specific guidance remains in place at section 3B(1) of the Electricity Act 1989 and has not yet been repealed, despite the SPS now being intended as the principal mechanism through which the Secretary of State communicates the government's strategic priorities (as to GB energy policy) to GEMA generally. In light of the foregoing and the specific nature of the content of the proposed guidance, the guidance is considered to be supplementary to the SPS. Correspondingly, GEMA should continue to have regard to the SPS and take into account, as appropriate, the wider statutory and governance framework within which it operates when considering the proposed section 3B guidance.

Why was this approach taken to change the law?

6.3 The issuance of this guidance does not change the law. The Electricity Act 1989 has been identified as the mechanism for issuing this guidance, given in particular that the exercise of powers under the Electricity Act is the only available approach to issue GEMA-specific guidance relevant to its regulation of the activities of electricity licence holders (as the wider SPS covers also gas, as well as the responsibilities of the Independent System Operator and Planner (NESO), and would take longer to amend).

7. Consultation

Summary of consultation outcome and methodology

7.1 The Department for Energy Security and Net Zero consulted on a draft of the proposed guidance. This was a six-week public consultation that closed on 19 August 2026. Responses were welcomed from a range of stakeholders, and those which the Electricity Act specified must be consulted were specifically listed as the audience for the consultation - people and organisations from whom the Department solicited a reply. These were: the Authority, Ofgem licensees, Citizens Advice, Consumer Scotland, manufacturers, developers, trade unions, and industry bodies. The Department contacted these stakeholders to ensure they were aware of the consultation taking place. The Department did not receive a response from all of these organisations.

7.2 In total there were 30 responses to the consultation: 6 via the department's online survey platform 'citizenspace' and 24 via email. One response was received late but is included in our analysis of responses given it was received very shortly after the consultation closed. As set out above, key stakeholders were contacted at consultation launch, and reminded prior to closure, to ensure they were aware of and could respond to the consultation. As and when requested, the Department engaged with stakeholders via individual calls to support their engagement with the consultation.

7.3 Overall, almost all responses were supportive of the intention behind the guidance and welcomed the signal it sends to the market, to Ofgem (as regulator) and Network Owners (as procurers). Several responses raised concern that by introducing guidance on growth, Ofgem's other duties and responsibilities on consumer protection, resilience, and environmental protection may be eroded. Some responses considered the guidance required further amendments - many of these centred around improving clarity in the drafting. A few responses specifically recognised the inclusion of social value criteria and welcomed these as a lever that could ensure the UK maximises the benefits of domestic deployment. Network Owners often set out how they are delivering against this outcome already. Some responses raised questions around the relevance of the guidance to Distribution Network Owners as well as Transmission

Owners; and how the social value percentage was calculated. Some responses, especially from Networks Owners, manufacturers, Ofgem and trade associations, noted that the guidance alone would not resolve broader structural issues within the market and highlighted the need for further industrial policies to address this. A few responses also raised concerns and recommendations that were not directly related to the content of the guidance being consulted upon, but have relevance to the wider work of the Department for Energy Security and Net Zero, or Ofgem. A full public response to the consultation, detailing what respondents told us, and how the Department has amended our approach in response, will be published alongside this guidance being laid before Parliament.

7.4 Devolved governments were in scope of those who could respond to the consultation. We received one response, from Scottish Government – however this was submitted late and arrived after analysis of responses and amendments to the guidance were complete. It is therefore not reflected in the analysis discussed above (7.3). Overall, Scottish Government supported the intent of the guidance but raised concerns around how the social value percentage was calculated and lack of clarity on implementation. As these concerns were raised by other respondents, they were considered in the final draft of the guidance.

8. Applicable Guidance

8.1 A full final draft of the 'Social and Environmental Guidance to the Gas and Electricity Markets Authority: Electricity Networks Growth' will be made available on Gov.uk alongside being laid before Parliament on 14 September 2026.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the guidance is out of scope of the Better Regulation Framework given that it is in connection with procurement.

Impact on businesses, charities, and voluntary bodies

9.2 There is no **direct** impact on businesses, charities, or voluntary bodies because the guidance is being issued to GEMA to support Ofgem's regulation of electricity networks procurements, to make greater consideration of economic growth outcomes that deliver jobs and manufacturing in the UK. There is likely to be an **indirect** impact which is dependent upon Ofgem's implementation of the guidance, and any resulting changes this drives through regulated entities. The impact on business is therefore several steps removed from the direct control of the Department and is challenging to quantify. Despite this, the Department for Energy Security and Net Zero does intend that the guidance will enable Ofgem to give stronger consideration to good workforce standards, and growth and resilience outcomes (including domestic manufacturing) within its strategic plans and regulatory approach. This would ultimately feed through to supporting Network Owners to alter their approaches in relation to these issues.

9.3 If fully implemented, the main impacts which will feed through to businesses are: 1) the introduction of clearer workforce standards and expectations, which it is for Ofgem to consider and define; and 2) amended regulatory approaches that enable increased consideration of social value in electricity networks procurements. How social value is defined and considered for the purposes of their own procurements is the responsibility of the Network Owners, and the processes for individual procurements remain their responsibility.

9.4 The impact on small or micro businesses is likely to be in line with those articulated above at 9.2.

9.5 There is no, or no significant, impact on the public sector because: 1) Ofgem is the only public sector organisation affected by the guidance; 2) Ofgem already regulates the electricity networks sector and already implements an overarching growth duty.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring the impact of this guidance is via annual reporting, submitted by Ofgem to the Department for Energy Security and Net Zero. This expectation is set out in the guidance.

10.2 The instrument does not include a statutory review clause as it is not a statutory instrument.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 As this guidance is subject to a negative resolution parliamentary procedure, the Secondary Legislation Scrutiny Committee has an interest in scrutinising the Act Paper. It is to be issued under the Electricity Act 1989. It is not a statutory instrument.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).