



SOCIAL AND ENVIRONMENTAL GUIDANCE TO THE GAS AND ELECTRICITY MARKETS AUTHORITY

Introduction

- (a) Section 4AB of the Gas Act and section 3B of the Electricity Act 1989 (inserted by sections 10 and 14 of the Utilities Act 2000) provide that the Secretary of State shall give the Gas and Electricity Markets Authority (“the Authority”) guidance as to the contribution which she considers the Authority should make towards the attainment of the Government’s social and environmental policies. The Guidance is set out below.
- (b) The Authority is required to have regard to the guidance when discharging its statutory functions to which its principal objective and general duties apply. The Government therefore expects the Authority to take account of this Guidance in its corporate planning process. In this way, the Authority can make a contribution, appropriate to its functions, principal objective and duties, towards the wider social and environmental objectives of the Government, without compromising the principle of arm’s length regulation.
- (c) The Government intends that the regulatory system, through economic regulation, should make an appropriate contribution towards achieving the Government’s wider social and environmental goals, and where possible be supportive of them. This Guidance is intended to assist the Authority to exercise its function in this way.
- (d) The Government hopes that, in having regard to the guidance, the Authority will promote and support the development of appropriate initiatives.
- (e) This Guidance replaces existing guidance and seeks to support the implementation of the longer term energy strategies set out in the Energy White Paper “Our energy future – creating a low carbon economy” (Cm 5761, February 2003). The Government expects the Authority to facilitate the achievement of the social and environmental targets set out in the White Paper.
- (f) The Secretary of State has the power to issue further guidance as she sees fit. But the White Paper sets a longer-term framework for energy policy and the Government intends that this Guidance should complement and support that framework. The Government believes regulatory certainty is important and therefore proposes that the Guidance should last for several years.
- (g) If 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 their own regulatory responsibilities or policies then the Government encourages the Authority to seek early dialogue and discussion on these issues.

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23 February 2004

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1.1 The White Paper sets out the Government's four goals for energy policy. The Government considers that these four policy objectives are in the broad interests of current and future consumers. These goals are:

- To put ourselves on a path to cut the UK's carbon dioxide emissions – the main contributor to global warming – by some 60% by about 2050, as recommended by the RCEP, with real progress by 2020;
- To maintain the reliability of energy supplies;
- To promote competitive markets in the UK and beyond, helping to raise the rate of sustainable economic growth and to improve our productivity; and
- To ensure that every home is adequately and affordably heated.

1.2 The Government expects the Authority, consistent with its statutory duties, to seek to facilitate the achievement of the social and environmental objectives, targets and aims set out in the White Paper.

1.3 The Government has not sought to rank the four objectives set out in the White Paper. It is the Government's view that these objectives can be achieved together and the Government has put in place policies designed to achieve this. It expects the Authority to work with the Government to this end.

Environmental issues

2.1 The Utilities Act 2000 places duties on the Authority to promote the efficient use of gas and electricity, and to have regard to the effect of licensed activities on the environment. The Government believes that, through lower bills for consumers and a better environment, this is very much in the interest of consumers whose interest it is Ofgem's primary duty to protect.

2.2 The White Paper sets out the Government's environmental priorities in the field of energy. The Government is committed to (i) achieving its target that greenhouse gas emissions are reduced by 12.5% below 1990 levels by 2008-2010 and a national goal that carbon dioxide emissions are reduced by 20% below 1990 levels by 2010; and (ii) putting the UK on a path to cut carbon dioxide emissions by some 60% by about 2050, with real progress by 2020.

2.3 The Government considers that in the longer term carbon trading should be the central plank of our future emissions reduction policies to achieve our carbon targets. Bearing this in mind the Government expects the Authority to consider how it can help achieve the carbon dioxide emissions target whilst continuing to protect the interests of consumers. In doing so, the Authority will also need to take into account the Government's belief that investment in renewables, although they may be more costly in the short term, is needed now in order to meet our longer term carbon targets. To help achieve these carbon targets, the Government is seeking significant increases in the

amount of electricity generated from renewables over the next 20 years. It is aiming to supply 10% of UK electricity from renewable sources by 2010, subject to the costs being acceptable to consumers. We expect industry to respond to the framework established by Government, as set out in the White Paper, and demonstrate they can achieve our goals at an acceptable cost. On that basis, our aspiration is by 2020 to double renewables' share of electricity generation from our 2010 target.

2.4 The Government believes that energy efficiency, including Combined Heat and Power (CHP), needs to play an increasingly important role, providing significant levels of carbon savings. Greater efficiency will be needed in the use of both gas and electricity, though the actual mix of measures will be shaped by economic and technological developments. The White Paper illustrates the contribution that energy efficiency might make to cutting carbon emissions in 2020 through domestic energy efficiency (4-6 MtC), and through energy efficiency in industry, commerce and the public sector (4-6 MtC). To help achieve these savings the Government remains committed to a CHP target of 10 GWe of installed good quality CHP capacity by 2010.

2.5 The Government expects the Authority to help secure these targets and aims and to ensure that, within their area of influence, barriers inhibiting progress are wherever possible removed. The Authority should consider the impact of its decisions on the environment beyond that associated with climate change, for example, air quality where the UK also has binding international commitments.

2.6 As set out in the White Paper, the Government believes that the achievement of its objectives may be dependent on a radical transformation of the energy system to one that is more diverse with a greater mix of energy, especially electricity sources and technologies, and greater diversity both in supply and the control and management of demand. This is likely to require new electricity generation in widely dispersed parts of the country, including offshore, and the development of energy services markets as a means of decoupling the use of gas and electricity and its environmental impact from the growth in demand for the services that energy provides. The Government does not seek to be prescriptive in the way these changes are achieved, believing that within the broad context of policy set by the White Paper the market is best placed to deliver cost effectively the outcomes that are sought. But the Government expects the Authority to take steps within its own responsibilities to provide a framework within which businesses and the economy generally are encouraged to work towards the Government's overall objectives and targets.

Social issues

3.1 The Utilities Act 2000 gives the Authority the principal objective of protecting the interests of consumers, wherever appropriate by promoting competition. It also places duties on the Authority in respect of a number of groups within society, namely the disabled or chronically sick, pensioners, those on low incomes and those living in rural areas.

3.2 The Government considers that the Authority has a wide responsibility in relation to social issues, including equal access for all consumers to competitive markets and the desirability of lower levels of disconnection and arrears. It also believes consumers' interests include the quality of service provided and the size of energy bills. The Authority has a duty under the Sustainable Energy Act 2003 to produce impact

assessments. These should include cost/benefit analyses of the social as well as the environmental impacts of the decisions.

3.3 Within the context of protecting and helping vulnerable consumers, the Government is committed to achieving its fuel poverty target that, as far as practicable, no household should be living in fuel poverty by 2016-18, and no vulnerable household should be in fuel poverty by 2010.

3.4 The Government expects the Authority, within its sphere of responsibility, to put in place measures which will help achieve these targets.

General

4.1 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. The Government expects that the Authority will wish to set out a clear rationale in explaining why it wishes to initiate policies or projects with social or environmental implications, as it does in other areas of its work.

4.2 The Government expects the Authority to demonstrate, through annual progress reports; how it has helped the Government make progress towards the targets and aims set out in this Guidance.