

Thursday 6 March 2008

OFGEM TO REVIEW REGULATORY REGIME FOR ENERGY NETWORKS

- **Ofgem to open a two-year review of the current regulatory regime**
- **The existing regime, after 20 years of success, now faces new challenges**
- **The review will report to Ofgem chairman Sir John Mogg and the governing board in summer 2010**

Energy regulator Ofgem today (Thursday) has unveiled plans to review the 20-year old regime governing the regulation of the gas and electricity networks. The two-year review will examine whether the current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices amid growing investment challenges faced by the energy networks in the future.

The regulator was eager to emphasise that the review should not be taken as critical of the role the existing rules have played to date. Ofgem chief executive, Alistair Buchanan, said: "The current RPI-X regime has delivered much greater efficiency from the network operators with better quality of service, improved reliability and lower costs to consumers.

"But we need to know that the regime can continue to promote innovation from the companies at the level that is required for the future.

"The challenges for the future include ambitious new government renewables targets for 2020, proposals for greater power network interconnection in Europe, a greater emphasis on small-scale distributed generation and growth in gas imports.

"Added to this is Ofgem's commitment to curbing the regulatory burden under Better Regulation principles. These mounting influences may take the existing price control format into territory for which it was not designed. Alternatively, the proven flexibility of the current regime may be fully adequate.

"We are acutely aware that one of the chief gains from having the reliable regime we have enjoyed for two decades has been the stability arising from it. So I want to offer assurance that consultation and involvement of interested parties will be paramount during the review."

Companies and capital markets can assume that, because the review will not report until 2010, work for the next price controls for electricity distribution – due to come into play in 2009 - will not be affected. And the framework for those price controls will be published shortly.

The review will be carried out by a new team with its own director who will report to Steve Smith, Managing Director of Ofgem's Networks Division.

Ofgem is holding a press teleconference from 13:00 to 13:50 today (see notes to editors).

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Notes for editors

To take part in the press teleconference dial in on 020 8515 2383 and, following instructions, key in access PIN 824390#. For the text and slides of Alistair Buchanan's presentation to the SBGI today announcing the review, follow link:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=2&refer=MEDIA/KEYSPEECHES>

1. The current regulatory regime pegs increases in network charges and expenditure allowed by network operators below the retail price index (RPI). This RPI-X regime has been in place since privatisation of the energy industry.
2. The current year presents Ofgem with a planned period where the regulator is not engaged in a price control review giving it the opportunity to open a review of the regulatory regime.
3. The range of possible recommendations emerging from the review runs from no change to substantial change. Where change is recommended there will be full consultation.
4. An advisory panel will be appointed in due course to act in addition to the consultation process. The panel will be drawn from a wide range of interested parties.
5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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