

# Press Statement

Thursday 16 December 2010

## OFGEM WELCOMES FIRST STEPS TO REFORM ELECTRICITY MARKET

Welcoming the Department of Energy and Climate Change's first "Electricity Market Reform Consultation Document," Ofgem's Chief Executive, Alistair Buchanan said:

"In February this year Ofgem's Project Discovery reported to Government that under certain scenarios there were concerns over both security of supply and environmental objectives beyond the middle of this decade. To achieve this, around **£200 billion** of investment will be needed in the energy industry over the next 10 years."

"This is why today's Electricity Market Reform consultation from the Department of Energy and Climate Change is such an important step on the road to changing the electricity market to meet consumers' long-term interests for reliable and low carbon energy supplies."

"By starting the reform process promptly the Government is focused on keeping investment costs and energy prices as low as possible for consumers."

"Properly functioning energy markets remain central to the Government's proposals and, in accordance with Ofgem's duties, we shall be concluding our work to improve electricity market liquidity in the Spring, to align it with DECC's wider reform package. As indicated by DECC in its consultation, Ofgem will also be taking forward reform proposals to ensure electricity and gas wholesale prices properly reflect the value of security of supply and will be advising DECC on issues such as generation capacity."

### Energy prices

Mr Buchanan added "Government sets energy policy, and Ofgem has an important role to play as independent regulator in protecting consumers in an era of rising energy prices.

"Given the Government's projection of higher electricity prices it is vital that consumers can have confidence that prices in the retail market are providing them with value for money. This is why Ofgem launched its current retail market inquiry."

### Network investment

Within its own remit as regulator of the energy networks Ofgem is working to reduce the costs of investment to consumers. This is important as network investment accounts for **£32 billion** of the **£200 billion** of investment needed in UK energy to 2020.

To deliver the **£32 billion** needed Ofgem has introduced the RII model of regulation, which will drive up the performance of the network companies by rewarding timely and efficient investment and will penalise companies that fail to deliver for consumers.

## **Smart Grids**

In recognition of Government's intention to reduce and manage electricity demand Ofgem has already launched its Low Carbon Network Fund for electricity distribution and plans to expand this to high-voltage transmission networks and gas networks.

"Given the increase in electricity demand envisioned by the Government – potentially doubling by 2050 – our energy networks need to get smarter. Ofgem is helping kick start this revolution through its **£500 million** Low Carbon Network Fund which recently approved **£62 million** of funding for the first four pilot projects. Innovation is important, because using assets as efficiently as possible can help cut the investment bill for consumers," Mr Buchanan said.

## **Notes to Editors**

### **1) Project Discovery**

Ofgem's Project Discovery used scenario analysis to test the current energy arrangements to see if they could cope with the unprecedented combination of the global financial crisis, tough environmental targets, increasing gas import dependency and the closure of aging power stations. It concluded that all these factors combined to cast reasonable doubt over whether the current energy arrangements will deliver secure and sustainable energy supplies.

The report showed that bills could rise between 2010-2020 by 14-25 per cent to attract the £200 billion Britain needs to deliver secure sustainable supplies to consumers. One scenario, which saw a rapid recovery from the recession and less investment in low carbon generation, did see a one off price spike of 60 per cent.

Ofgem's findings and its range of possible reform options fed into DECC's review of the electricity market.

### **Press notices**

#### **February 2010:**

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Ofgem%20-%20Discovery%20phase%2011%20Draft%20v15.pdf&refer=Media/PressRel>

#### **Factsheet:**

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=discoveryfs.pdf&refer=Media/FactSheets>

### **2) Retail Market Review**

Last month Ofgem announced a review of the effectiveness of the retail market to see if further action is necessary to protect customers. This inquiry will decide if further changes are needed to ensure the market works in the interests of consumers and will increase transparency in the retail energy market.

Press Release:

<http://www.ofgem.gov.uk/Media/PressRel/Documents1/Retail%20Market%2026%20November.pdf>

### **3) RIIO Price Control model**

The unprecedented challenges of making the transition to a low carbon economy and securing supplies as efficiently as possible has led Ofgem to introduce the biggest change to the regulatory framework for 20 years. Ofgem's new performance-based model, RIIO (**Revenue = Incentives + Innovation + Outputs**), seeks to ensure consumers get the necessary investment in Britain's pipes and wires for a fair price.

#### **Links**

##### **Press notice October 2010:**

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIO%20Oct%20Press%20notice.pdf&refer=Media/PressRel>

**Factsheet:** <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=re-wiringbritainfs.pdf&refer=Media/FactSheets>

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