
Ofgem's Evaluation Strategy

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1. Introduction

- 1.1 Ofgem is the regulator of the energy sector with a principal duty to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.
- 1.2 When it comes to key policy decisions, we currently assess ex-ante (forward-looking) impacts using Impact Assessments, but until now have not had a complementary approach developed for ex-post evaluation (i.e. backward looking) of what impacts actually resulted and can be attributed to our actions.
- 1.3 Undertaking proportionate and robust evaluations will help to build a stronger evidence base for future policy interventions and helps us better assess whether we are delivering on our objectives and complying with our statutory duties.
- 1.4 We set out an Evaluation Strategy based on best-practice and extensive engagement across Ofgem, and with other regulators, government departments and various other external stakeholders. We have taken an integrated approach by embedding it with existing functions such as our Impact Assessment, Consumer Interest and Competition Frameworks.

Background and case for change

- 1.5 Ofgem's principal objective is to protect the interests of existing and future consumers. These are defined in legal terms under the Gas Act 1986 and Electricity Act 1989, Utilities Act 2000 and 2023 Energy Act. The interests of consumers include their interest in Net Zero, Security of Supply of Gas and Electricity, and the fulfilment of designated regulatory objectives originating in EU law. We must carry out our functions in the way best calculated to further our principal objectives.
- 1.6 In 2023, we published a Consumer Interest Framework which helps explain our interpretation of our principal objective. The main elements of the framework are that we act to ensure (i) fair prices, (ii) quality and standards (iii) low-cost transition and (iv) resilience.
- 1.7 Additionally, Ofgem must also comply with the following statutory duties and responsibilities when it exercises its regulatory functions:

- **Biodiversity Duty**¹– though there are nuanced differences between requirements in England, Scotland, and Wales, at a high level Ofgem must consider biodiversity when exercising any regulatory functions that may impact upon it;
- **Growth Duty**² – Ofgem must have regard to the desirability of promoting economic growth;
- **Net Zero Duty**³ – in determining what is in consumers interests taken as a whole, Ofgem must include their interest in the UK Government meeting its net zero 2050 target and carbon budgets;
- **The Public Sector Equality Duty**⁴ – Ofgem must have due regard to the need to eliminate discrimination, harassment and victimisation, advance equality of opportunity, foster good relations between groups, and any other conduct prohibited by or under the Equality Act 2010;
- **Strategy and Policy Statement (SPS)**⁵ – Ofgem must have regard to the strategic priorities set out in this statement.

1.8 Our Impact Assessment Guidance outlines before we act, how we will assess the *potential* impacts of policies, and whether we are meeting our duties and objectives.⁶ However, until now, Ofgem have not had a complementary approach to assessing the *actual* impacts of our policies.

¹ [Environment Act 2021](#)

² [The Economic Growth \(Regulatory Functions\) \(Amendment\) Order 2024](#)

³ [Energy Act 2023](#)

⁴ [The Equality Act 2010 \(Specific Duties\) Regulations 2011](#)

⁵ [Strategy and Policy Statement for Energy Policy in Great Britain](#)

⁶ [Impact Assessment Guidance | Ofgem](#)

Why we are doing this now

It will help us make better decisions and deliver better outcomes for consumers

- Developing a robust approach to evaluation will help us to ensure our policies are still fit-for-purpose and deliver value-for-money in a rapidly changing energy sector.
- Evaluation will help us to enhance and improve policy delivery, during the policy life-cycle and to inform new decisions. Ultimately this will help to ensure we deliver on core objectives and drive better outcomes for consumers.

It will improve accountability and align with best practice

- Evaluation will help improve accountability, allowing for greater transparency, improved policy performance monitoring and timely feedback. Doing so will also help us demonstrate that we are committed to assessing the impact of our actions, and align our approach with best-practice as advocated by the HM Treasury and the Cabinet Office Evaluation Taskforce.ⁱ
- The National Audit Office (NAO) Principles of Effective Regulation state that, in addition to monitoring performance, regulators should evaluate the impact of major interventions.ⁱⁱ In recent years, several regulators have now published, or will soon be publishing, evaluation strategies. Ofgem has recently joined a new regulators evaluation network alongside multiple other regulators. This engagement has helped inform our approach and align it with current best practice.

It will improve our analysis

- Developing an integrated approach for Evaluation and Impact Assessments, will greatly benefit both. Impact Assessments can help to inform and guide evaluations, while evaluation can help us improve our modelling by enabling us to empirically test, challenge and update our assumptions.

i. [Resources for evaluating policy in government](#)

ii. [Good practice guidance Principles of effective regulation](#)

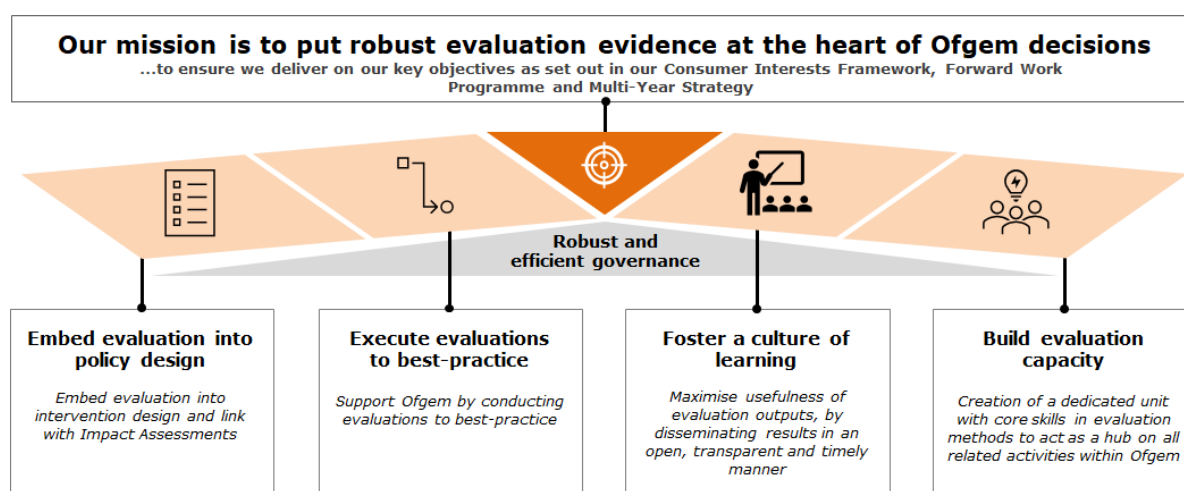
Our Mission and areas of activity

1.9 **Our Mission is to put robust evaluation evidence at the heart of Ofgem decisions, to ensure we deliver on our key objectives.**

1.10 We set out our Strategy across four areas of activity, underpinned by clear Governance structures, summarised in Figure 1 below.

- **Embed evaluation into policy design.** A key feature of our work is to embed evaluation thinking as early as possible in policy development. We have updated internal processes and our Impact Assessment Guidance to reflect this increased focus.
- **Execute evaluations according to best practice.** We will apply best-practice at all stages of evaluation development and execution.
- **Foster a culture of learning.** We will maximise the usefulness of outputs by disseminating results in an open, transparent and timely manner.
- **Build evaluation capacity.** A dedicated evaluation unit within the Office of Research and Economics will act as an internal hub on all related activities within Ofgem.

Figure 1: Evaluation Mission and Areas of Activity



2. Responses to our Call for Input

- 2.1 In total we received seventeen responses to our call for input from a variety of stakeholders, including suppliers, network and system operators, consultants, government departments, consumer groups and consumers.
- 2.2 Overall, respondents were supportive of developing an evaluation strategy, the majority of them agreeing with our overall aims and objectives. In many cases respondents were encouraging us to go further. The main themes of feedback were the importance of developing evaluations early, how to increase transparency and accountability, our selection criteria, increasing external engagement and independent review.

The importance of developing evaluations early

- 2.3 Some stakeholders suggested that evaluation development should start during or before the impact assessment stage, with impact assessments clearly stating whether there would be post implementation evaluation. The justification for this is to get teams embedding Monitoring and Evaluation (M&E) plans into policy implementation at an earlier stage and to indicate to stakeholders which policies will be evaluated at the impact assessment stage, helping to improve transparency.
- 2.4 We have taken this feedback onboard, and in line with other government department guidelines, now require any Impact Assessments which are undertaken as part of our statutory duties^{7,8} to include a Monitoring and Evaluation section or provide justification as to why it is not included.⁹ We also recommend all Impact Assessments not undertaken as part of our statutory duties to complete this process, proportionate to the scale and complexity of the intervention (paragraph 4.3-4.5).
- 2.5 The importance of undertaking process evaluations was also highlighted. We agree and have expanded our discussion of potential approaches to reflect this suggestion (paragraph 3.2).

⁷ [Section 5A, Utilities Act 2000](#)

⁸ [Section 30, Energy Act 2023](#)

⁹ Please see Section 6.43-6.46 of our Impact Assessment Guidance⁶ for details

Increasing transparency and accountability

- 2.6 Several stakeholders emphasised the importance of publishing most, if not all, evaluations conducted. This approach aims to enhance knowledge retention and dissemination, increase transparency and confidence in Ofgem and the market, and provide learning opportunities for stakeholders and other regulatory bodies.
- 2.7 We note that we currently expect to publish most of our larger evaluations where possible, taking into account potential commercial sensitivities. We also intend to publish findings in the Annual Report on Accounts and on the Government Evaluation Registry (paragraph 4.13).

Selection of interventions to evaluate

- 2.8 Most respondents endorsed our proposed selection criteria. Some wished for more clarity surrounding selection criteria, particularly on how criteria are weighted and justification behind selected evaluations. Others have suggested we expand our selection criteria to include the scale or value of an intervention, the learning potential, and risk. Others suggested adopting a standard evaluation timeline to conduct evaluations of 2-3 years.
- 2.9 As we note in the document, our selection criteria are indicative of the key questions we will ask when prioritising evaluations. All may not be relevant in all cases. We have further clarified and expanded them to account for the above suggestions (paragraph 3.4-3.8).
- 2.10 Regarding a standard evaluation timeline, feasibility of timings will vary on a policy-by-policy basis. In some cases, we may want to undertake a process evaluation soon after implementation, followed by an impact evaluation at a later stage. For that reason, we will assess the appropriate timing on a case-by-case basis.
- 2.11 It was suggested we consider a number of interventions for evaluations including Financial Resilience and Controls, the Ban on Acquisition-Only Tariffs, Prepayment Meter Code of Practice, RIIO-ED2 Real Price Effect Indexation, the Interruptions Incentives Scheme and CMP 308 Removal of BSUoS charges from generation.
- 2.12 We are considering all of the above, alongside other policies, as part of our periodic assessments of interventions to evaluate. Our objective is to remain with our proposal to initially undertake 1-3 evaluations per year, selected based on our criteria and subject to resourcing and other priorities.

Increasing external engagement and review

- 2.13 A range of stakeholders emphasised the importance of independent internal and external reviews of evaluations to improve transparency and independence.
- 2.14 As outlined in our Strategy, we will draw on external expertise where appropriate, such as Ofgem's Academic Panel and the Evaluation and Trials Advice Panel (ETAP). We have included further clarity on our internal review process requiring each evaluation to go through quality assurance at key stages of development (paragraph 4.8).
- 2.15 The importance of external engagement throughout the evaluation process was also emphasised. We outline how we will do this throughout our Strategy (paragraph 3.7, 4.8, 4.10-4.13).

3. Our proposed approach

How we have developed our approach

3.1 We have developed our approach through the following activities:

- **Review of best practice.** This Strategy is drafted following best-practice guidance and drawing from the HM Treasury Magenta Book¹⁰, Green Book¹¹, the guidance of the HM Treasury and Cabinet Office Evaluation Task Force, published evaluation strategies from other regulators and Government Departments¹², the OECD Better Regulation handbook¹³, and various academic publications.
- **Development of case-studies.** To test our approach, we have developed two case-studies with policy teams across Ofgem which we describe in the Annexes.
- **Extensive internal and external engagement.** We have consulted extensively internally to develop a process that can be applied across our activities. Where possible, we align with our existing functions, such as our Impact Assessment Guidance. We have also consulted externally, initially with other regulators, government departments and academics. We then developed a Call for Input in October 2024 outlining our approach and have now incorporated external stakeholder feedback from the Call for Input.

The type of evaluations we will conduct

3.2 An evaluation is a systematic assessment of design, implementation and outcomes of an intervention. The intention is to provide a full understanding of whether an intervention worked, how, why, and for whom, and at what cost. The following categorisation is often used to distinguish the three main types of evaluation:

- A **Process** Evaluation assesses how a policy has been designed, developed and delivered by an organisation. It seeks to understand how effectively policymakers were at putting the policy in place, including how well they

¹⁰ [The Magenta Book](#)

¹¹ [The Green Book \(2022\)](#)

¹² [Evaluation Task Force](#)

¹³ [Better Regulation Practices across the European Union 2022](#)

deployed resources to achieve it, and whether they could have done anything to improve the policy-making process.

- An **Impact Evaluation** seeks to establish what difference an intervention has made to the areas targeted by the intervention. And how much of any changes are attributable to the policy vs other factors. Whether there were any unintended outcomes and what lessons can be learned. Traditionally, impact evaluations could have broadly been categorised as **counterfactual approaches**: which aim to quantify and attribute any measured change to the intervention; **theory-based approaches**: a broad family of methods which aim to provide a structured understanding as to how and why a program works, or doesn't. More recently a range of **complexity appropriate approaches** (such as system mapping and modelling, agent-based modelling) have been developed to aid evaluators operating in increasingly complex and interlinked domains.¹⁴
- **Value-for-money (Economic) Evaluation** methods determine whether the intervention has offered benefits that are greater than costs. Widely used methods are social cost-benefit analysis and social cost-effectiveness analysis. The distributional impact of the intervention will often also be considered. These methods are covered extensively in The Green Book and Ofgem's Impact Assessment Guidance.⁶

3.3 Initially our evaluations will predominately consist of impact evaluations, process evaluations or a combination of both, given that we will generally be evaluating the impact of regulatory decisions as opposed to spending decisions. Our more detailed evaluations will take an integrated approach combining elements of impact and process evaluation. Impact evaluations will be further developed into economic evaluations in circumstances where impacts can be monetised.

How we select and prioritise interventions for evaluation

3.4 In deciding what to prioritise at any given time, and what type of approach would be proportionate, we will consider the scale and significance of the intervention, risk, uncertainty and potential harm, usefulness and learning potential of an evaluation and feasibility and reliability of evidence.

¹⁴ A summary of these approaches was provided in supplementary guidance to the Magenta Book in 2020 [Magenta Book, Supplementary Guidance \(2020\)](#)

- 3.5 We will also be mindful of the rapid transformation the energy system is undergoing. Some evaluations may be impractical to undertake because by the time of evaluation the landscape would have changed significantly, or there may be other interventions confounding the outcomes of any single intervention. In these situations, it may be appropriate to consider thematic/or high-level reviews which would consider an entire area rather than a specific policy.

Figure 2. Indicative selection and prioritisation criteria



- 3.6 Figure 2 sets out in more detail the questions we will consider as our indicative criteria when we are assessing which interventions to evaluate. The Office of Research and Economics initially expect to undertake approximately 1-3 evaluations per year, to ensure producing high quality assessments and subject to wider organisation priorities and resource constraints.
- 3.7 We will consult annually on the evaluation work programme, by signalling a Mindset-to decision of the policies selected in the Forward Work Programme each December. The final programme will be signed off by the relevant Directors.
- 3.8 The questions in Figure 2 will also be used to determine the appropriate and proportionate level of review. Drawing from the Magenta Book and published work of other regulators, such as the Financial Conduct Authority's Rule Review Framework¹⁵ and the Information Commissioner's Office Ex-Post Impact Framework¹⁶, we will undertake two categories of review:
- Tier 1: Evidence Assessment. This approach is relatively light-touch - it draws on available monitoring data and looks to assess questions such as whether an intervention has achieved its intended outcomes, and whether there been any market or other developments that might impact effectiveness.
 - Tier 2: Detailed Evaluation. This approach aims to assess whether an intervention has achieved its intended outcomes, assess compliance with the rule, identify any implementation issues, and potential unintended consequences. Where possible we will aim to attribute impacts to our actions.

¹⁵ [Our Rule Review Framework | FCA](#)

¹⁶ [The ICO's Ex-Post Impact Framework | ICO](#)

4 How it works in practice

Evaluation development

- 4.1 Evaluation development should happen as early as possible and ideally alongside policy development. However, it can also be applied retrospectively which is necessarily the case for legacy policies which have already been developed including in cases where there was a commitment to review after a period of time.
- 4.2 A key feature of our work is to closely integrate evaluation with Impact Assessments. We work with policy and Impact Assessment teams to develop a monitoring and evaluation plan, which summarises key policy objectives, and what monitoring we need to undertake in order to measure and test impacts. This plan should also include Causal Chains describing how the policy mechanisms are intended to work.¹⁷
- 4.3 We now require any Impact Assessments which are undertaken as part of our statutory duties to include a Monitoring and Evaluation section or provide justification as to why it is not included.⁹ For recent examples please see the Monitoring and Evaluation sections of recently published Regional Energy Strategic Plan Impact Assessment consultation.¹⁸
- 4.4 We also recommend all Impact Assessments not undertaken as part of our statutory duties to complete this process, proportionate to the scale and complexity of the intervention.
- 4.5 Undertaking this process at an early stage helps us to embed evaluation considerations into intervention design, identify monitoring needs in advance of implementation and will make policies much easier to evaluate in future. It also builds a forward-look of future evaluations for the Evaluation Unit.

Evaluation execution

- 4.6 Our goal is to be evidence-driven and develop whichever evaluation approaches deliver the best-value and quality evidence for specific projects. We will use a

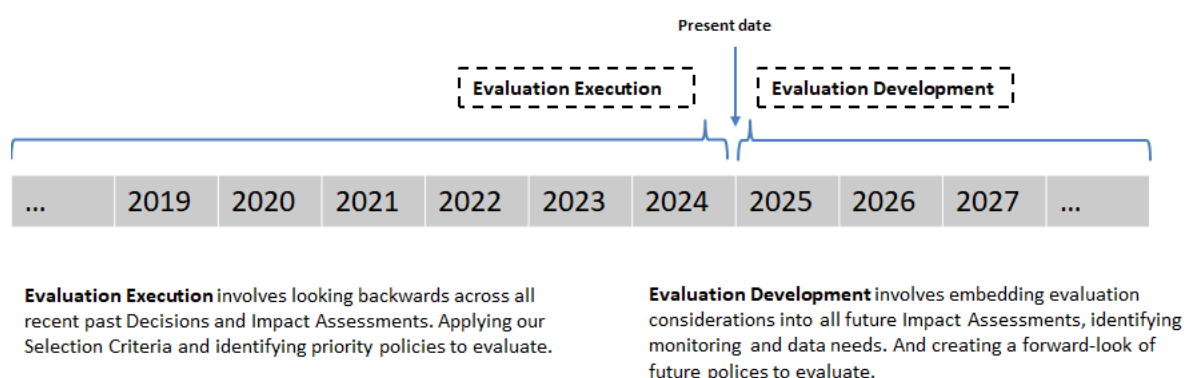
¹⁷ We use the term "Causal Chains" but these are also called Theory of Change, Logic Models or Logical Frameworks. See Annex 1 for an example

¹⁸ [Regional Energy Strategic Plan Impact Assessment consultation](#)

broad set of approaches while remaining methods neutral. We will ensure that evaluation questions are well-supported by developed Causal Chains.

- 4.7 When feasible and appropriate, we will use counterfactual-based approaches, such as experimental or quasi-experimental impact evaluation design. We will also use a range of other approaches such as theory-based impact evaluations and process evaluations. We may also use a mixed methods approach where appropriate.
- 4.8 We intend to take a collaborative approach and work with internal teams to leverage expertise. Any evaluation will go through quality assurance with a nominated reviewer at key stages. Where appropriate we will draw on external expertise such as Ofgem's Academic Panel and the Evaluation and Trials Advice Panel (ETAP) for independent guidance and review.
- 4.9 Evaluation Execution is necessarily retrospective and initially will be undertaken on policies which will not have gone through an Evaluation Development process. However, these processes will align in time as the new policies going through Evaluation Development become sufficiently mature to enable us to execute the evaluation.

Figure 33: Alignment between Evaluation Development and Execution



Evaluation dissemination

- 4.10 For each evaluation we undertake we will form a working group of key internal, and potentially external stakeholders. These groups will ensure that policy and other colleagues are involved in the design of evaluation and regularly receive updates on emerging evidence.

- 4.11 We will internally disseminate results iteratively and as the evaluation progresses, ensuring that we align with any upcoming policy reviews.
- 4.12 To help promote accountability, we expect to publish most of our larger evaluations where possible, taking into account potential commercial sensitivities. We will report to the relevant internal boards each year on evaluations conducted, lessons learned, and publish a summary of findings in our Annual Report on Accounts.
- 4.13 We aim to create a central repository of all relevant materials and conducted evaluations, and we will be entering planned and live evaluation reports into the Government Evaluation Registry.¹⁹

Capacity building

- 4.14 We have created a dedicated unit within the Office of Research and Economics with core skills in evaluation methods to act as a hub on all related activities within Ofgem.
- 4.15 We are linked with other similar groups in other regulators, through a cross-regulator evaluation network and also with DESNZ and other relevant departments.
- 4.16 We are actively upskilling through external training and are building capacity in Ofgem through the Unit providing and facilitating training, and through our collaboration with policy teams.

¹⁹ [Government Evaluation Registry](#)

5 Governance

Key principles

5.1 Underpinning all of the above are key principles to ensure that evaluation governance is robust and efficient:

- **Integration with Impact Assessment Process.** Evaluation Development happens at Impact Assessment stage before a policy is implemented. Any Impact Assessments which are undertaken as part of our statutory duties should include a Monitoring and Evaluation section or provide justification as to why it is not included. We also recommend a Monitoring and Evaluation section proportionate to the scale and complexity of the intervention for Impact Assessments which are not undertaken as part of our statutory duties.⁶
- **Documentation.** All evaluation plans are logged internally in a central repository. We include a Monitoring and Evaluation section for Impact Assessments as above.
- **Selection and Prioritisation.** We undertake a collaborative and transparent process to select programmes for evaluation based on clear criteria. We signal our intention to evaluate as a Minded-to Decision each year in our Forward Work Programme.
- **Ownership.** Evaluation should be seen as part of effective programme management. It can be owned by policy team or the Office of Research and Economics (ORE), depending on the type of review. The ORE will typically undertake more complex impact evaluations and analytical post-implementation reviews.
- **Independent review.** Each evaluation should have a nominated internal or external reviewer.
- **Reporting and sign-off.** Sign-off for evaluation selection and on completed evaluations will be undertaken by relevant Director and circulated to relevant internal boards as appropriate.
- **Knowledge retention and dissemination.** We will create a central repository of all relevant materials and conducted evaluations. All materials, templates, methods continually updated to reflect new learnings. We will feed-back "Lessons Learned" through various internal and external fora.

- **Transparency and accountability.** We will be transparent in our approach, in line with UK Government Evaluation Task Force and HM Treasury guidelines by: (i) Where possible signalling in any Final Decision/Impact Assessment whether, when and how we will evaluate; (ii) By making a public commitment to publish at least one evaluation per year; (iii) Consulting and signalling in advance what programmes/policies we are evaluating through our Forward Work Programme, and (iv) Annually publishing insights/lessons learned in our Annual Report on Accounts.
- **Data Governance.** Ofgem is committed to complying with GDPR rules for data collection, data Storage, data Processing and transfer and publication of Evaluation results with internal and external stakeholders. Please see Annex 2 for details.

6 Annex 1: Case-studies

Case Study 1: Financial Resilience and Control

Background

- 6.1 Following the 2021 Energy Crisis, Ofgem began to introduce a suite of policies aimed at improving supplier financial resilience. A review of the market concluded that the 30 suppliers who exited the market were under capitalised and pursuing risky business models between 2021/2022.²⁰ In response, Ofgem introduced the Financial Resilience and Controls (FRC) policies, a suite of measures to improve capitalisation and strengthen resilience to external shocks. These policies put the retail market on a solid foundation to deliver the innovation, high standards and consumer outcomes needed to achieve our principal objective to protect the interests of existing and future consumers including reducing cost to consumers.²¹ As part of the development of the Evaluation Strategy, these policies were selected due to the significant impact on consumers and market conditions.

Evaluation framework

- 6.2 The Office of Research and Economics evaluation team is working with the FRC policy teams to co-develop an ongoing process of monitoring and review, and scope out a longer-term impact evaluation. We undertake an iterative process for each policy to develop an initial set of evaluation questions, Causal Chains mapping out the key policy mechanisms, along with scoping key data sources and metrics.
- 6.3 Undertaking this process at the policy-level is helping us develop the overall picture including creating an initial high-level categorisation of the types of questions we need to answer across the entire suite and an overall picture of how the policies should work together. Below we will describe how we apply this across the entire suite.
- 6.4 This Case-Study describes how we are applying the Evaluation Development process, i.e. setting up the policies for future evaluation. It does not describe how

²⁰ [Ofgem publishes report into its regulation of the energy market | Ofgem](#)

²¹ [Decision on Strengthening Financial Resilience | Ofgem](#)

we have executed the evaluation as sufficient time has not elapsed to effectively evaluate the impacts of the policies.

Developing the evaluation framework across the FRC policies

6.5 Table 1 summarises the initial steps undertaken across all policies. As an illustrative example we describe how we are applying the approach to Renewables Obligations Ringfencing (RO), as this was one of the first policies we were able to assess for evaluation. This gives an illustrative concept of how an evaluation may be undertaken for FRC policies.

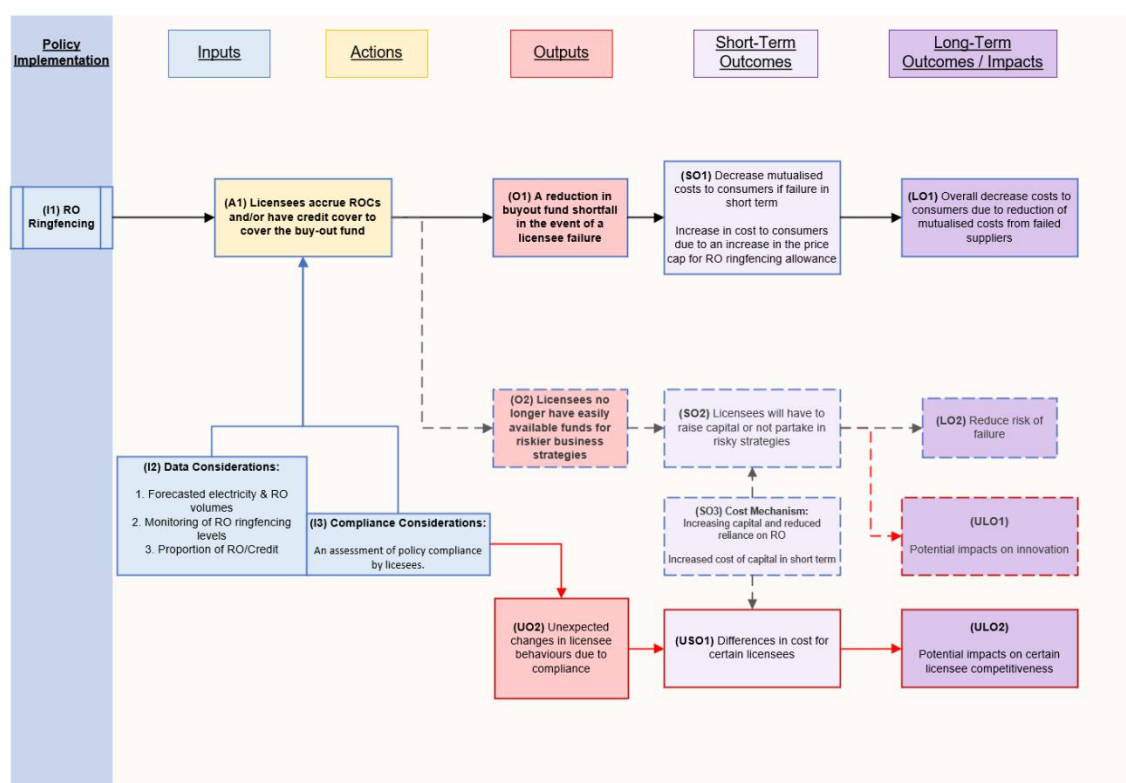
Table 1: Application of the evaluation framework FRC policies with RO ringfencing as an illustrative example.

Steps undertaken	Outcome
Identifying policy objective	<p>The core policy objectives are identified through assessment of previous decisions and impact assessments and confirmed with policy teams. For RO ringfencing, we have taken the objectives from the respective consultations and decision. That is, to reduce the funds at risk of mutualisation in the case of supplier failure ultimately leading to an overall decrease in cost to consumers. A secondary objective is to reduce moral hazard by ensuring that business owners have capital at risk, reducing incentive to take excessive risks.²²</p> <p>As part of this step, we also attempt to identify potential unintended consequences as part of the introduction of this policy. These are further developed in the next step.</p>
Development of evaluation question and scoping of data	<p>Based on the policy objectives we develop a set of evaluation questions. We then assess how best to answer them, given available data sources and resource requirements.</p> <ol style="list-style-type: none">1) Develop a set of potential evaluation questions.2) Scoping out the relevant data sources and resource requirements for the evaluation question.3) Develop potential approaches possible with a recommendation of the type of evaluation approach.4) Determine possible timings for the evaluation.
Workshopping approach	<p>Additional workshopping with other teams within Ofgem helps refine evaluation questions, identify further data sources and determine the frequency of review.</p> <p>At this stage we start to develop Causal Chains which graphically explain how we think the policy should work, but might not.</p> <p>Further intended and unintended consequences could be identified which can form the basis for additional questions.</p>
Refining approach	<p>We confirm the final set of evaluation questions and outcomes at this stage. We also group questions by policy and type to summarise broadly the type of questions we are asking across the entire suite of policies</p> <p>We refine the Causal Chains to develop intermediate short-term outcomes and how they create the long-term key outcomes that is associated with the policy objective. This forms the basis for the collection of metrics and outcome data to collect and analyse.</p>

²² [Statutory Consultation: Strengthening Financial Resilience | Ofgem](#)

6.6 As part of this process, we developed illustrative Causal Chains²³ (Fig. 4) for how RO ringfencing the policy is intended to work, and potential unintended consequences. The Causal Chains link the policy with intermediate actions, intermediate and final outcomes. We also map out key compliance requirements for the policy to work as intended, and data needs for the evaluation.

Figure 4: Illustrative example of Causal Chains using RO ringfencing policy.



Note: These Causal Chains map out the longer-term benefits resulting from the RO Ringfencing policy, and the intermediate steps that need to happen for these benefits to be realised. It identifies potential unintended consequences and how they might arise. It summaries risks, compliance considerations and data needs to undertake an evaluation. This mapping is intended to inform the evaluation, but we would not necessarily evaluate all of the links in these Causal Chains. For example, our own internal monitoring and assessments might determine that evaluating a particular potential outcome is not necessary or infeasible.

6.7 By working through multiple policies in a similar way, we plan to develop an overall evaluation framework for the policy suite. This includes a set of intended and unintended outcomes across the entire policy suite, interdependencies between the policies and an overview of how the FRC suite of policies improves supplier resilience and reduces cost to consumers.

²³ The Causal Chains presented here are a working draft and may be subject to change or revision.

6.8 Across the suite, we are developing a set of evaluation questions that can be categorised into primary and secondary outcomes, as illustrated by Table 2. The primary outcomes are categorised as intended impacts and unintended consequences. Where possible, we intend to use the evaluation approaches discussed above to assess these primary outcomes. In parallel, we also examine a range of secondary outcomes that can be used to help understand if the necessary conditions are in place for our policies to deliver the intended impact, these include questions regarding compliance, changing supplier behaviour and improvements in Ofgem capacity to monitor and identify risks.

Table 2: Illustrative example of FRC primary outcomes and their evaluation questions.

Area of Focus	Evaluation Question
Intended Impacts	Does the FRC suite of policies reduce the costs at risk of mutualisation?
	Does the FRC suite of policies improve the supplier's financial resilience?
Unintended Consequences	Can we isolate any impact the policy has on competition and innovation?
	What impact might the policies have on costs for licensees and consumers, and how do these evolve over time?

Early benefits

6.9 Beyond the evaluation, other early benefits of this approach include:

- **Establishing an agreed understanding of the mechanisms** of each policy as well as the overall policy mechanisms to get to the desired outcomes within the FRC Team and wider Ofgem.
 - **Building an early understanding of potential negative outcomes** enables us to consider these as part of ongoing policy development.
 - **The framework can be used as the basis for training materials.** Enabling new members to understand the objective and mechanisms behind each policy and ensuring the entire team is on the same page from the start.
- Developing a prototype** that can then be adapted and applied to other policies across Ofgem's portfolio.

Summary

- 6.10 We have presented an illustrative/proof of concept describing our development of a policy-by-policy approach to evaluate Financial Resilience and Control. This approach is helping us both develop an ongoing process of monitoring and review for FRC, and identify any gaps not covered by our regular cycle which may form the basis of discrete pieces of work.
- 6.11 This approach is still in development, and we will engage with stakeholders as and when we begin to undertake the evaluation.

Case Study 2: Evidence Assessment of Round 1 of the Strategic Innovation Fund

6.12 This case-study summarises a review of the first phase of funding (Round 1) allocated by Ofgem's Strategic Innovation Fund (SIF), a £450m fund established in 2021 to fund 'big, risky, strategic' projects that 'move the needle' towards net zero and lowers consumer bills. At the time of conducting the review we had allocated a total of £130m of SIF funding to 157 projects across 613 project partners.

Scope of review

- 6.13 The review sought to assess: (i) how the SIF is delivering on its aims, (ii) how it is working for the industry, and (iii) how it is working for Ofgem Subject Matter Experts (SMEs). The review focused more on process and operational questions as, at the point of undertaking the evaluation, it was too early to be able to assess impacts. The review was led by the SIF project team at Ofgem, with guidance and support provided by the Office of Research and Economics Evaluation team, and comprised of several parts:
1. A desk-based literature review of SIF formation documents to assess how well SIF is delivering against the core aims of the programme;
 2. Assessment of qualitative and quantitative data through surveys of key stakeholders such as networks, innovators and Ofgem SMEs;
 3. A review of the projected estimated net benefits from all funded Beta project Cost Benefit Analyses (CBA) and of projected spend across the SIF's lifetime (2021-28).
 4. A series of workshops with Ofgem SMEs to give feedback on the collated results and gather input on next steps.

Key Findings

Table 3: Summary of Key Findings

	Overall	For Industry	For Ofgem
Working Well	<ul style="list-style-type: none"> Significant potential benefits, both financial and environmental External assessors and Ofgem experts view projects to be of high quality Significant market engagement with the fund 	<ul style="list-style-type: none"> High engagement and significant market stimulus created Phased approach allows for agility and flexibility to change direction/scope of project SIF operating model helps develop demonstration scale projects, whilst ensuring robust planning 	<ul style="list-style-type: none"> View of internal experts is that SIF well run programme with a highly capable and responsive team
Needs Improvement	<ul style="list-style-type: none"> Estimated benefits are likely on the high end Need to take steps ensure high levels of innovation rollout Greater alignment of funding needed between SIF and other similar mechanisms 	<ul style="list-style-type: none"> Discovery Phase can be very resource intensive Timings of various phases can be rigid and challenging Resource challenges in applying for and delivering multiple rounds Need to encourage more small innovators 	<ul style="list-style-type: none"> Internal processes could be simplified Clearer communications between Ofgem experts and external assessors Greater access to live information on all projects

Actions taken

6.14 Following the review, several actions were taken to address the identified areas for improvement, summarised in Table 4.

6.15 An external review of the CBA and benefits tracking was commissioned by Ofgem and IUK. As part of the review, the CBA template was updated to improve its functionality and usability.

Table 4: Summary of identified issues and corresponding actions taken

Areas identified as needing improvement	Actions taken
Benefits tracking	Programme of work completed to review and improve the CBA template, informing the project selection process.
High levels of rollout	Communicated in RIIO-3 SSMD that networks may request additional totex allowance in business plans to fund the deployment of previously proven innovation.
Alignment of funding	Engagements underway with Ofwat and DESNZ to improve coordination of innovation funding initiatives.
Difficulties in resourcing and delivery due to rigid application process and timings	Application windows for each phase of SIF have been increased to three a year. Projects also now have flexible start dates and durations. Projects can also now complete the route from the Discovery to Beta phase within 23 months, eight months shorter than the previous process.
Areas identified as needing improvement	Further actions in train
Benefits tracking	Further work is underway exploring improvements to benefits tracking, particularly after SIF funding has ended.
Ensuring high rates of rollout	Communicated in RIIO-3 SSMD that we will give consideration to introducing a reputational and/or financial incentive to further incentivise innovation deployment.
Challenge Setting	Work underway to establish a process for setting longer term, strategic challenges.

- 6.16 Improvements were also made to address concerns around timings and flexibility of project delivery, with application windows for each SIF phase increased to three a year, and projects being given flexible start dates and durations. Furthermore, engagement is underway with DESNZ and Ofwat to improve coordination and alignment of funds.
- 6.17 The recommendations for improvement have also been incorporated into our RIIO-3 policy development work. In the RIIO-3 Sector Specific Methodology Decision (SSMD), we signalled a number of areas we would continue to explore to ensure high rates of project rollout. Firstly, we stated that networks may request additional totex allowance in their business plans to fund the deployment of previously proven innovation. Secondly, we signalled our intention to explore the introduction of a reputational and/or financial incentive to further incentivise

innovation deployment by networks. The option of introducing a reputational incentive would also help with the long-term benefits tracking of projects. Other further actions in train include changing the SIF Challenge-setting process to set a more consistent, long term strategic direction.

- 6.18 We will be continuing market engagement on these options ahead of RIIO-3 Draft Determinations in 2025.

7 Annex 2: Data Governance

GDPR Compliance

7.1 Undertaking evaluations involves the collection, storage, transmission of data and publication of results. Given that this data may include personal and demographic details and other sensitive information, Ofgem ensures compliance with the General Data Protection Regulation (GDPR), which governs data protection and privacy within the UK. Ofgem is committed to complying with GDPR rules for Data collection, Data Storage, Data Processing and transfer and publication of Evaluation results with internal and external stakeholders. Following are the compliance standards with the GDPR for each phase of the data cycle during an evaluation.

- **Data Collection and Processing.**

Ofgem collects data under lawful bases, ensuring compliance with GDPR, and informs stakeholders through privacy notices while minimising data collection.

- **Data Storage and Security Measures.**

Stored data is encrypted, access is restricted to authorised personnel, and retention policies ensure compliance with GDPR security standards. This applies to both personal information and commercially sensitive information (CSI). CSI is classified at collection, securely stored and only disclosed when legally required.

- **Data Transmission and Sharing**

Ofgem uses encrypted communication channels for secure data transmission and ensures third-party compliance through Data Processing Agreements (DPAs).

- **Data Publication and Anonymisation**

All published data is anonymised, risk assessments are conducted, and reports comply with UK Government Open Data Policies while safeguarding privacy.

- **Individual Rights and Accountability**

Individuals have rights to access, rectify, or request deletion of their data, and Ofgem ensures compliance with GDPR rights and restrictions.

- **Governance and Compliance Monitoring**

A dedicated Data Protection Officer (DPO) oversees GDPR adherence, with regular audits, staff training, and breach reporting to the ICO within 72 hours.