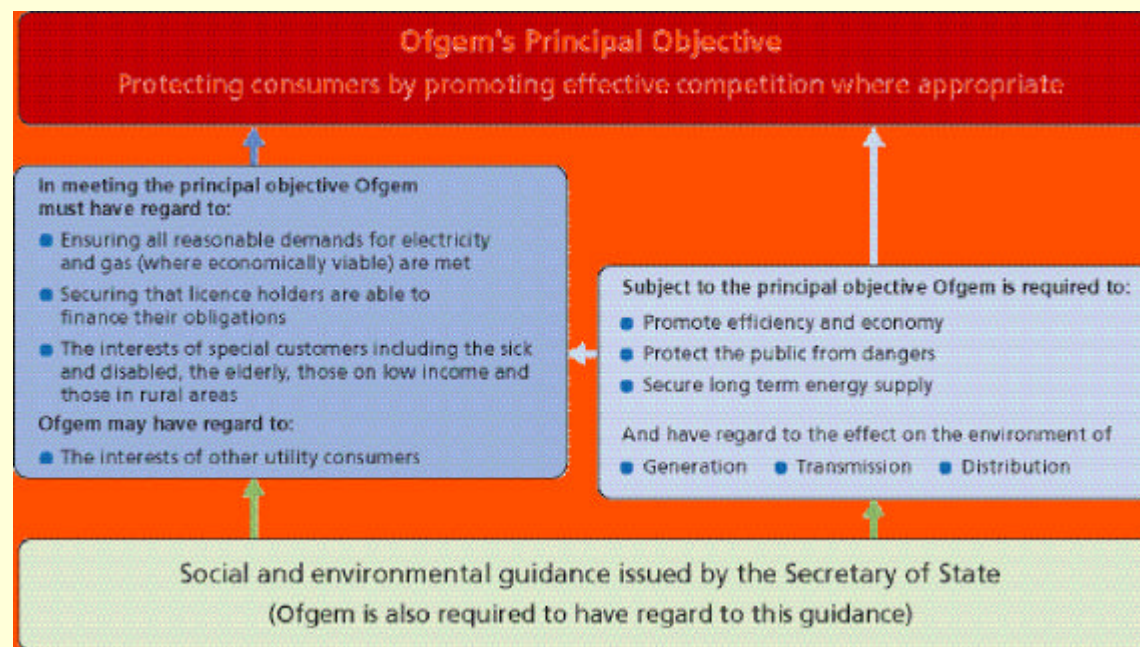


Ofgem's statutory duties



Regulating for a greener future

Ofgem's actions and those of the industry it regulates have an important impact on the environment.

Ofgem contributes to meeting important environmental challenges first by doing what it can within its statutory duties and, second, by working with other agencies who have environmental responsibilities.

Ofgem works to promote measures across the gas and electricity supply chains which:

- fulfil its economic, social and environmental objectives, and
- have the best chance of success in meeting environmental targets at the least cost to gas and electricity customers.

Looking ahead

Ofgem is stepping up its work programme under the Environmental Action Plan. First, in recognition of the increased prominence of environmental issues on the public policy agenda and, second, to enable Ofgem to play a fuller and more effective role in informing the wider debate and decisions on how best to meet important environmental targets.

The first Environmental Action Plan Annual Review sets out the key achievements to date and the work plan going forward.

To find out about Ofgem's environmental work contact:

Environmental Action Plan

- John Costyn - Head of Environmental Action Plan - Email : john.costyn@ofgem.gov.uk Tel: 020 7901 7166
- Alex Thorne - Environmental Affairs Officer - Email: alex.thorne@ofgem.gov.uk Tel: 020 7901 7194

Renewables Obligation and Climate Change Levy

- Amanda McIntyre - Head of Renewables and CHP - Email: amanda.mcintyre@ofgem.gov.uk Tel: 020 7901 7323
- Clare Hayward - Deputy Head of Renewables - Email: clare.hayward@ofgem.gov.uk Tel: 020 7901 7236

Energy Efficiency

- Charles Hargreaves - Head of Energy Efficiency - Email: charles.hargreaves@ofgem.gov.uk Tel: 020 7901 7459
- Kate Smith - Manager Energy Efficiency - Email: katharine.smith@ofgem.gov.uk Tel: 020 7901 7488

Distributed Generation

- Arthur Cooke - Distributed Generation Co-ordinator - Email: arthur.cooke@ofgem.gov.uk Tel: 020 7901 7297
- Steve McBurney - Deputy Distributed Generation Co-ordinator - Email: steve.mcburney@ofgem.gov.uk Tel: 020 7901 7371

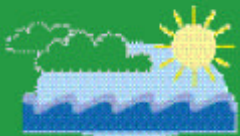
Key achievements from the past year:

The Environmental Action Plan published in August 2001 set out Ofgem's principles and programme of work to meet its environmental commitments. In the first year of the plan:

- Ofgem has put systems in place for new Government schemes to support renewables and energy efficiency, which Ofgem has responsibility to administer, in time for their introduction on 1 April 2002.
- Ofgem has specified environmental performance measures for gas transmission and distribution networks under the new Transco price control.
- Ofgem has successfully administered the first year of exemptions from the Climate Change Levy for renewable generators, certifying over 6 terawatts of renewable energy.
- Ofgem published a review of the effects of the New Electricity Trading Arrangements (NETA) on small generators in the first two months of operation.
- Ofgem has agreed interim measures to improve the way in which distributed generators are charged to connect to local grids.
- Ofgem issued proposals for the reform of electricity transmission access and losses in England and Wales, to move towards a fairer allocation of electricity losses between customers.
- Ofgem has issued new guidelines on 'green supplies' to inform customers and suppliers better about what constitutes a green supply, and how green supplies should be marketed and verified.

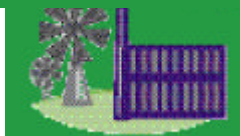
The year ahead

In the coming year Ofgem will:



Renewables, Combined Heat and Power (CHP) and energy efficiency

Continue to administer key parts of the Government's environmental programme for the promotion of renewables, Combined Heat and Power (CHP) electricity generation and energy efficiency



New Electricity Trading Arrangements

Publish the first annual review of the New Electricity Trading Arrangements which will assess how participants including smaller generators and the demand side (including large industrial customers) have fared under NETA



Electricity transmission and distribution

Contribute to new electricity transmission access and losses arrangements for the National Grid Company's (NGC) electricity transmission system. These arrangements will provide incentives to reduce electricity losses and provide signals for generators and demand to locate closer to each other.

Agree the objectives and structure of the next electricity distribution price control review, due to take effect in April 2005. This will look at:

- how future investment will respond to uncertainty such as the development of distributed generation, including renewables and CHP
- review electricity losses on distribution networks and how companies should be incentivised to reduce losses.



Better information

- Investigate ways of providing customers with information on how much energy they consume and where the energy comes from through their bills or innovative metering technology.
- Work to improve the scope and usefulness of information on the environmental performance of the gas and electricity industries, in consultation with the Environment Agency and with industry bodies.
- Publish a discussion document on the electricity industry obligation to address its impact on amenity, including visual impacts, landscape and heritage.



Working with other agencies

Continue to work with other organisations such as the Environment Agency to promote innovative approaches to environmental and economic regulation and to encourage approaches where environmental targets are met at the least cost to consumers.

Improving the way we inform our work on environmental issues

Establish an Environmental Advisory Group

- Ofgem is setting up a high level, independent external group to advise on priorities for Ofgem's work in relation to its environmental responsibilities
- The group will consist of 10 - 12 members, drawn from, the utility industry, the small generator community, consumer and environmental groups and government organisations

Undertake environmental research

Over the next 1 - 2 years Ofgem will carry out a programme of research into environmental issues. The research will help inform Ofgem's work and the understanding of broader energy and environmental debates. It will cover areas such as:

- The implications for customers of alternative renewables targets
- Understanding the costs and benefits of energy efficiency programmes
- Estimating the economic, social and environmental benefits of advanced meters
- Possible ways of incorporating environmental considerations into economic decision making through the use of shadow pricing.

Environmental assessment of key policies

- Ofgem will continue to develop the way in which it assesses and takes into account the environmental impact of its work.

Ways in which Ofgem helps the Government to meet its green targets

- Administers the Renewables Obligation and the Climate Change Levy which encourages and requires suppliers and customers to use 'green' electricity
- Administers the Energy Efficiency Commitment which requires energy companies to improve the energy efficiency of their customers' homes. It is estimated that this will be worth over £500 million of efficiency improvements over the next three years.
- Facilitating the development of distributed generation, like wind power and hydro, by:
 - making fairer the way that new distributed generators connect to the local electricity networks
 - looking at ways so that electricity distribution companies are incentivised through regulation to build networks that accommodate customer demands for distributed generation
- Incentivising electricity distribution companies, through their price controls, to reduce the amount of electricity lost on their networks
- Contributing to new electricity transmission access arrangements which could reduce the amount of electricity lost on the national electricity network through transportation