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Dear Michael

DRAFT GUIDANCE ON IMPACT ASSESSMENTS

We welcome the opportunity to comment on the above. We have commented previously on the content and quality of Impact Assessments, particularly during the course of the DPCR, and expressed our disappointment recently in our response to the RIA in the DPCR Initial proposals.

We note the clearer criteria on process detailed in sections 4 and 5 of the draft guidance but we particularly wish to comment on Section 6 covering what the Impact Assessments will cover. As we have indicated previously, we believe there are a number of basic principles that should govern the formulation of Impact Assessments, some of which you refer to in Section 6. They are:

- An RIA needs to take a more balanced and objective view of the overall effect of any proposals
- We expect to see clearer recognition of the wider government agenda and impact on society reflected in Ofgem's RIAs and analysis.
- We believe there is a real need for Ofgem to take into account wider environmental objectives and sustainability.
- Ofgem should set out the cost benefit for the UK as a whole (arguably a proxy for the long-term interests of customers), before considering the effects on individual stakeholders.
- The impact of any proposals need to be described in terms of cost (price), service and risk
- Whilst accepting that Ofgem's statutory duties are relevant considerations in terms of the background to proposals and Ofgem's own priorities, they are not justification for proposals where the impact is not positive or is questionable.

Against this background we welcome the standard template described in Section 6 to be used as the basis for the Impact Assessments. I would comment on two aspects of the template given the basic principles we have referred to above:

The template does not explicitly recognise the trade off between service levels and costs. Any proposal to reduce costs (or prices) will have an impact on service levels, and/or the risk of severe failure in extreme circumstances. The conflict between these measures of performance needs to be acknowledged in an Impact Assessment, and the benefits of the preferred judgement by Ofgem need to be justified. I attach a recent letter to David Gray on this subject.

The template requires consideration of Security of Supply and environmental issues. These considerations are now more important than originally envisaged with the respective duties in the Energy Act placed on the Secretary of State to report to Parliament on Security of Supply, and on Ofgem in respect of sustainable development. It will be necessary for an Impact Assessment to consider the potential conflict between maintaining a reliable electricity supply, supporting low carbon sources of energy and affordable prices. With increasing debate on these issues, Impact Assessments must consider the relative benefits arising from a different choice of priorities by Ofgem.

I hope our comments are of assistance to you, but should you need any more discussion, please do not hesitate to contact me.

Yours sincerely

Mike Boxall
Head of Electricity Regulation