

The background of the slide is a light blue, semi-transparent image. On the left side, there is a close-up of a white electrical power outlet with a yellow plug inserted. In the center, a person is sitting at a desk, working on a laptop. The overall image is slightly blurred and has a soft, ethereal quality.

Ofgem Impact Assessments

Why, When and How

- Why Ofgem may be required to produce and publish IAs
- When Ofgem needs to produce and publish IAs
- How Ofgem will produce IAs and use the standard template

Why: The Legal Framework

- Section 5A of Utilities Act
 - The Authority is proposing to do anything for the purposes of, or in connection with carrying out a function exercisable by it under or by virtue of Part 1 of the Gas Act or Part 1 of the Electricity Act, and
 - It appears to the Authority the proposal is important.

Why: The legal framework

- Where the proposal meets both components, the Authority must:
 - Carry out and publish an IA, or
 - Publish a statement setting out the reasons that it considers that it is unnecessary for it to carry out an IA

Why: The legal framework

- An exception to the duty to produce and publish an IA:
 - Where the urgency of the matter makes it impracticable or inappropriate for the Authority to comply with the duty.

Why: The legal framework

- Duty have regard to best Regulatory Practice,
 - transparency - regulators to be open – simple and user friendly regulation
 - Accountability - - able to justify decisions and be subject to scrutiny
 - Proportionality – only intervene when necessary – cost proportionate to outcomes?
 - consistency – rules and standards joined up and implemented fairly
 - Targeting – focused on the problem and minimise side effects

Why: The legal framework

- Not just a time consuming, defensive bureaucratic or box ticking exercise for a statutory duty, but
 - Tool which must make a positive contribution to policy development
 - Helps Ofgem communicate with stakeholders and allows them to participate in policy development

When to do an IA

- Do I need to produce and publish an IA?
 - Is it - for the purposes of, or in connection with , the carrying out of any function exercisable by it under or by virtue of Part 1?
 - Is it - important?

When to do an IA

- “Important” is defined in the Act as meeting one or more specific criteria
 - Involves a major change in the activities carried on by the Authority, or
 - Generally it has a significant impact. Significant impact is necessarily material and may take into account proportionality

When to do an IA

- “Whether the implementation of a proposal is likely to involve a major change in the activities carried out by the Authority”:
 - Exercise of a particular function or power for the first time
 - Important changes e.g. to important processes or policies through which Ofgem administer its functions.

When to do an IA

- Whether the implementation of a proposal is likely to have a significant impact on persons engaged in the shipping, transportation or supply of gas conveyed through pipes or in the generation, transmission, distribution or supply of electricity; and
- Whether the implementation of a proposal is likely to have a significant impact on persons engaged in commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes or with the generation, transmission, distribution or supply of electricity

When to do an IA

- Criteria to be considered for the above include:
 - Set-up and ongoing costs for industry participants – likely impacts of costs relative to immediate and future profitability in the activity concerned, and
 - Ability of industry participants to choose the price, quality, range or location of their products.
 - Does industry consider it is important – **informal consultation**

When to do an IA

- Whether the implementation of a proposal is likely to have a significant impact on the general public in Great Britain or in a part of Great Britain
 - Security of supply
 - Competition in GB markets
 - Sustainable economic growth and productivity
 - Social impacts, race relations
 - Quality of service
 - Have consumer groups made representations – **informal consultation**

When to do an IA

- Whether implementation of the proposal is likely to have significant effects on the environment
 - Environmental impacts
 - More later

How – Good practice

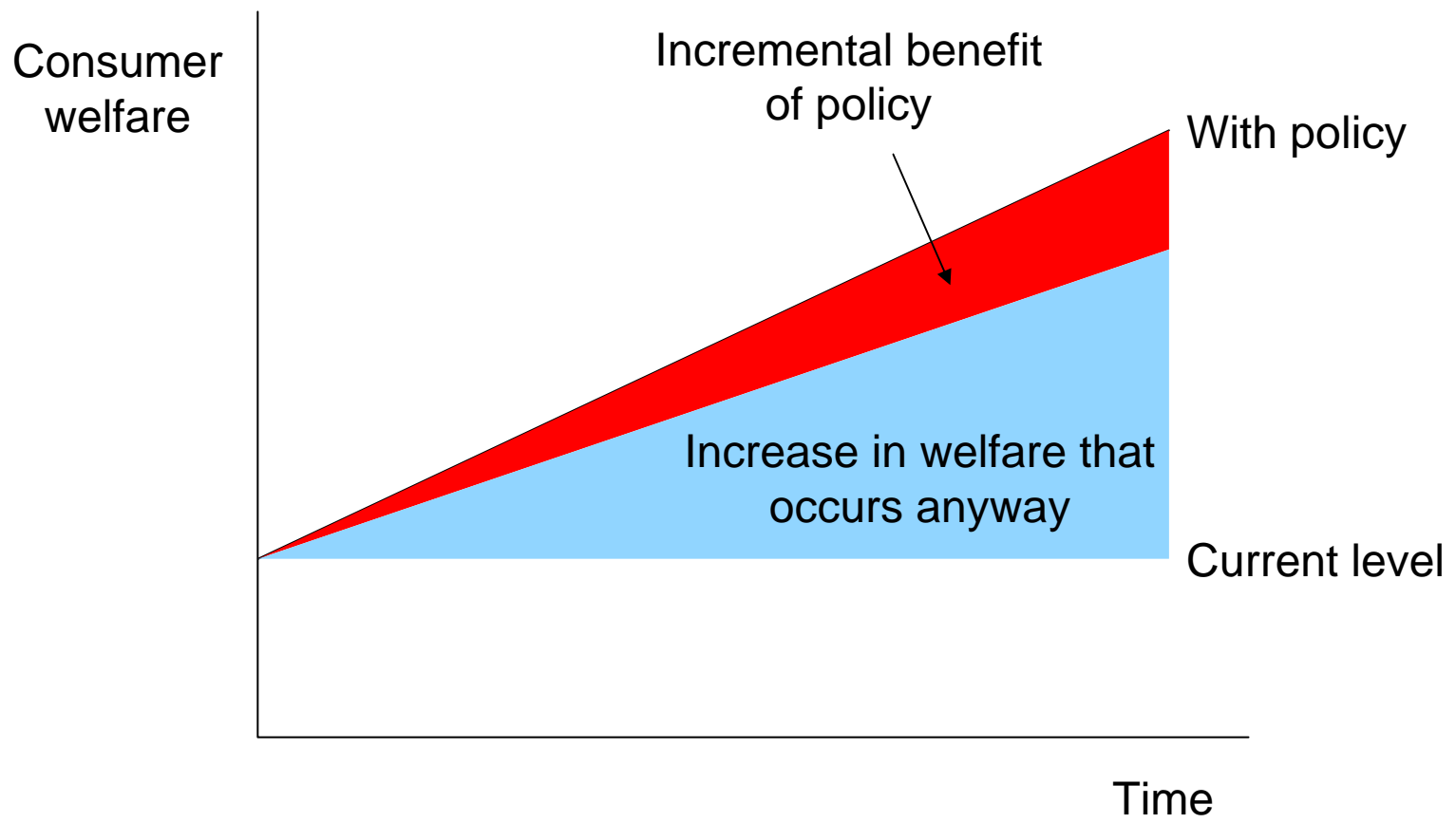
- Start early – right at the beginning of policy development
- Think creatively – ensures that value is added by the process
- Short, snappy, crisp and clear - Initial IAs will be shorter with final IAs setting out a summary.
- Integration of consultation with policy development
- Be open to influence from outside

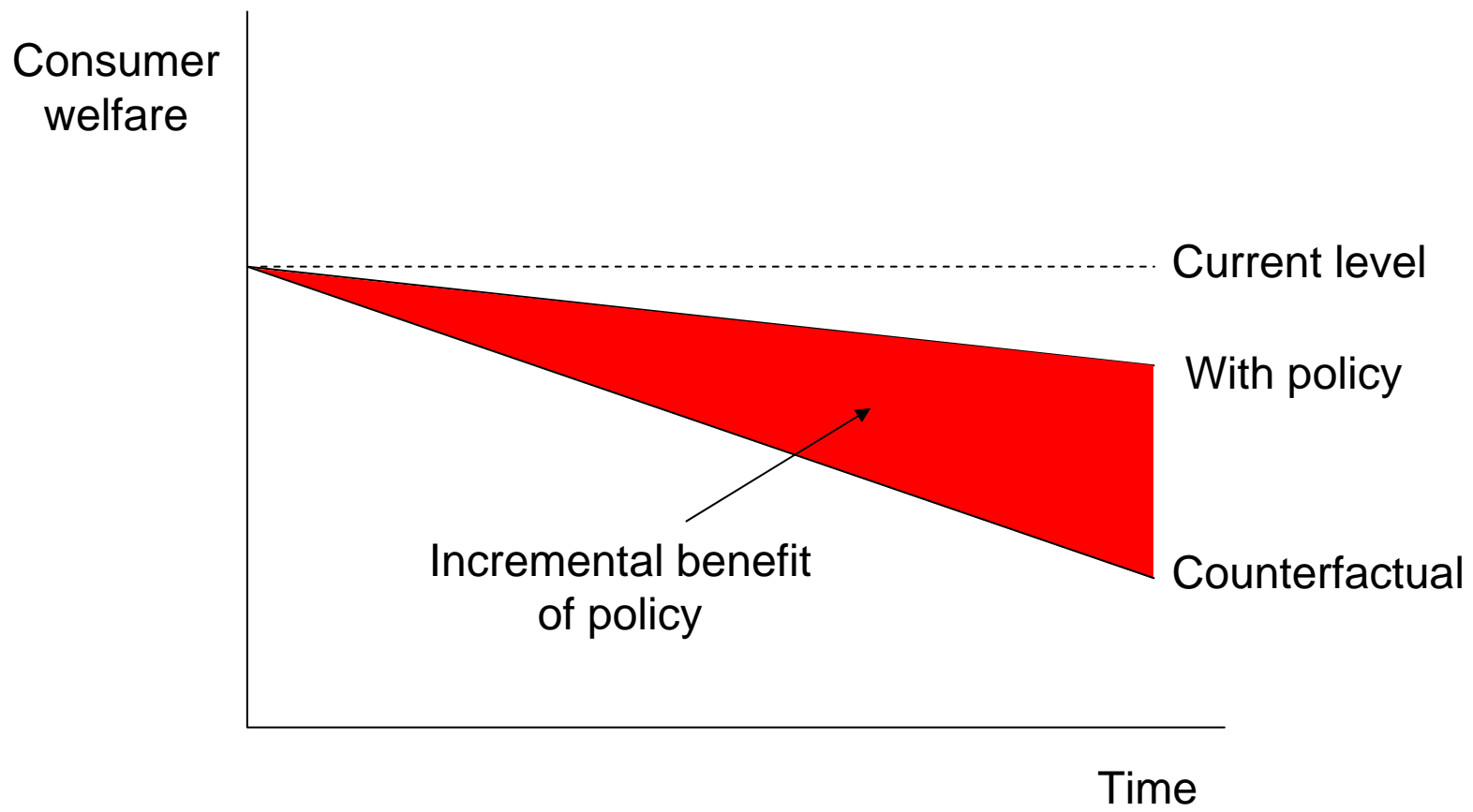
How – the Ofgem template

- Objectives – Statutory duties and relevance to this issue
- Key issues – specific objectives of the proposals
- Options – as broad as possible
- Competition – preventing / restricting / distorting
- Impacts, costs and benefits
 - Environment
 - Security of supply
 - Health and safety
 - Distributional effects
 - Small businesses
 - Risks and unintended consequences
 - Costs and benefits
- Conclusions

Options

- Think creatively
- As broad as possible – contribution to policy goal and risks of implementation
- Counterfactual (benchmark) – “do nothing” not status quo – prevents under or overestimates of impacts of proposals
- “do nothing” “do minimum” or “do nothing now”





Options

- Narrow down possible option
 - Effectiveness
 - Efficiency
 - Consistency
- Respondents views and input are vital – must be open to all respondents views including small businesses and new entrants
- Need to target resources - proportionate

Competition Assessment

- Q - Does this measure
 - have the effect of preventing, restricting or distorting competition?
and
 - if so are the restrictions indispensable or necessary (are they proportionate) for the achievement of valid regulatory objectives (do they conform with Ofgem's statutory duties)?

Competition Assessment

- Need to
 - Identify the markets affected by the policy
 - Understand the nature of competition in those markets
 - Analyse how the proposed policy might affect the natures of that competition

Competition Assessment

- Consider large and small firms and new entrants
- What will the impact be on competition in the future as the market evolves

Costs and benefits

- Central analytical component
- **not** about justification of the option with the highest quantified net benefit – **not** a simple CBA
- Costs and benefits should inform policy decisions
- They are a structured approach that asks whether the costs of each proposed option are proportionate to perceived benefit.

Costs and benefits

- Costs and benefits
 - Resist spurious quantification and the creation of false impressions
 - Present ranges for quantitative assessments
 - Summary tables should always be included for all options under consideration

Costs and benefits

- Not a bureaucratic exercise but one which should be targeted and proportional
- Quantification likely to be limited in the initial draft IA
- Always seek the views of respondents about costs and benefits

Unintended consequences and risk

- Need to be open about risks, uncertainties and the potential for unintended consequences
- Need to ensure that where possible these issues are considered and addressed

Social and environmental impacts

- Specific S.5A duty to assess likely impacts on the Environment of a proposal
- Secretary of State's Social and Environmental Guidance to the Authority – February 2004
- Race Relations (Amendment) Act 2000

Consultation

- At the heart of good policy development
- Allows stakeholders to be involved in the policy making process
- Opportunity to test our understanding of impacts, costs and benefits

Consultation

- Two stages (in most cases)
 - Initial draft IA– where the creative thinking gets done right at the beginning
 - Final IA – the culmination of the process, and
 - A partial IA only where required.

- Informal consultation

Consultation

- Ofgem commitment to a “**minimum** consultation period of 6 weeks and where the period is shorter to explain why”
- Where issues are complex, controversial, policy is at an early stage or consultation falls over a holiday Ofgem should aim to provide longer than 6 weeks.
- Exceptions where:
 - Consultation follows another set timetable
 - Ofgem considers the issues need urgent attention