

A blurred, blue-tinted background image of a computer keyboard, showing keys and a mouse in the lower-left corner.

Ofgem Impact Assessments

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.

Good Practice

- 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
 - Not justification but about structured policy development
 - Allows comparison of policy options even if only qualitative
 - Helps Ofgem communicate with stakeholders and allows them to participate in policy development

Good Practice

- Provides clear benefits
 - Helps Policy Officers consider all issues and develop good policy
 - Helps Ofgem communicate with stakeholders and allows them to participate in policy development

Good Practice

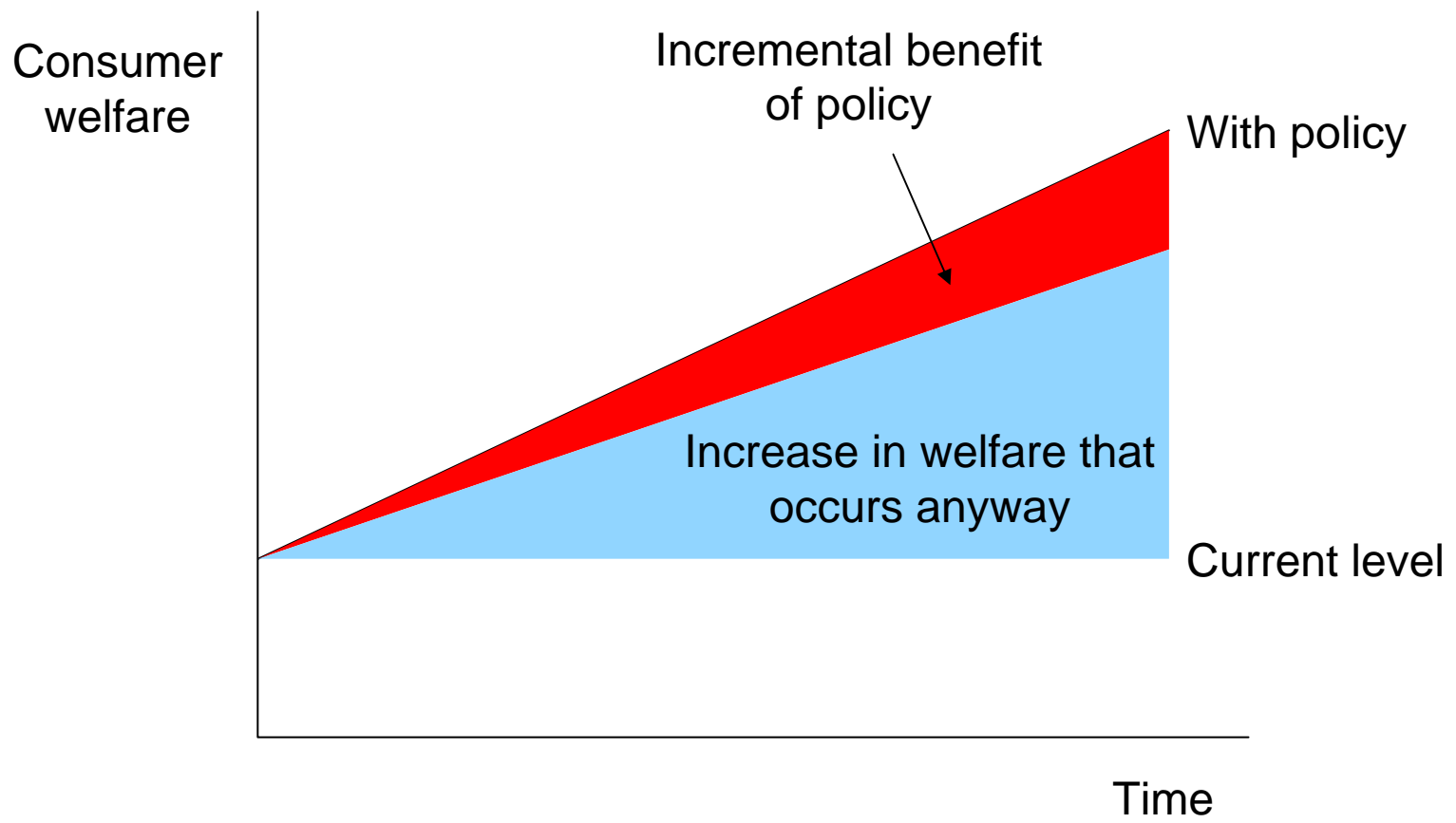
- Start early – right at the beginning of policy development
- Think creatively – ensures that value is added by the process
- Short, snappy, crisp and clear - Initial IAs will be shorter with final IAs setting out a summary.
- Integration of consultation with policy development
- Be open to influence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

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) – reasonable expectation of what might happen
- “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 – objectives met?
 - Efficiency – results achieved at least cost?
 - Consistency – Ofgem policies and duties

Options

- 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