

A blue-tinted background image showing various electrical components, including a power outlet, a plug, and a circuit breaker, arranged in a vertical stack.

INSTITUTE OF ECONOMIC AFFAIRS
“Facing up to the Better Regulation Challenge”

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Agenda

- Awareness of the Better Regulation (BR) challenge
- Hurdles to attaining the BR challenge
- Energy and the BR agenda
- Concluding thoughts

BR is not new to Ofgem

- ❑ **Protecting customers' interests, wherever appropriate through competition**
- ❑ **'Self Regulation' a key focus for Ofgem**
 - Retail market successes based on 'self-regulation' i.e, competition
 - Industry solutions to disconnections, and billing

But

- There was still resistance to full BR agenda
- Arguably Ofgem was one dimensional

New momentum for BR agenda

- ❑ Based on progressive programme dating from 1997
- ❑ Aligned to general improvements outlined in Gershon and Lyons Reports
- ❑ Strong political will
- ❑ Highly motivated team at BRTF and Cabinet Office

Starting principles

BRTF 5 Principles

Transparency

Consistency

Targeted

Proportionate

Accountable

Hampton/Arculus

Reducing administrative burdens

Consolidation

Rationalisation

Trying to achieve?

- Run our business better
- Reduce our customers', and our own administrative, burdens
- Apply and benefit from risk based regulation
- Release resources for higher valued activities
- Provide us with legitimacy

We practise what we preach!

- ❑ Ofgem's ground-breaking self imposed RPI-X
- ❑ Project Paperless: root-and-branch review of product
- ❑ Yarrow Review of Ofgem's Impact Assessment's... beginning to end
- ❑ Going public ... minutes and open sessions
- ❑ Watch this space for more

The hurdles to BR challenge

- Cultural push back
- Lack of focus and certainty
- Beware of vested interest
- Practical hurdles
- Four way pull ... to do nothing?

The cultural challenge

- Will 570,000 buy-in? We have doubters with only 300 staff!
- Boyfield:... just set a few good rules and not thousands of pages of prescriptions for staff
- Are we attracting new blood into the Civil Service = cultural momentum

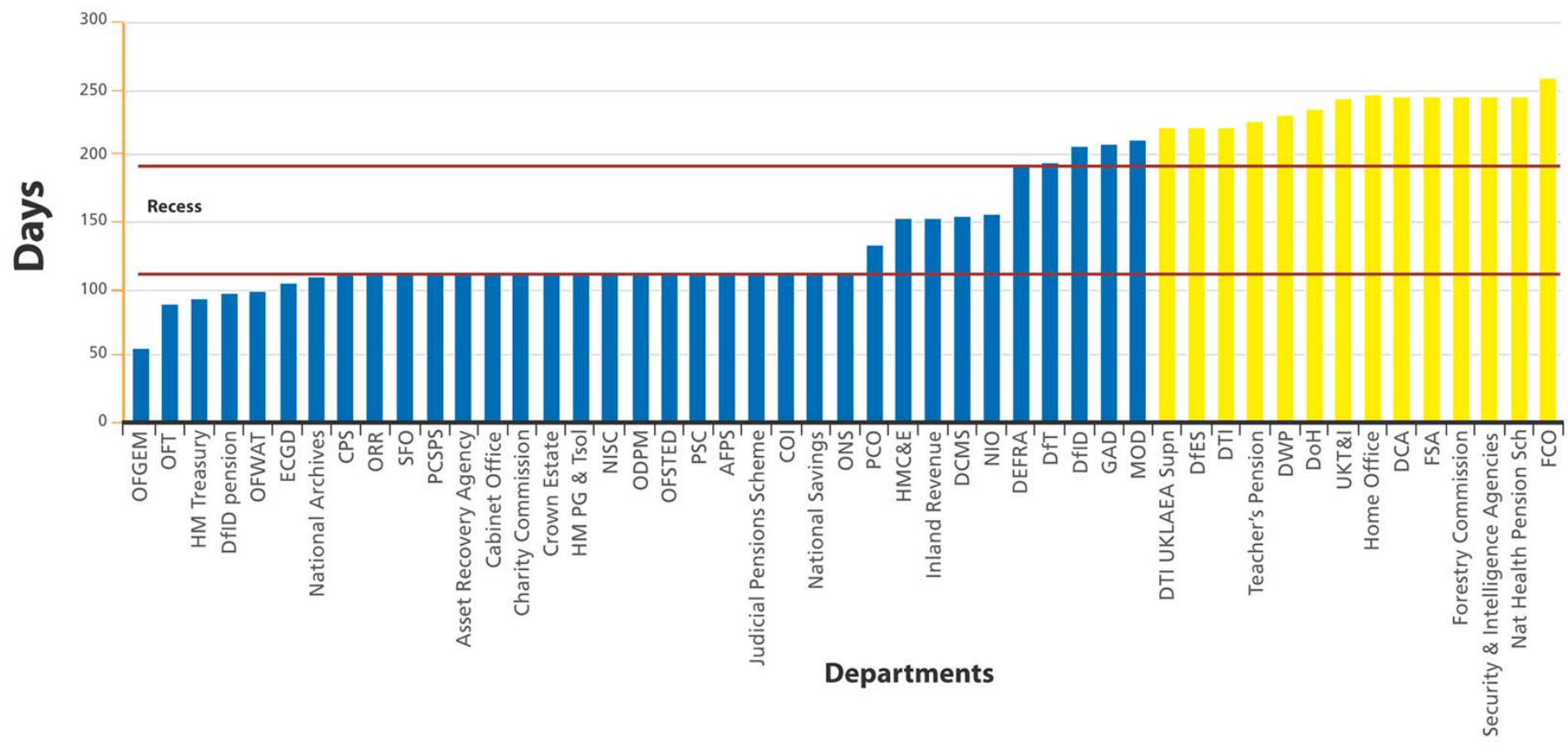
Lack of focus and certainty

- ❑ Wide interpretation versus one-size fits all? i.e.
 - Regulatory reform bill and regulatory mergers
 - The decisions of the Competition Appeals Tribunal

- ❑ Capital markets often forgotten (wrongly) in this debate

Days to laying 2004/05 Accounts

(Yellow=forecast)



Beware vested interests!

❑ Will the excellent principles of better regulation be hi-jacked?

By: -Industry

-Interest groups

Practical hurdles

- Cost of removing poor regulation too high
- Cost of moving to self-regulation may be too much
- Regulation in hindsight often unfair
- Sometimes more complexity is a necessary evil

“4 way pull to nothingness”

- ❑ Govt: wants more risk takers/taking...to be entrepreneurial
- ❑ Ability and appetite to litigate against regulators has gone up
- ❑ EU legislation adds rules and regulations
- ❑ ... but we still want to espouse BR Agenda

Ofgem adopting the “Big 5”

<u>Principle</u>	<u>Actions</u>
1. Transparency	-In UK opened up Board minutes and meetings -In Europe ERGEG (gas & electricity regulators) has followed UK consultation process
2. Consistency	-Judge us by our price reviews: DPCR4 in 2004 -Position on locational charging unpopular with HMG but consistent
3. Targeted	-RPI-X at Ofgem helps us prioritise -Sean Field Review after Gas Probe
4. Proportionate	-Challenged by Scottish Power on being proportionate in transmission charging at JR – Ofgem won in October 2005 -Decision to “Roll over” short price review periods
5. Accountable	-We don’t regulate what’s not ours!...Offshore gas. (Lord O’Neill) -We don’t do policy that’s not ours’... environment (Sir John Bourne)

Ofgem following Arculus and Hampton

<u>Principle</u>	<u>Actions</u>
<p>1. Reducing administrative burden look to remove regulations</p>	<p>-In DPCR4 we removed overall standards. -Review of 170 rules and regulations for supply business. <u>(Ongoing)</u></p>
<p>2. Consolidation....bring regulations together and get synergies</p>	<p>-400 agreements to one for Electricity Distribution system use -- exit/entry terms for Electricity and Gas transmission under review <u>(Ongoing)</u></p>
<p>3. Rationalisation....merge and replace regulators to resolve overlaps</p>	<p>-Concurrency working well with OFT - Meter service being moved from Ofgem to National Weights and Measures Laboratory (NWML) <u>(Ongoing)</u></p>

BR agenda and energy

- ❑ Dutch Model not working at highest level (no 1 for 1!)
 - New duties for Ofgem
 - More duties planned

- ❑ Adding rules and regulations due to our Administrative duties ..we are handling subsidies and programmes

BR agenda and security of supply

- ❑ We actually add rules to improve orderly market behaviour
- ❑ DTI/Offshore information policy, supported by Authority partly based on better regulation agenda
 - We have signalled our lack of certainty that it is enough, and will take action if it proves so

Concluding thoughts

- Ofgem committed to BR Agenda
- We need more help and understanding
- Actions not words will be the judge

Ofgem “up for” BR agenda

- The way we work
 - Son of Project Paperless
 - BR unit (will also assist DTI)
 - BR operational budgets to be introduced to Divisions in 2006 (addressing the “flow” and not just “the stock”)

- Policy development...like the Supply Licence Review

More help and understanding (please)

- Understanding prioritisation of goals and principles
 - is simplicity the key?
- Should BR be synonymous with market-based solutions?
- Consumers may not get well treated by BR agenda: what then?
- Is there an acceptance that one size does not fit all?
- Information for price reviews is different from normal “red tape”
- Need **leadership** from the centre

Actions not words will be judge

- Will Legislature and Judiciary be seen to adopt BR agenda?
- Will industry use BR agenda, if not in short term interests of shareholders?
- Will Capital Markets support extensive BR agenda roll out?
- Will staff deliver if Westminster and Whitehall stall?

For Ofgem the key is will the consumer be the winner?