

## Regulating energy networks for the future: RPI-X@20 Working Paper 1

### What should a future regulatory framework for energy networks deliver? Ofgem's current thinking

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#### Abstract

This working paper presents our initial thinking on what we are likely to want energy networks to deliver in the future and on the characteristics of an effective future regulatory framework. A clear statement of what we want networks to deliver will provide us with an assessment framework for the RPI-X@20 project against which we can judge alternative regulatory regimes. We intend to use this assessment framework as the basis for considering whether the current regulatory frameworks are fit for purpose and to identify those areas where alternatives are likely to provide clear benefits. We are presenting this work at an early stage consistent with the guiding principles to the review of transparency and "no surprises" and to stimulate debate. The ideas set out in the paper may change as our thinking develops. We intend to provide further clarification in our winter 'Emerging Thinking' consultation paper.

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## 1. Introduction

1.1. RPI-X@20 is a “root and branch” review of the RPI-X framework that has been used to regulate Britain’s transmission and distribution gas and electricity networks successfully for the past 20 years. We published our first “Principles, Process and Issues” consultation document in February.<sup>1</sup> We remain in the “visionary” phase of the project, which will culminate in our “Emerging Thinking” consultation paper in the winter. We will provide our recommendations on the future regulatory frameworks for electricity and gas transmission and distribution to Ofgem’s governing Board, the Gas and Electricity Markets Authority (GEMA), in summer 2010.

1.2. We have proactively engaged with a range of stakeholders in the early stages of the review; an approach we will continue to take in developing and progressing our ideas. As part of this engagement we will publish, from time to time, our current thinking on key issues on our web forum alongside papers from the industry working groups. This is the first of these working papers.

1.3. We have heard a consistent message from a range of stakeholders that it would be helpful to provide clarity as to what we expect the regulated energy networks to deliver in the future and to map out what we think the characteristics of an effective future regulatory framework look like. Consistent with the review’s principles of transparency and ‘no surprises’<sup>2</sup>, this paper responds to these requests by setting out our initial thinking on what the ‘purpose’ of the regulatory framework is. We do this by focusing on three factors:

- the outcomes that we want networks to deliver;
- the behaviour by networks that we expect the regulatory framework to reward; and
- desirable characteristics of the regulatory framework itself.

1.4. As indicated in our February consultation document, we recognise that the current regime has delivered significant benefits for consumers and continues to do so. However, expectations on the networks and the regulatory framework are changing. A clear statement of purpose provides us with a basis to assess the current frameworks against possible alternatives. Essentially it provides us with a working definition of what the ‘purpose’ of the regulatory framework is. This allows us to assess whether current energy network regulation is ‘fit for purpose’ for the future. If we identify areas where the current frameworks do not deliver the desired outcomes, or do not deliver them effectively, we will consider what changes are needed.

1.5. In developing our initial ideas presented in this working paper we have drawn from a range of sources including relevant legislative and regulatory frameworks, guiding principles used in RPI-X@20 and other reviews, discussions with stakeholders, and written responses to our February document<sup>3</sup>. We have also considered emerging EU and national government policies relevant for the energy sector and reviewed the guidance underpinning policy development (for example, the first report of the Committee on Climate Change). We will continue to update our thinking as EU and national government policies develop during the course of RPI-X@20. We have also considered the principles of better regulation and lessons on ‘best practice’ regulation from literature and other sectors.

1.6. The ideas in this paper reflect Ofgem’s current thinking and may be subject to change over the course of the review. For example, changes may arise in response to

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<sup>1</sup> Available here: :

[http://www.ofgem.gov.uk/Networks/rpix20/publications/CD/Documents1/Principles%20Processes%20and%20Issues%20con%20doc\\_final%20-%20270209.pdf](http://www.ofgem.gov.uk/Networks/rpix20/publications/CD/Documents1/Principles%20Processes%20and%20Issues%20con%20doc_final%20-%20270209.pdf)

<sup>2</sup> Refer above link for further details.

<sup>3</sup> Responses to the February consultation can be found here:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=32&refer=Networks/rpix20/publications/CD>

developments in government policy or as a result of further analysis. We intend to provide formal clarification on the issues discussed here in our 'Emerging Thinking' consultation paper.

1.7. This paper is not a consultation or decision paper. The proposals in this paper have been developed for the RPI-X@20 project alone and do not in any way bind or constrain GEMA's flexibility – both now or in the future – when taking decisions and interpreting its legislative power and duties. Consistent with the guiding principles to the review, the initial ideas presented will not be applied retrospectively, including in the context of DPCR5.

## 2. Our Initial Ideas on an Assessment Framework

2.1. For the RPI-X@20 project we define the purpose of the regulatory framework in terms of:

- the outcomes that we want networks to deliver over the short and long term;
- the behaviour by networks that we would expect the regulatory framework to reward in order to achieve these outcomes; and
- the desirable characteristics of the regulatory process and frameworks of the future.

2.2. We present our initial thoughts on each of these areas in this working paper. Some areas, as noted below, will be developed in future working papers. We intend to provide further clarification in our 'Emerging Thinking' consultation paper.

### What outcomes do we want the energy networks to deliver?

2.3. We have reviewed relevant legislative and regulatory provisions to identify what networks are currently required to deliver under the regulatory framework. Further details on the results of this assessment are presented in Annex 1. We have also assessed current and developing EU and national government policies, and considered our expectations of the networks in other reviews (e.g. the fifth electricity distribution price control review (DPCR5), the fourth transmission price control review (TPCR4) and the Transmission Access Review (TAR)).<sup>4</sup> In addition, we have considered comments from a range of stakeholders, including our Advisory Panel, participants at our 6 April workshop on our 'Principles, Process and Issues' consultation paper, and formal responses to our February 2009 consultation paper.<sup>5</sup>

2.4. Building on this evidence, our current thinking is that energy networks should deliver two key outcomes:

1. Energy networks of the future should focus on the needs of existing and future consumers. This means providing value for money in delivering identified outcomes, providing choice to consumers where appropriate, and delivering appropriate quality of service to different customer groups.<sup>6</sup>

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<sup>4</sup> See, for example,

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=132&refer=Networks/ElecDist/PriceCtrls/DPCR5>;  
<http://www.ofgem.gov.uk/Networks/Policy/Documents1/1990-devmpc.pdf>;  
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses/Documents1/14439-104-06AMEND.pdf>; and  
[http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/tar/Documents1/070725\\_Ex\\_TAR%20Open%20Letter%20and%20TOR%20No%20Signature\\_DH3.pdf](http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/tar/Documents1/070725_Ex_TAR%20Open%20Letter%20and%20TOR%20No%20Signature_DH3.pdf)

<sup>5</sup> For further details refer to the RPI-X@20 section of the Ofgem website:

<http://www.ofgem.gov.uk/Networks/rpix20/Pages/RPIX20.aspx>

<sup>6</sup> A future working paper on how the framework ensures these outcomes are delivered will consider the question of whether a broader definition of efficiency, focused on dynamic considerations, is needed.

2. Energy networks of the future should play a full role in delivering secure, sustainable supplies of energy (incorporating security of supply, environmental and social requirements) and the transition to a low carbon economy.

2.5. The regulatory frameworks of the future should be designed to encourage networks to deliver these outcomes. We do not think there is tension between delivery of these two outcomes. Delivery of both by the regulatory framework is in line with GEMA's existing duties (as set out in Annex 2).

2.6. As we outline in Annex 1, current frameworks (e.g. licence conditions, Government policy etc.) are already in place to encourage networks to deliver related outcomes. Our focus is on ensuring that there is greater clarity about what networks are expected to deliver and what the regulatory framework needs to look like to ensure outcomes are delivered.

2.7. We recognise that these outcomes are defined at a high level and further work is required to understand what they imply for the future regulatory frameworks. Our next working paper will specifically address the question of whether some form of a 'guiding mind' is needed to provide a steer (or direction) on how these outcomes will be delivered.<sup>7</sup>

2.8. To design regulatory frameworks that encourage networks to deliver the outcomes we need to better understand what the outcomes mean. Our ongoing work on 'delivering value for money', in the context of outcome 1 above, will focus on the following areas:

- **What is meant by efficiency?** In using this term we have in mind the impact of uncertainty that requires a definition that goes beyond "low or lowest cost" to encompass the value of keeping options open (or closing them down), quality, delivery of specified outputs, and effectiveness. Consistent with Ofgem duties which now explicitly extend to protecting the interests of both existing and future consumers, efficiency also needs to look at the long term. Initial ideas are discussed below and we plan to present our current thinking on what efficient delivery of outcomes will mean in the future regulatory framework in a later working paper. It is expected that it will be broader than a focus on reducing unit operating costs.
- **What is meant by "a reasonable level" of quality?** We recognise that quality encompasses a broad range of areas from reliability of supply to quality of customer service and that preferences and willingness to pay for quality improvements will differ across consumers and groups of consumers (for example business consumers vs. domestic consumers). There is also a clear link to the role of the networks in delivering security of supply. We intend to tackle these issues by reviewing existing quality standard arrangements and the measures used to incentivise behaviour to meet these standards. We intend to clarify our thinking on these issues in our 'Emerging Thinking' consultation paper.
- **What choice can be offered to consumers?** We will consider how the regulatory framework might encourage networks to provide choice to consumers where appropriate e.g. where this is technically feasible and/or cost effective. This may include choice in terms of where and when a network user connects to the network and choice in the quality of service provided (including interruptability). It also potentially includes choice of the provider of network services, allowing for switching between networks.<sup>8</sup> We intend to clarify our thinking on these issues in our 'Emerging Thinking' consultation paper.

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<sup>7</sup> As we noted in our February consultation document, it has been suggested by interested parties that a 'guiding mind' which provides clear guidance on what should be done to facilitate delivery of security of supply, environmental, and fuel poverty targets would be valuable for the energy sector.

<sup>8</sup> This builds on ideas developed by Michael Pollitt on competing organisations providing integrated energy services (at a local level). For further details see: <http://www.ofgem.gov.uk/NETWORKS/RPIX20/FORUM/Documents1/Telecoms%20Pollitt.pdf>

2.9. In relation to the second outcome, “playing a role in delivering a sustainable energy sector”, our ongoing work will focus on defining how this translates into specific outcomes and an assessment framework.

- **Understanding the networks’ role in ensuring security of supply.** The current regulatory frameworks focus on security of supply through a range of reliability obligations set out in licence conditions, guaranteed standards of performance, and the current range of incentive mechanisms. We will review our current approach to regulating resilience of the networks, identify any potential challenges facing networks in this regard, and consider whether changes to the regulatory framework are needed. We intend to provide clarification on these issues in our ‘Emerging Thinking’ consultation paper. The role of networks in ensuring security of supply is also being considered as part of Ofgem’s Project Discovery and any implications of that work for the future regulatory frameworks will be considered in RPI-X@20.
- **Understanding the networks’ role in facilitating the delivery of the low carbon economy and other environmental targets.** We need to consider Ofgem’s statutory obligations to promote the achievement of sustainable development against a backdrop of evolving formal Government and EU environmental-related targets and objectives. We will also consider the range of more detailed guidance that sits alongside these formal requirements, such as the Committee on Climate Change’s recommendations on the 2050 emissions target which establishes a critical role for the electricity sector in achieving targets for carbon reductions.<sup>9</sup> We have been involved in a number of discussions with stakeholders on whether more prescription is needed for the networks on what needs to be done and on who is appropriately placed to decide on the role of the networks in delivering on environmental targets. As discussed above, we are developing our initial thinking on these issues and plan to put a working paper on these issues on our website in due course. Our thinking on these issues will evolve as formal policy is developed at national and EU level.
- **Understanding the role of the networks in delivering social objectives and targets.** This high-level outcome is derived primarily from the Authority’s statutory duties under the Gas and Electricity Acts (as set out in Annex 2). The network companies currently have a number of obligations set out in licences and in Guaranteed Standards of Performance which are primarily concerned with the arrangements for interruptions where vulnerable customers are involved. Against a backdrop of a historical Ofgem position that wider government interventions should be the primary vehicle for meeting fuel poverty objectives<sup>10</sup>, we intend to clarify what the specific obligations on the networks are, identifying any changes to these as government policy develops, and ensure the obligations are appropriately reflected in the regulatory framework.

### What is desirable network behaviour?

2.10. Having identified the high level outcomes that we want energy networks to deliver, we need to consider what behaviour the regulatory frameworks of the future should encourage to ensure the outcomes are delivered in a manner that protects the interests of existing and future consumers. Our current thinking is that the regulatory framework should reward networks that deliver the identified outcomes ‘efficiently’. A clear (broad) definition of efficiency is needed, that reflects the uncertainty about what the best way of

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<sup>9</sup> The full report that outlines these recommendations is available here: <http://www.theccc.org.uk/reports/>

<sup>10</sup> For further details refer to:

<http://www.ofgem.gov.uk/About%20us/Authority/AuthorityMinutes/Documents1/19%20March%202009.pdf>;

<http://www.ofgem.gov.uk/Sustainability/SocAction/Pages/SocAction.aspx>; and

<http://www.ofgem.gov.uk/About%20us/CorpPlan/Documents1/CORPORATE%20STRATEGY%20AND%20PLAN%2028%20MARCH%202008.pdf>

delivering the desired outcomes is, allows for the potential of innovation and technological change, and reflects the need to focus on the future.

2.11. We have identified a number of interrelated behaviours that we expect to include in this broad definition of efficiency, and hence reward in the regulatory framework. These reflect views from a range of stakeholders and interested parties, and our assessment of precedence in Ofgem's decision-making and in regulatory decisions in other sectors. They are also consistent with GEMA's statutory duties and wider obligations (as set out in Annex 2).

2.12. In this context, we have in mind a broad view of what would constitute "efficient delivery". Our view at this stage is that an efficient network would be a network that:

- delivers the identified outcomes in a timely way;
- is forward-thinking;
- innovates and identifies delivery mechanisms that are in the best interests of existing and future consumers;
- manages uncertainty over future technologies and demand effectively and carefully weighs up the expected costs and benefits of alternative means of delivering the desired outcomes and strives, wherever possible, to identify and keep options open for the future where there is considerable uncertainty;
- makes decisions based on an assessment of total costs and associated outputs over time and demonstrates that investment plans reflect efficient and cost effective solutions over the long term and, wherever possible, over a range of plausible scenarios for future energy demand and technologies;
- makes efficient decisions based on available information at the time the decision was taken (accepting that as new information comes to light it may be revealed ex post that a project should not have gone ahead);
- ensures that networks are safe;
- structures and finances their business efficiently;
- engages with users of network and end consumers and is responsive to their changing needs;
- effectively manages risks under its control; and
- engages openly and constructively with other networks and other parts of the energy supply chain.

2.13. The challenge for RPI-X@20 is to provide clarity on exactly what is meant by 'efficient' and to ensure that the regulatory framework balances and appropriately rewards these different aspects of network behaviour. We are progressing our work in this area and intend to publish further details in our 'Emerging Thinking' consultation document and through working papers on our web forum.

*What are desirable characteristics of the regulatory process and frameworks of the future?*

2.14. Consistent with the messages we have heard from a range of stakeholders, we recognise that we have a critical role to play in effectively implementing a regulatory framework to encourage networks to deliver the desired outcomes efficiently. In

developing our thinking on desirable characteristics of the regulatory process, we considered, among other things, the economic literature and precedence across other regulated sectors. The main principles that we have identified to guide the development of the regulatory process and the implementation of the future regulatory frameworks are as follows:

- We should focus on existing and future consumers by engaging openly and constructively with networks, policy-makers, network users and consumers. We intend to present our thinking on how engagement with consumers and network users might work in our 'Emerging Thinking' paper. As part of this work we will review the potential merits of providing non-network parties (e.g. network users and/or consumers) with a right to appeal price control related licence changes and we will consider alternative models of how this might work in practice when assessing the pros and cons of this idea.
- In line with our duties, we must ensure that networks that efficiently deliver the outcomes (as defined above) are financeable. We intend to publish our initial ideas on financeability in a working paper this summer and present further thoughts in our consultation document. This will include an assessment of how we might ensure that networks that are inefficient, or that don't deliver, face a credible downside, and a review of how we protect consumers from unnecessary risks.
- Like the networks, we and the regulatory framework will need to be forward-thinking, innovative, open to change and able to respond swiftly to changing requirements on the networks or on Ofgem.

2.15. In addition, the regulatory process and decision-making within Ofgem will need to be consistent with our statutory duty in the Gas and Electricity Acts to have regard to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent, targeted only at cases in which action is needed, and any other principles appearing to the Authority to represent the best regulatory practice. This implies a need for the Authority to have regard, among other matters, to the following:

- decision-making is open and transparent;
- decision-making is based on robust and auditable evidence;
- we are accountable to different stakeholders, including consumers;
- we recognise commitment to the regulatory framework and provide clear and reasoned explanations when changes are made;
- we recognise the importance of regulatory credibility with a range of stakeholders; and
- the need for any changes to be proportional.

2.16. These principles apply to both the development of recommendations in RPI-X@20 and the implementation of proposals from RPI-X@20. Where possible, we will consider how they can be formally enshrined in the regulatory framework.

### **3. Next Steps**

3.1. This paper presents initial thoughts only and our ideas regarding the outcomes the networks and the regulatory framework should deliver may develop during the review. It is our intention to use this statement of what an effective regulatory framework should deliver to assess whether the current regulatory frameworks remains fit for purpose for the future. We will also assess potential changes to the frameworks for electricity and gas

distribution and transmission according to whether or not they are consistent with the properties identified here.

3.2. We intend to undertake this work ahead of our 'Emerging Thinking' consultation document. Stakeholders will have the opportunity to respond formally on the finalised assessment framework and our conclusions emerging from it at this stage. We welcome comments on this paper through our web forum in the meantime.

Current thinking



**Annex 1: High-level themes stemming from requirements of the networks under the current regulatory and legislative frameworks**

Networks need to deliver:	Suggested means by which they do this:	Relevant Framework Details
An appropriate quality of service tailored to groups of consumers that represents value for money	Providing value for money <sup>11</sup> for all consumers by:	
	Acting in an efficient and cost-effective manner in both decisions made as well as service delivered;	The requirement and expectation that licensees develop, maintain, and operate an efficient, co-ordinated, and economical system, is laid out in the Gas and Electricity Acts and reinforced in Licences and Industry Codes.
	Providing a reliable, quality of service;	This is governed by relevant licence conditions, guaranteed standards of performance, and incentive mechanisms which augment the regulatory framework <sup>12</sup> focused on reliability of supply (such as interruption management and specified standards in aid of meeting peak daily demand for gas). These are supplemented by the Telephony Scheme in electricity distribution and Discretionary Reward schemes that apply to both gas and electricity distribution networks and focus on rewards for DNOs that demonstrate best practice for consumers in areas that cannot be easily measured or incentivised. These areas generally relate to social objectives.
Providing timely connections (or connections that are consistent with the facilitation of the development of competition) at reasonable cost;	There are a range of rules set out in electricity licence conditions that sit alongside requirements to offer terms for use of system and connection. These include a requirement that the offer be made as soon as reasonably practicable alongside maximum timeframes, standards required of cost methodologies, as well as	

<sup>11</sup> In using this term, we have in mind definitions which focus on efficiency, economy, and effectiveness and how well interventions or resources consumed have been translated into desired outcomes. Therefore this captures both quality of service as well as efficient costs.

<sup>12</sup> These include:

**Electricity Distribution:** The IIS which places symmetric penalties and rewards on CIs and CMLs with an average of a +/- 1.6 per cent upside (or downside) on the allowed return on equity. Sitting underneath, each DNO has individual targets for both measures. **Electricity Transmission:** The Network Reliability scheme introduced on 1 January 2005 which sets a target level of performance for each of the electricity TOs with penalties/rewards for performance that is below/above the target.

Networks need to deliver:	Suggested means by which they do this:	Relevant Framework Details
		grounds for declining to enter into an agreement.
	Ensuring the safety of the public and employees is upheld;	Safety standards are specified in regulations which sit outside of the "core" set of regulations and legislation Ofgem have primary responsibilities in administering <sup>13</sup> , although gas network operator licence conditions contain some minimum standards in relation to the planning and development of the pipeline system.
	Behaving in a way which facilitates competition in other parts of the energy supply chain; and	Both electricity and gas network operators have a statutory duty to facilitate competition in the supply and generation of electricity and in the supply of gas. This is reinforced in relevant licence, network, and industry codes and supplemented with non-discrimination provisions in licence conditions. Also relevant are network licence obligations that charging arrangements facilitate competition across other aspects of the supply chain and do not hinder the development in competition within the relevant networks.
	Ensuring efficient financing.	Licence conditions governing financial management fall broadly into two parts. First, networks are required to act in a manner designed to ensure it has available to itself resources – including financial resources – that enable it to properly and efficiently carry out its business as well as meeting regulatory obligations. This is augmented by a requirement on network service providers to take all appropriate steps to maintain an investment grade rating. Secondly, networks are subject to restrictions on specified activities including the transfer of funds and indebtedness for service providers.

<sup>13</sup> These include the Electricity, Safety, Quality, and Continuity Regulations 2002 and the Gas Safety (Management) Regulations 1996.

<b>Networks need to deliver:</b>	<b>Suggested means by which they do this:</b>	<b>Relevant Framework Details</b>
<p>Contributions toward a sustainable energy sector<sup>14</sup></p>	<p>Contributing toward the achievement of wider social and environmental objectives through the process by which renewables and distributed generation are connected to the network, management of networks, responding to demand changes, and not to unduly discriminate in the connection of, and provision of some additional services to, vulnerable customers.</p>	<p>There is a national statutory obligation to reduce carbon emissions by 80% from 1990 levels. Recently a legally binding target of a 34% reduction in emissions by 2020 was set and an agreement between EU Heads of State committed to binding targets to source 20% (UK share 15%) of final energy consumption from renewables. Relevant requirements on the networks set out in licence conditions include a requirement of timely provision of terms for connection (including of renewables and embedded generation) and requirements to ensure charging methodologies reflect appropriate costs. Licensees are also subject to overarching principles of efficiency and facilitating effective competition across all aspects of the supply chain, augmented by a range of incentive mechanisms designed to facilitate the achievement of the sustainability agenda<sup>15</sup>.</p> <p>Relevant in the context of network contributions toward social objectives are the statutory requirements on electricity and gas DNOs – with some exceptions – to connect any customer requiring electricity or gas within a defined area, and to maintain that connection. Gas network operators are subject to an additional statutory duty to connect all customers with reasonable requests for connection within a defined area subject to a test of “economy”. Incentives introduced as part of the last Gas Distribution Price Control Review which encourage the extension of gas networks to deprived areas augment these requirements. While guaranteed</p>

<sup>14</sup> Consistent with earlier work

([http://www.ofgem.gov.uk/Networks/rpix20/publications/CD/Documents1/Principles%20Processes%20and%20Issues%20con%20doc\\_final%20-%2020270209.pdf](http://www.ofgem.gov.uk/Networks/rpix20/publications/CD/Documents1/Principles%20Processes%20and%20Issues%20con%20doc_final%20-%2020270209.pdf) refers), we define sustainability in broad terms which encompasses security of supply over time and environmental and social objectives and targets.

<sup>15</sup> These include: DG incentives, the IFI and RPZ in electricity distribution, revenue driver arrangements for connections in electricity transmission, and IFI incentives applied to the gas transmission and distribution networks.

<b>Networks need to deliver:</b>	<b>Suggested means by which they do this:</b>	<b>Relevant Framework Details</b>
		<p>standards cover similar ground across gas and electricity (such as connections and restoration of supply), there are additional requirements on gas distribution network operators to provide alternative heating and cooking facilities during prolonged outages. Under licence conditions, electricity and gas networks are also required to have a Priority Service Register of customers deemed to be vulnerable or who require special assistance.</p>

Current thinking

## Annex 2: GEMA's Powers and Duties

1.1 Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2 The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.<sup>16</sup>

1.3 Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly<sup>17</sup>.

1.4 The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of existing and future consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5 The Authority must when carrying out those functions have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- the need to secure that all reasonable demands for electricity are met;
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them<sup>18</sup>;
- the need to contribute to the achievement of sustainable development; and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.<sup>19</sup>

1.6 Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- promote efficiency and economy on the part of those licensed<sup>20</sup> under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity; and
- secure a diverse and viable long-term energy supply.

<sup>16</sup> entitled "Gas Supply" and "Electricity Supply" respectively.

<sup>17</sup> However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

<sup>18</sup> under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

<sup>19</sup> The Authority may have regard to other descriptions of consumers.

<sup>20</sup> or persons authorised by exemptions to carry on any activity.

1.7 In carrying out the functions referred to, the Authority must also have regard to:

- the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8 The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation<sup>21</sup> and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

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<sup>21</sup> Council Regulation (EC) 1/2003