

Roundtable discussion on RPI-X@20 Emerging Thinking

Better regulation
11 March 2010

Better regulation

Areas for discussion



Accountability
Effective engagement
Third party right to
challenge

Simplicity

Proportionate regulation
Differential treatment of
network companies

Overview of proposals included in Emerging Thinking



Opportunity for discussion of these issues and to hear your views

What would enhanced engagement look like?

We and networks should focus on the needs of existing and future consumers

To do this, we need to understand the needs of a range of network consumers

Primary means



Networks engage with their stakeholders on an ongoing basis

Networks should demonstrate engagement in planning/delivery

To complement network engagement, our approach could be multi-layered



A price control review forum for open discussion

Developing existing tools

Making better use of existing fora

Making information more accessible

There is merit in including Government in any engagement

- This could facilitate better understanding of policy by networks and stakeholders
- Government would not be involved in detailed discussions on policy

Third party right to challenge

Should third parties be able to challenge our final price control proposals?

Is a significant policy decision and therefore discussed in a parallel consultation

Possible advantages	Possible disadvantages
Improved accountability and transparency	Increased uncertainty
Independent review of decisions	Delay of investment
Encourage network-third party-Ofgem engagement	Loss of legitimacy of Ofgem's decision
Increased focus on consumer needs	Increase complexity of regulatory process

The scale of benefits and risks would depend on the design of the mechanism

Important the right provides opportunity to challenge while minimising risks

Proportionate regulation

Differential performance on outputs could merit differential treatment

- Those that establish a good track record for delivery should be rewarded
- Intended to encourage networks to deliver outputs efficiently

**Key difference
compared with
current regime**



**Proportionate approach to assessing plans and
delivery, consistent with better regulation**
Would allow us to target regulatory effort

A reputation for efficient delivery would be hard won but easily lost

Network companies with good track records for the delivery of outputs would be penalised if their performance were to deteriorate

There are key questions around

The way decisions would be taken to
impose less scrutiny on a company

The way that a proportional
assessment would work in practise

Simplicity

Where practicable framework should be transparent, streamlined and flexible

Encourage more effective engagement

Reduce risks of complexities leading to unintended consequences

Reduce regulatory and admin burden

Stakeholders have highlighted aspects of the regime perceived to be complex

The number and coherence of incentives

Information quality incentive (IQI)

The length/technicality of licences

Complexity of the WACC

Clarity in applying incentives and P_0 adjustments

Potential solutions

Measures to enhance effectiveness and accessibility of regulatory info

Aggregation and rationalisation of output measures and incentives

Streamlining processes and targeting resources

Questions

1. How can we incentivise network engagement with their consumers?

Will our own enhanced engagement act as a complement to this?

2. Will a third party right to challenge effectively increase our accountability?

3. Will a third party right to challenge encourage effective engagement?

Would these benefits outweigh the potential risks of a third party right to challenge?

4. Will differential treatment incentivise network companies to build up a track record for effective delivery of outputs?

Will this treatment allow us to effectively target resources in a price control?

5. How important is simplicity?

Will proposals in Emerging Thinking facilitate simplicity in the regulatory framework?

Are there other areas you would like to cover?

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

ofgem

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