

Regulating Energy Networks for the Future: RPI-X@20 Emerging Thinking

Comments by
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Consumer Need and Sustainability

- 1989-2005 Ofgem objectives simple and straightforward: ***Meet customer demands for defined quality at minimum necessary cost, subject to reasonable risk-adjusted RoR for investors.***
- Post-2005 Ofgem increasingly given conflicting objectives:
 - (i) Meet original objective ***subject to***
 - (ii) Meeting Government targets on sustainability
 - Both final objective targets (GHG emissions) ***and***
 - Intermediate targets (renewables, etc)
- Key problem is that (i) and (ii) conflict => difficult trade-offs
 - Trade-offs largely defined by Government policy, explicit and implicit

Ofgem Regulatory Policy Response

Focus on ***Outcomes and Outputs*** – ***whole set of environmental “targets” embodied in contract with regulated companies***

- Problems with Ofgem approach
 - (i) Boundary between policy and regulation seriously eroded;
 - (ii) Standard problems with targets – distorting effects, trade-offs and enforcement (viz Gosplan, NHS 1997-2005)
 - Appendix 5 graphically demonstrates the problems – High % vagueness and weasel words

RESULT: Ofgem becomes increasingly a ***procurement entity*** for customers rather than a standard regulatory agency

Problems of Blurring Regulation - Policy Boundary

- Ofgem becomes heavily dependent on government policy statements for regulation – as do regulated companies
 - What do we mean by a “government policy statement”? Hopefully only ***published*** statements
 - What happens to regulatory targets – espec outputs and outcomes – as government priorities change?
 - And what about unexpected shocks – how are they handled?
 - What happens when clearly published “targets” are either
 - (a) possible but difficult aspirations
 - (b) wishful thinking and unlikely to be achieved
 - (c) pure Potemkin targets

This is not just an academic issue: See para 3.28

Concluding Observations

- 1) Why, under the pressures of Climate Change, is Ofgem reverting to a quasi-procurement model when Ofwat is responding by moving away from quasi-procurement and trying to develop more upstream competition?
 - Maybe it's pure geography
 - Maybe they'll each converge on some middle ground. Or

- 2) What answers can help deal with Ofgem's difficult dilemma?
 - Suggest need to focus heavily on
 - (a) Clarity of Objectives -and clear assignment between parties
 - (b) Transparency – maximum publication and openness by all parties (espec Gov't), on dilemmas and difficulties, as well as on good news
 - (c) Need to anticipate how to proceed if not possible to reach common understanding on priorities with Government, companies **and consumers**