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17th June 2013,

Attn: Mr Mark Wagstaff

**Energy UK submission to the Ofgem Impact Assessment guidance consultation**

Dear Mark,

Thank you for inviting a response to the Ofgem Impact Assessment (IA) guidance. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and last year invested £10billion in the British economy.

Energy UK welcomes the proposed changes to the Ofgem's Impact Assessment guidance as they are a step toward a more transparent, continuous and iterative process. We have highlighted a number of further changes that we believe would constitute further improvements.

Ofgem defines continuous as 'informing and being informed by developing policies'. We support the view that IA should be a continuous process and that the IA should be informed and assessed against developing policies and latest available information.

We would like to see more clarity on the definition of IA as an iterative process. In particular, it is not clear whether the iteration process will be strictly internal or whether the new iterations will seek to incorporate views expressed as part of the consultation process. Our preference is for adoption of the latter. In addition, we would like to understand specifically what would trigger a new iteration and how the industry would be made aware that an additional phase is about to be undertaken.

We are supportive of Ofgem's efforts to place greater emphasis on IA as a continuous, iterative process. To support this approach, we would welcome further emphasis on the following points:

- ▶ Impact assessments need to be published from the start of the consultation process (i.e. they should accompany initial proposals on any given topic), alongside the consultation with continuity from one impact assessment to another.

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- ▶ Impact assessments should be clearly visible on Ofgem's website and easily accessible. We would encourage Ofgem to move towards best practices developed by other institutions in the UK, such as the Committee on Climate Change in terms of transparency. Ofgem could follow the same practice of opening its working files to external stakeholders, provided it does not disclose commercially sensitive information.
- ▶ When setting out the variety of different options considered, Ofgem should clearly explain its rationale for choosing some options and omitting others from the Impact Assessment. The 'do nothing' counterfactual should always be included and alternative options considered in detail.
- ▶ More emphasis should be placed on calculating the relative risk of each particular option.
- ▶ Ex post evaluation of IA should be part of the IA framework. We would be supportive of a systematic process to make sure that evaluation of IA is possible in order to assess whether actual impacts of the policy are within the range anticipated.

On the approach to be adopted with regard to assessing impacts, we share the view that the three aspects need to be considered. With respect to monetised cost-benefit analysis, we welcome Ofgem's proposed approach to avoid spurious accuracy in quantification and agree that quantitative assessments should be presented as ranges in many cases. However, we would welcome more detailed assessment of the conditions that may lead to the impact being close to one range or to another.

We would also like to see more details on how these different considerations are weighted against each other as part of the iteration process, as they may each result in different preferred options. The same is true about the way Ofgem prioritise each of its primary responsibilities.

Finally, we would welcome the use of a standardised form for Ofgem's impact assessments, in a similar fashion to DECC or HMT impact assessment forms. We feel this would enhance transparency and aid cross referencing and comparison where appropriate. Indeed, we believe DECC's standard Impact Assessment template is useful and we would be interested in Ofgem's thoughts on whether it might replicate the approach.

I hope this response is useful. If you would like to discuss any points further, please get in touch with me or Nathan Pamart, Economic Advisor ([nathan.pamart@energy-uk.org.uk](mailto:nathan.pamart@energy-uk.org.uk)).

Yours sincerely,



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