Emerging regulatory proposals: Ofgem

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Who is Ofgem?

- The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority which is the independent economic regulator of Britain’s gas and electricity industries
- The Authority’s powers 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 (along with directly effective European Community legislation)
- Our principal duty is to protect the interests of existing and future consumers wherever appropriate by promoting effective competition
- Other duties include the need to contribute to the achievement of sustainable development

Regulating network monopolies

- Regulation ensures network companies (monopolies) do not abuse their position by charging too high prices and/or providing low quality.
- In particular, price controls are applied periodically to set up front the expenditure requirements of, and incentives facing, monopoly network companies.
- For the last 20 years RPI-X has been the basis for such price controls across different types of GB network, e.g. energy, rail, water and elsewhere
- This has been successful in securing cost efficiencies and supporting the companies’ investment
- However, the challenge to move to sustainable low carbon energy networks requires changes to the way we regulate networks

RIIO: A new approach to regulation

- Constraint on revenue set up front to ensure:
  - Timely and efficient delivery
  - Network companies remain financeable
  - Transparency and predictability
  - Balance costs paid by current and future consumers
- Deliver outputs efficiently over time with:
  - Focus on longer term, including with eight year control periods
  - Rewards and penalties for output delivery performance
  - Symmetric upfront efficiency incentive rate for all costs
  - Use uncertainty mechanisms where add value for consumers
- Technical and commercial innovation encouraged through:
  - Core incentives in price control package
  - Option of giving responsibility for delivery to third parties
  - Innovation stimulus gives support and ‘rewards’ for commercial innovation, building on LCN Fund
- Outputs set out in licence
  - Consumers know what they are paying for
  - Incentives on network companies to deliver
  - Outputs reflect enhanced engagement with stakeholders

Some key recent and current Ofgem work

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Enduring offshore transmission regime