

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

Key themes

EPRG meeting – 15 May 2009

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Purpose of the presentation

To outline the rationale, context and objectives of RPI-X@20

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graph TD; A[To outline the rationale, context and objectives of RPI-X@20] --> B[To set out and discuss the key themes identified in the initial RPI-X@20 consultation document]; B --> C[To outline our proposed way forward and timetable for RPI-X@20]; C --> D[To hear your views – particularly on:  
➤ The themes identified in our consultation document  
➤ The key issues that we are proposing to progress];
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To set out and discuss the key themes identified in the initial RPI-X@20 consultation document

To outline our proposed way forward and timetable for RPI-X@20

To hear your views – particularly on:

- The themes identified in our consultation document
- The key issues that we are proposing to progress

What is RPI-X@20?

- The RPI-X framework has been used to regulate Britain's energy networks for nearly 20 years
- RPI-X@20 will review the current approach to energy network regulation and develop recommendations for the way we regulate in future

What are the drivers of the review?

Good housekeeping

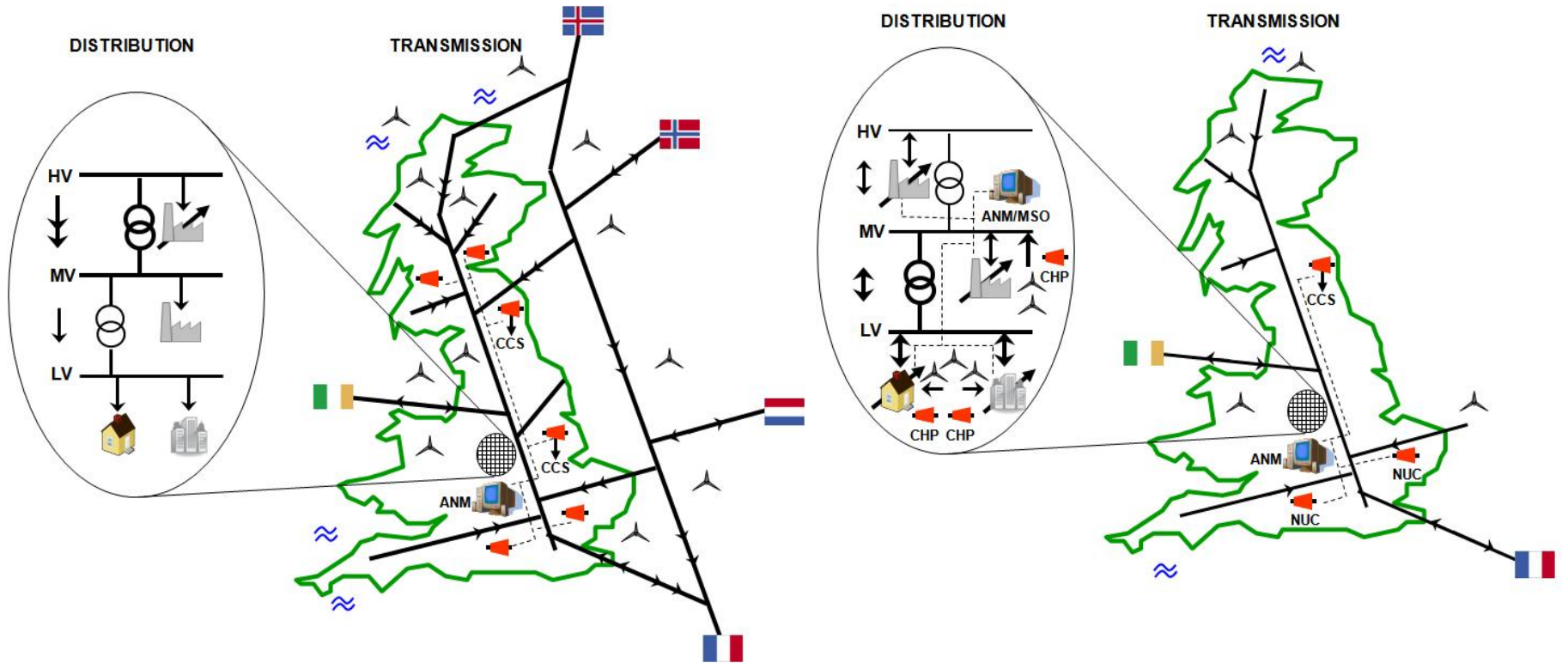
Meeting new and
emerging challenges

Simplification?

Approach to the review

- Open scope with no preconceptions about the outcomes
- Need a clear rationale for change; will not make change for change's sake
- Seek to be transparent to ensure there are no surprises

LENS demonstrates uncertainty on the networks



Big transmission and distribution

Micro-grids

Networks have delivered since privatisation

**Lower costs and hence
lower network charges**

**Improved quality of
service**

**Increased capital
investment**

There are concerns about

Delivery of increased
investment
requirements

Uncertainty (direction of
networks, environmental and
social requirements,
economy/financial markets)

Rising and
volatile
prices

Security
of supply

Issues have been addressed in previous and current price reviews

- Understand how controls have evolved and why
- Don't make changes for change sake

Networks of today have been shaped by the regulatory framework

What are the general characteristics of the network companies?

- Do the networks have an appetite for risk?
- Are the companies focussed on 'beating' the regulatory contract or are they also contemplating wider considerations?
- Are there indications that the networks are trying to be proactive?
- Are there signs that the companies are seeking to innovate or are they more comfortable with sticking to what they know?
 - Are companies trying to engage with consumers or is there a greater focus on understanding Ofgem's expectations?
- Do the companies think about interactions with the markets and other networks or are they focused on their own business?

Objectives of RPI-X@20

The review aims to ensure that an effective regulatory framework for energy networks is in place. An effective regulatory framework will ensure that we and energy networks:

- (1) Focus on the needs of current and future consumers; and
- (2) Facilitate delivery of a sustainable energy sector

The objective of RPI-X@20 is in line with the Authority's duties in the Energy Act 2008

The regulatory framework should also:

1. Be sufficiently flexible to adapt to changes in the energy industry; and
2. Enable efficient network companies to finance themselves efficiently.

Principles, Process and Issues con doc

Initial consultation document published in February 2009, reflecting our current views following consideration of the issues raised by stakeholders

The paper set out:

- Rationale for/aims of RPI-X@20
 - The approach to the review
- Our initial view of the key issues

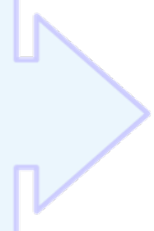
Identified two key themes:

- Focusing on consumer needs
- Delivering a sustainable energy sector

- The document was an issues paper – no proposals or decisions
 - A number of supporting papers were also published

Responses are due on 24 April 2009

**Ongoing
engagement
through**



- Ofgem's RPI-X@20 web forum
- The progression of issues via working groups
 - Future consultation documents
 - Other forums as appropriate

We want to consider how regulation can encourage networks to:

Focus on
consumers'
needs

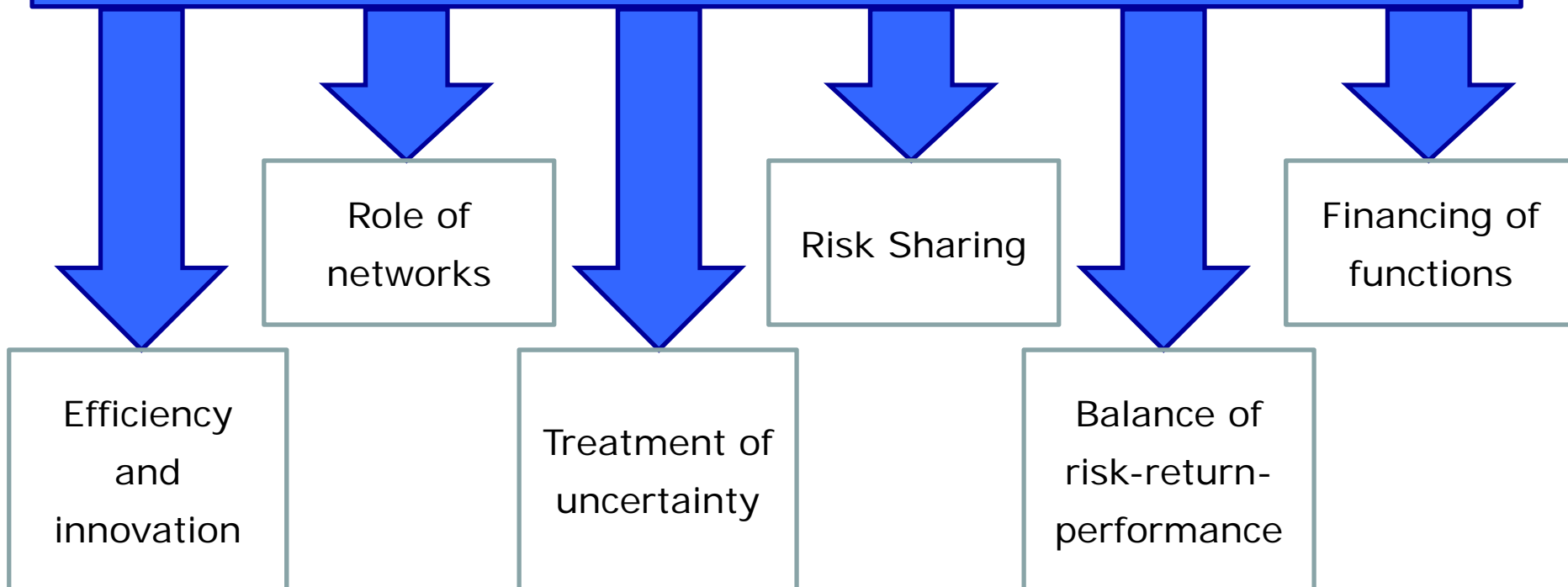
- Engagement with consumers
- Provide value for money and quality of service for present and future consumers
- Simplicity of the regime and right to appeal

Facilitate
delivery of a
sustainable
energy sector

- Security of supply – what does this mean for networks?
 - Ambitious government targets for:
- CO₂ reduction – electricity is seen as a primary driver, but what does this mean?;
- Renewables – implications for transmission and distribution
- Demand management and smart meters – will the role of the networks change?
- Networks play a role in delivering social objectives, including fuel poverty: is there a case for them doing more?

Cross-cutting issues

- Themes are about (1) what needs to be delivered and (2) how
 - There are a number of issues associated with each



Implications for regulation

- At this stage we are open to wide range of ideas, from 'tweaking' of existing regime to an overhaul of role of network regulation
- Is addressing the consumer focus and security of supply issues largely about:
 - 'tidying up' ?
 - Improving the legitimacy of Ofgem's role from a consumer perspective?
 - Does the environment challenge need a 'new idea'?
 - How far should network regulation go to address social issues?
- How should we manage the transition from legacy frameworks to any future regulatory frameworks?

Preliminary ideas

- We are open to a range of ideas on future regulatory frameworks:
 - 'Tidying up' RPI-X – clarity on role of networks; efficient capital investment; encouraging efficiency and innovation; financeability checks; aligning incentives along the supply chain
 - 'Add-ons' to the existing regime – consumer participation; guiding mind; output monitoring; role of networks and system operator; tendering; franchising; capacity auctions
 - Alternatives – deregulation; ex-post regulation

- **None of these are mutually exclusive**
 - **The list is not exhaustive**

Taking forward our thinking

Consultation responses received on 24 April 2009

Progressing thinking on a number of key issues and options

Innovation

Investment

Financing

Consumers

Uncertainty

- Working papers on these to be published during the summer
- Also looking into a number of alternative frameworks and lessons learned from other regulated industries

- Keen to hear your views on these issues and their progression
- Keen to hear your views on alternative frameworks and their suitability

More stakeholder engagement

Significant stakeholder engagement to date

Established four working groups

Investment

Financing

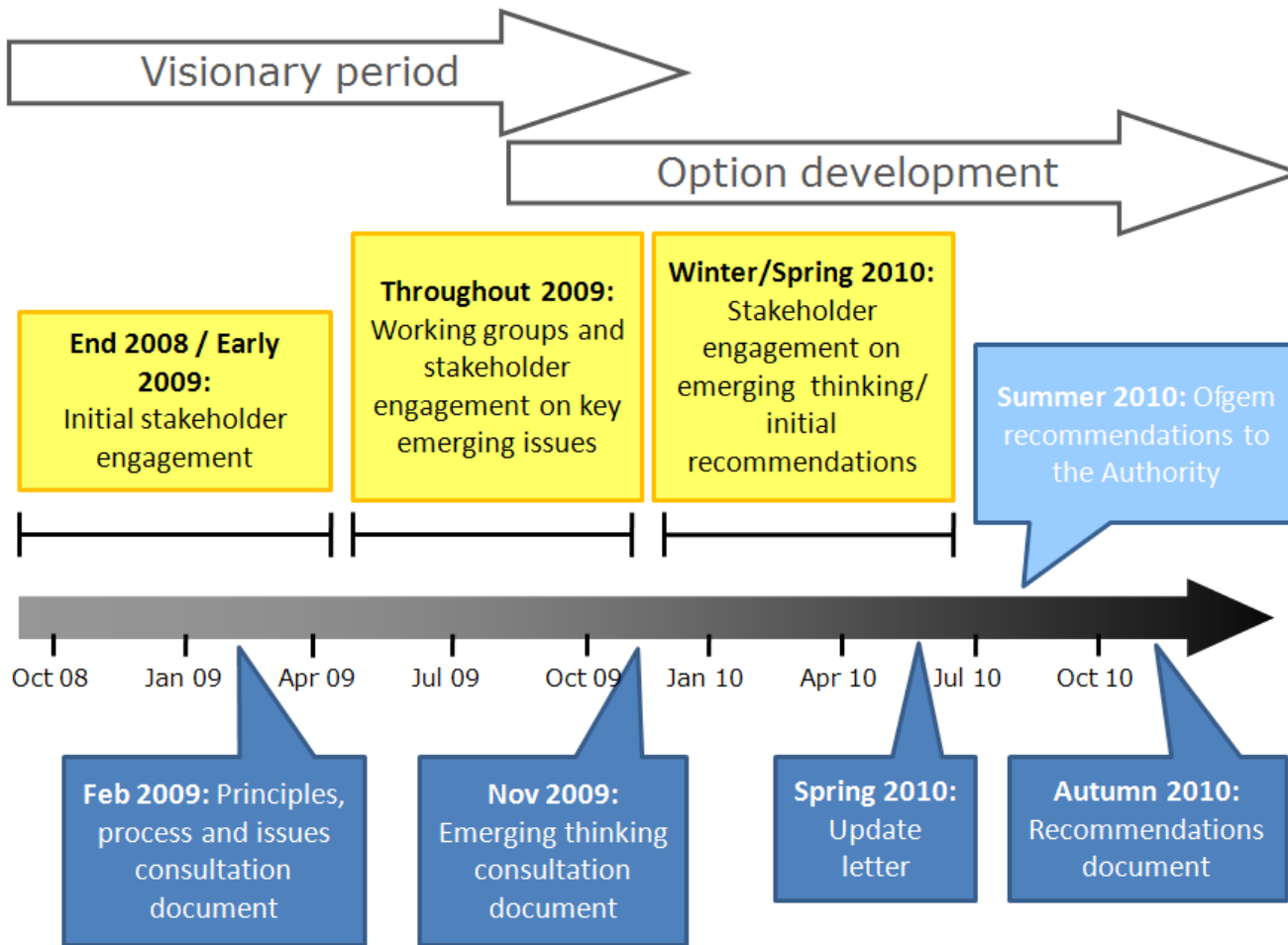
Focus on
consumers

Innovation

Why are we doing this?

- Requests for more involvement/engagement in policy development
- Opportunity for us to hear stakeholder views on policy development
- Regular working group meetings – may have ad hoc discussion groups
 - Discussion group rather than decision making

Timetable for RPI-X@20



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, there is a close-up of a blue gas flame. The overall theme is energy and customer service.

ofgem

Promoting choice and value
for all gas and electricity customers