

# 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**



**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

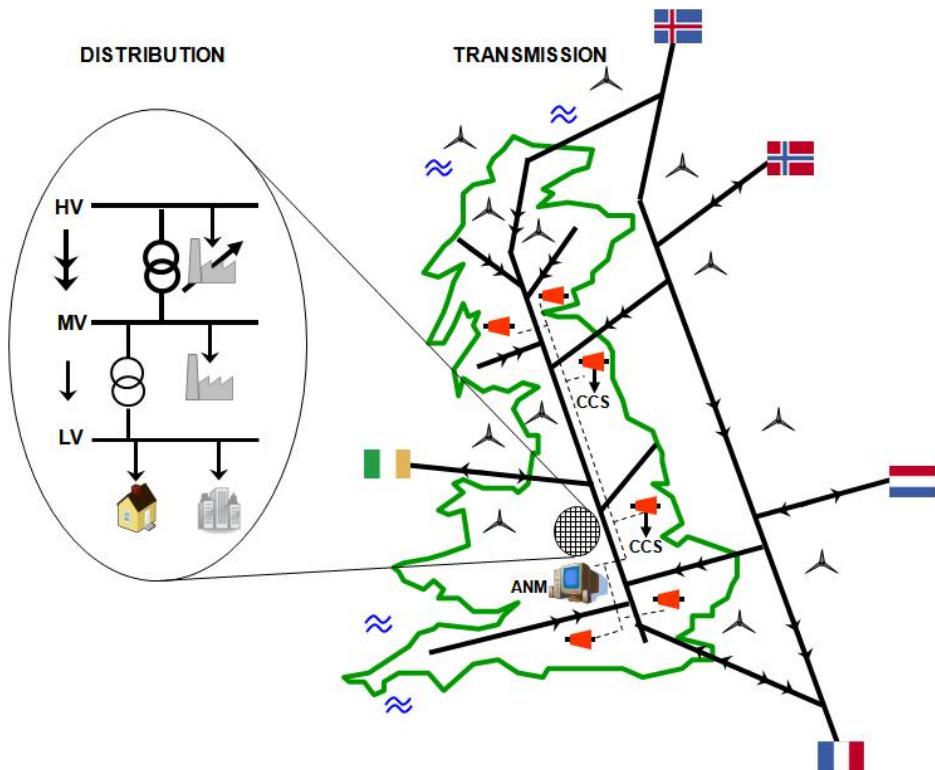
Meeting new and emerging challenges

Simplification?

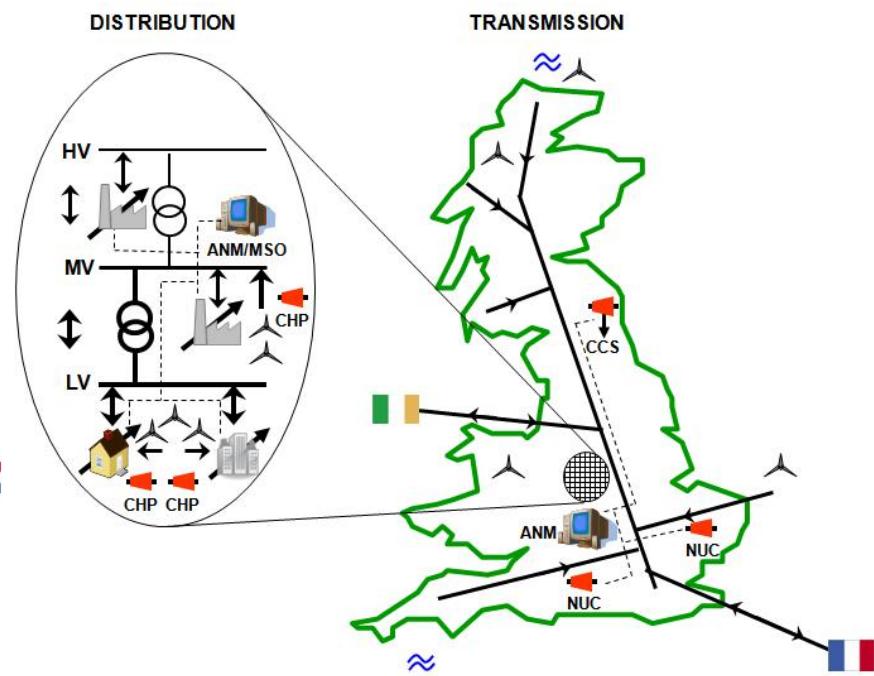
### Approach to the review

- 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:

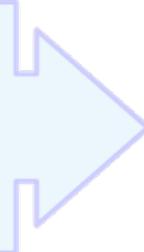
- Rationale for/aims of RPI-X@20
  - The approach to the review
  - Our initial view of the key issues
- 
- The document was an issues paper – no proposals or decisions
  - A number of supporting papers were also published

### Identified two key themes:

- Focusing on consumer needs
- Delivering a sustainable energy sector

**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

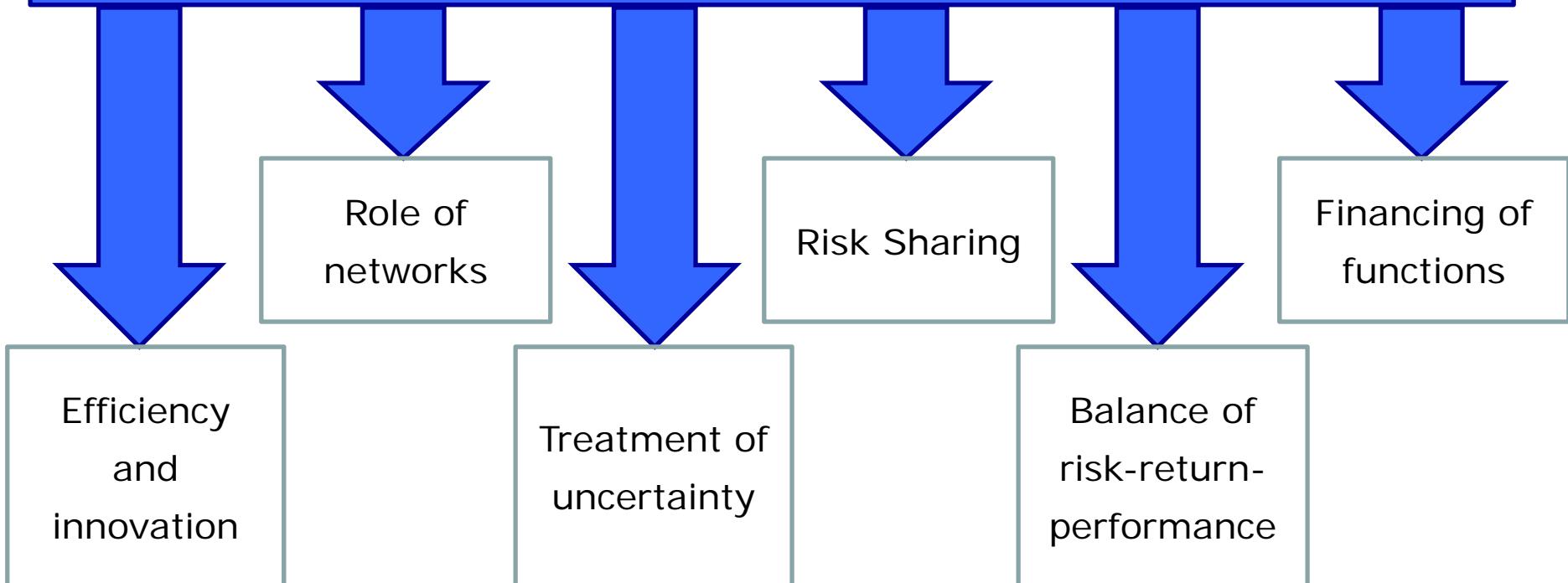
- Engagement with consumers
- Provide value for money and quality of service for present and future consumers
- Simplicity of the regime and right to appeal

Facilitate delivery of a sustainable energy sector

- Security of supply – what does this mean for networks?
  - Ambitious government targets for:
- CO<sub>2</sub> 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**

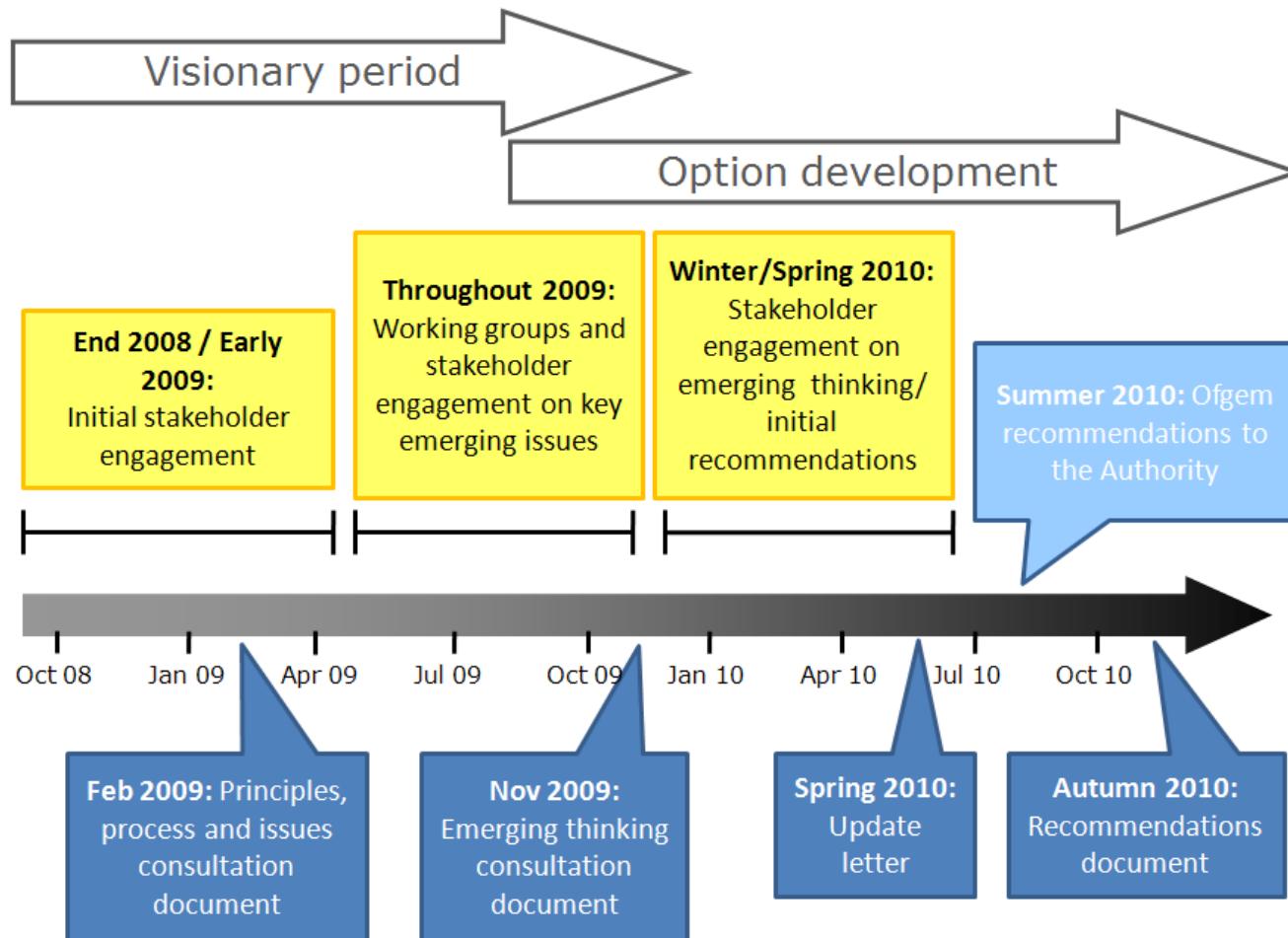
**Focus on  
consumers**

**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



A background image featuring a grid of solar panels in the upper left and a stylized globe with blue and white continents in the lower right, set against a light blue gradient.

**ofgem**

Promoting choice and value  
for all gas and electricity customers