

Ofgem Statement to the Greater London Authority Regarding the Public Services Committee's Evidentiary Hearing on the London Power Cut — 16 September, 2003

I would like to begin by thanking the Greater London Authority for inviting Ofgem to participate in this hearing, and giving us the opportunity to clarify Ofgem's role and responsibilities in relation to the power cut experienced on 28 August in areas of South London and Kent.

I am Boaz Moselle, Managing Director of the Competition & Trading Arrangements division of Ofgem. I am accompanied today by my colleague, Steven Argent, who is an Adviser in our Technical Directorate. Together we are representing Ofgem in the absence of Ofgem's Chairman and Chief Executive, Callum McCarthy. Callum has asked me to send his apologies for being unable to attend these proceedings in person, as he is this morning appearing at the Trade and Industry Select Committee.

Ofgem is the regulator for Britain's electricity industry.¹ We have a statutory duty to protect the interests of consumers, which includes providing a framework that delivers a reliable electricity supply. We place obligations on regulated companies such as National Grid Company (NGC) and EDF Energy (EDF), and are responsible for enforcing those obligations. We also set the maximum level of prices those companies can charge their customers.²

NGC's obligations relating to continuity of supply include a requirement to "develop and maintain an efficient, co-ordinated and economical system of electricity transmission". In practice this requires them to invest and maintain a secure system, to operate it efficiently, and to have effective recovery procedures in place to cope with any problems that may arise. Distribution companies, such as EDF, have similar obligations.

It is Ofgem's job to ensure that regulated companies meet these obligations, and to allow them to set prices at a level that will enable them to do so.

On the evening the power cuts occurred, Ofgem began to investigate the events and their causes. That investigation is ongoing. It will examine what caused the supply loss, and how the regulated companies involved performed during and after the event. On the basis of our investigation we will determine whether NGC and/or EDF failed to meet any of their obligations.

If any party is found to be in breach, Ofgem will then need to carefully consider whether a financial penalty would be appropriate. Ofgem has powers to impose a financial penalty for licence breaches of up to 10% of UK turnover.³

¹ Ofgem is the office of the Gas and Electricity Markets Authority. It is this Authority that holds the legal powers and duties.

² Ofgem sets the total revenue that the companies are allowed to collect in charges from their customers. The companies then develop a methodology for calculating the actual prices that they charge, subject to a number of obligations under statute and licence.

³ More accurately, it is only the Gas and Electricity Markets that can impose financial penalties.

Some concerns have been expressed that the recent blackouts might reflect underinvestment in the national electricity grid. Ofgem is confident that this is not the case. Since privatisation there have been high levels of investment in the National Grid with over £3 billion invested. This investment is running at a much higher rate than occurred in the old nationalised industry. In the last two years alone NGC spent £716m on the transmission system. NGC investment in the London area has increased since 1995 and is now around £100m per year. Although the recent supply interruptions were very serious events, the overall picture remains one of a very high level of security: we calculate that NGC's network has in recent years been 99.9999% reliable.

To conclude, I would like to stress that Ofgem views the events of 28 August very seriously. We have committed to an initial assessment of the London incident by the end of September. A final report as to whether or not a licence breach has taken place will be completed by the end of this year. If we do find that a breach has occurred, we will consider whether to apply a financial penalty. In any event, Ofgem will be assessing whether there are any lessons to be learnt from the event.

Once again, I thank the Greater London Authority for the opportunity to participate in today's hearing and would welcome any questions or further clarification of Ofgem's role and responsibilities in relation to this matter.

Boaz Moselle

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Ofgem

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