

Ofgem - Combining efficiency and effectiveness

Background

1 October 2003 saw new Chairman, **Sir John Mogg**, and new Chief Executive, **Alistair Buchanan**, take up their respective posts.

The Chairman's first priority was to publish a **Corporate Strategy** for 2004-2007 which highlights new **strategic themes** for the organisation (a copy can be found at www.ofgem.gov.uk).

First priority for the Chief Executive was to undertake an **internal review** of Ofgem's resources.

This review led to:

1. Ofgem subjecting itself to an **RPI-X cost control regime** for five years from 2005
2. a six per cent **budget cut** for 2004-2005
3. **organisational restructuring** to accommodate new themes, and prioritising workstreams more effectively.

This confirms Ofgem's commitment to **'better regulation'**.

1. Ofgem's price control

Ofgem is undertaking a **major audit of costs** with a view to announcing its own cost control, based on the RPI-X formula, to come into effect for **five years from April 2005**.

This regime will be like those Ofgem imposes on the **monopoly pipes and wires businesses**.

It will be independently set by the **Audit Committee of the Gas and Electricity Markets Authority** - which governs Ofgem - and its Chairman, Sir Keith Stuart (see www.ofgem.gov.uk for biography). The regime will be overseen by external auditors.

An RPI-X price control takes the retail price index - **the rate of inflation** - as its benchmark and subtracts or adds X - **an efficiency factor** - from it.

For example, at a time when annual inflation was **3 per cent**, an X of minus 3 **would not allow** Ofgem to increase its budget

This will serve to focus attention on **improving constantly** the way Ofgem works, and maintaining **year-on-year downward pressure** on costs.

2. Budget cut

Ofgem had agreed to reduce its budget from **£36 million to £34 million** - a **six per cent** reduction.

Despite **big projects** such as the creation of GB-wide electricity trading and transmission arrangements, potential sell-offs of National Grid Transco's regional gas networks ...

... and **extra legislative burden** brought about by EU gas and electricity directives and the Energy Bill ...

... Ofgem **confirms its promise** of a six per cent reduction.

Although staffing levels **have also fallen** - 339 in 2000-2001 to 306 currently - the focus of the RPI-X regime will be on reducing costs as the priority, rather than merely headcount.

3. Internal restructuring

Ofgem's new divisional structure was announced after the **root-and-branch internal review** announced in February 2004.

a) Corporate Affairs

The '**guardian of the process**', covering: consumer policy and fuel poverty, enforcement, modifications and appeals, licences and compliance, parliamentary affairs (in England, Scotland and Wales) and Ofgem's Scotland office.

b) Corporate Strategy

Strategic thinking and policy formation - this includes a focus on two key themes: **environment and Europe**.

c) Markets

Ofgem's commitment to markets is confirmed by placing **retail and metering** into a markets division, alongside the **wholesale** markets.

d) Networks

This division will be focused primarily on electricity **transmission**, gas **transportation** and **distribution** for both gas and electricity.

Better Regulation

Ofgem's **new structure** demonstrates further its commitment to '**better regulation**'.

- Cost control review will satisfy **Better Regulation Task Force** requirements that organisations such as Ofgem undertake **regulatory impact assessments**.
- It allows Ofgem to focus on **prioritising its workload** more effectively.
- Ofgem remains committed to **withdrawing from regulation** wherever possible, and the move of the retail business to markets reflects this.

Corporate Affairs division will both promote and enable more effective **corporate governance**.

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