

'Our energy challenge'

Ofgem's response to the Government's Energy Review consultation

The combination of an independent regulator, competitive energy markets and effective regulation of the pipes and wires that transport gas and electricity have worked well during the last 15 years.

It has contributed to meeting Government goals to:

- reduce carbon emissions
- maintain reliable energy supplies
- promote competitive markets, and
- make energy affordable to the poorest.

It also resulted in:

- £80 billion investment in new oil and gas production in the North Sea
- £30 billion invested in gas and electricity networks
- £14 billion invested in new electricity generation and in refurbishing coal-fired power stations to create a more diverse energy mix
- Reductions in fuel poverty as energy prices and regulated network charges fell, and
- Business and domestic consumers enjoying some of the lowest energy prices in Europe, together with improved service and choice.

The Government has now questioned whether current energy policy is right for the future.

Our main messages for Government are:

- we believe that markets, while not perfect, are the best way to achieve affordable, sustainable and reliable energy supplies for consumers
- with the right policies in place, the Government can harness the power of markets to make our energy supplies more sustainable and meet the carbon reduction challenge
- recent events, particularly in the gas market, have raised doubts about whether markets are the best way of delivering energy policy - this review should be used to tackle these concerns and provide further confidence in markets, and
- as an energy regulator for the 21st Century, we are committed to sustainable development.

We believe the key challenges for Government are:

- Providing clarity on how to license new nuclear plant, the planning process and handling of waste
- Taking further action on gas quality so that it does not prevent Britain importing more gas from Europe
- Improving housing and incomes – as well as centrally organising existing schemes such as Warm Front – to help tackle fuel poverty.

Highlights of Ofgem's response

Developing the market and network framework to deliver reliable energy supplies

1. The Government should not make any significant changes to the existing market and regulatory frameworks.
2. Markets need information. Therefore, we recommend that more work on forward-looking scenarios for markets and networks is carried out. This will provide the necessary analysis and reliable information about the need for future investment and whether the market is actually investing to maintain reliable supplies.
3. The level of investment needed to help the UK become a net gas importer and improving generating capacity and networks over the next 20 years is not unprecedented.
4. Ofgem will work with Government to make sure the market is investing in a timely manner and there are no barriers which block the market from investing.
5. We are committed to advising the Government in any assessment of geopolitical or systemic risk to our future energy supplies.

(For investment facts and figures see Ofgem Factsheet No.60, 'Investing to meet Britain's energy needs', at www.ofgem.gov.uk)

Reducing carbon emissions

1. We support fully the European Emissions Trading Scheme (EU ETS) as the best way to help meet carbon reduction targets.
2. We suggest the introduction of long-term carbon contracts while the future of the EU ETS is resolved.
3. These contracts could be funded by revenues from the increased auction of allowances under the scheme. This revenue could also be used to help fund further measures to alleviate fuel poverty.

4. Our response also highlights a new annual sustainability report which we will be publishing, the continuing comprehensive review of smart metering and ongoing action in networks regulation to encourage the connection of new generation.

How to ensure every home is adequately and affordably heated

1. More resources are needed to tackle the problem of fuel poverty, given that energy prices are not likely to fall back to the levels of the 1990s.
2. This funding should come from Government and be focused on improved incomes and housing, not social tariffs.
3. Ofgem will continue to play its full part to help tackle fuel poverty, working in concert with Government and industry. We recommend a new drive to 'find and fix' – to ensure that more than £3 billion* of the help available under current programmes is better targeted and taken up by households most in need of help.

Britain is no longer an energy island

1. A review of this nature is impossible to carry out in geographical isolation.
2. We will give our full support to the Government in its work on carbon issues and on energy liberalisation in the European arena.
3. We support the European Commission's view that a single European energy regulator is not the right approach at the moment.
4. We are committed, through our Chairmanship of EU regulators, to create the right climate for a fully competitive European energy market

Copies of our full submission to the Energy Review consultation can be found at www.ofgem.gov.uk.

* £3 billion fuel poverty figure is an estimate in the Fuel Poverty Advisory Group Fourth Annual Report. It is based on expected expenditure of £3.05 billion in England until 2010 under Warm Front, the Energy Efficiency Commitment Priority Groups and Decent Homes. Additional expenditure will arise from schemes in Scotland and Wales, and energy suppliers' corporate social responsibility initiatives.

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