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Sent via email to: evaluationstrategy@ofgem.gov.uk

22nd November 2024

Energy UK's non-confidential response to Ofgem's call for input to the development of an economic evaluation strategy.

Dear Daire and Meghna,

Energy UK welcomes the opportunity to respond to Ofgem's call for input on the development of an economic evaluation strategy.

Energy UK supports Ofgem's proactive approach to creating a robust framework for evaluations and impact assessments, which appears to be sensible and provides a positive direction for regulation.

The proposed strategy to ensure that policies are more closely evaluated to determine if they have achieved their intended outcomes and deliver value for money is encouraging. To avoid any policies operating in isolation they should all receive a proportionate evaluation to ensure they are aligned with broader strategic objectives, including (i) Net Zero goals, (ii) consumer protection, (iii) growth, and (iv) competition. This strategy should support an evidence-based approach for future policy interventions. Such an approach would allow for more informed decision-making with a longer-term and more holistic approach beyond immediate cost minimisation. Additionally, it will provide insights into whether Ofgem is meeting its objectives and fulfilling its statutory obligations effectively.

In developing its evaluation framework, Ofgem should adopt all relevant recommendations from the House of Lords Select Committee on UK Economic Regulators¹;

¹ [House of Lords, Select Committee on Regulators \(2006-2007\), UK Economic Regulators, Volume 1, Report](#)

- To undertake a post-implementation evaluation any time there is a step-change in regulatory policy.
- To set out, in the original impact assessment, clear targets and objectives for the post-implementation evaluation.
- To make all post-implementation evaluations publicly available. It is important to ensure that the evaluation processes remain agile and adaptable, particularly considering the changing nature of the market over recent years and expected changes in the future. As the industry evolves, the metrics used to assess the success of policies should remain flexible. This should ensure that the evaluation criteria do not unintentionally hinder innovation or impose excessive burdens on market participants.

It is further crucial that the approach enables longer-term considerations of benefits in the context of Net Zero and wider growth impacts. For example, in the development of regulations which will allow a faster uptake and connection of low carbon technologies across the system, and new and existing options for flexibility, from large-scale energy storage down to domestic DSR.

Ofgem's collaborative approach to engagement when shaping the evaluation strategy is particularly welcome. The inclusion of input from external experts, academic panels, and key stakeholders within the energy sector provides a valuable opportunity for the industry while ensuring the regulatory framework remains consumer-centric. Better informed evaluations can lead to policies that more accurately reflect the complexities of the market, ultimately driving more effective outcomes for consumers whilst encouraging resilience in the sector.

Ofgem's commitment to publishing evaluations alongside consulting with stakeholders is a positive step toward enhancing transparency and governance. By adopting wider engagement and an open approach to evaluations, Ofgem can increase trust and confidence among stakeholders, which is essential to fostering a constructive regulatory environment. The example evaluations provided do not appear to have drawn on the extensive experience of industry. Broader engagement and deeper transparency will contribute to more meaningful evaluation processes, ensuring that stakeholders' feedback and lessons learned perceived externally are incorporated into future regulatory decisions.

Furthermore, greater transparency of Ofgem interventions will play a critical role in strengthening consumer confidence in the energy sector. By making evaluation findings accessible and easy to understand, Ofgem can demonstrate its commitment to accountability, helping to build trust and ensure that regulatory interventions are perceived as both fair and effective. It is therefore important that evaluation outcomes and lessons learned are published in an accessible manner on Ofgem's website,

ensuring that not only well-informed industry stakeholders can benefit from insights, but the wider public too.

Ofgem's proposed criteria for selecting the policy interventions that will be prioritised for post-implementation evaluation should be developed further by widening the scope beyond cost impacts to assess the extent to which these policy interventions meet Ofgem's full suite of duties and responsibilities, avoiding focusing too narrowly on cost minimisation.

Once finalised, Ofgem should consistently apply its evaluation selection criteria and be fully transparent about its selection process. It should outline what interventions were considered potential candidates for post-implementation evaluation and how each performed against the selection criteria. This would allow stakeholders to understand Ofgem's rationale for selecting certain interventions over others.

Finally, Ofgem should ensure that its post-implementation reviews are carried out with a constructive 'lessons-learnt' mindset, focusing on what can be improved and how, rather than what went wrong and who is responsible for it. This will allow Ofgem to improve its policy making going forward and avoid situations where its staff might adopt an unduly cautious approach when developing policy to minimise the risk of being subsequently subject to a negative evaluation.

In conclusion, Energy UK supports Ofgem's overall approach to developing a robust and agile economic evaluation strategy. We look forward to continuing engagement with Ofgem and other stakeholders as the framework is refined, and we hope to contribute to the success of this important initiative.

If you have any questions, please do not hesitate to contact me at madeline.costello@energy-uk.org.uk.

Yours sincerely,

Madeline Costello

Policy Manager, Energy UK