

Social and Environmental Guidance to the Gas and Electricity Markets Authority

Introduction

(a) Section 4AB of the Gas Act and section 3B of the Electricity Act 1989 (inserted by sections 10 and 14 of the Utilities Act 2000) provide that the Secretary of State shall give to the Gas and Electricity Markets Authority (“the Authority”) guidance as to the contribution which she considers the Authority should make towards the attainment of the Government’s social and environmental policies. The Guidance is set out below. It is anticipated that the Guidance will be reviewed in the context of the energy policy White Paper, which we plan to publish around the turn of the year.

General Principles

(b) The Authority is required to have regard to the guidance when discharging its statutory functions to which its principal objective and general duties apply. In this way, the Authority can make a contribution, appropriate to its functions, principal objective and duties, towards the wider social and environmental objectives of the Government, without compromising the principle of arm’s length regulation. The Secretary of State will have the power to issue further guidance as she sees fit.

(c) The Government hopes that, in having regard to the guidance, the Authority will promote and support the development of appropriate initiatives, including industry codes of practice.

Sustainable Development

(d) The Government has committed itself to pursuing the goal of sustainable development. Sustainable development is defined for these purposes as “a better quality of life for everyone, now and for generations to come.” The Government’s sustainable development strategy is set out in *A Better Quality of Life*¹ published by DETR in May 1999.

(e) Economic regulation of the utilities does not take place in a vacuum. The ways in which the utility regulators carry out their functions have consequences for the social and environmental, as well as economic, aspects of the pursuit of sustainable development.

(f) The Government intends that the regulatory system should make an appropriate contribution towards achieving sustainable development. This means that economic regulation should be conducted in a way which is alert to the Government’s wider social and environmental goals, and where possible supportive of them. This guidance is intended to assist the Authority to exercise its functions in this way.

¹ *A Better Quality of Life*, Cm 4345, DETR, May 1999.

(g) The Government expects that due consideration by the Authority of this guidance, and giving due weight to these matters in the exercise of its functions, will secure an appropriate contribution to the achievement of sustainable development objectives, and will secure the proper integration of economic, social and environmental considerations in its decision making.

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Social and Environmental Guidance to the Gas and Electricity Markets Authority

1.1 The social and environmental parts to this guidance both follow the same structure:

- an introductory statement of the wider context of social/environmental Government policy within which the Authority carries out its role. This is included so that the Authority, in carrying out its functions, may be alert to them and, where possible, act consistently with them;
- a statement of more detailed social and environmental objectives of Government, in respect of which the Government invites the Authority to consider what action it can take to assist in their attainment, consistent with its other statutory duties.

1.2 Where the Government wishes to implement social or environmental measures which would have significant financial implications for consumers or for the regulated companies, these will be implemented by Ministers, rather than the Authority, by means of specific primary or secondary legislation. The Government does not seek to do this through this guidance. The Government expects that the Authority will wish to set out a clear rationale in explaining why it wishes to initiate policies or projects with social or environmental implications, as it does in other areas of its work.

1.3 The Authority should consider the social and environmental implications of its functions from the start of any initiative.

Social Issues

Introduction

2.1 The role of the Authority is defined in the Utilities Act 2000. The social dimension to this role arises through duties the Act places on the Authority in respect of a number of groups within society, namely the disabled or chronically sick, pensioners, those on low incomes² and those living in rural areas.

2.2 Part of the background to this social dimension is the Government's broader commitment to the creation of a fairer society, through social progress which recognises the needs of everyone. To this end it has set five social objectives³. Three of these appear to the Government to be relevant to the task of regulating the energy sector, and the Government invites the Authority to seek to exercise its functions in a way which is consistent with them:

² The Government regards those on low income as those in receipt of income-related benefits (Income support, Income-based Jobseeker's Allowance, Housing Benefit, and Council Tax benefit) and those in receipt of tax credits (Working Family Tax Credit and Disabled Person's Credit).

³ *A Better Quality of Life*, CM 4345, DETR, May 1999

- to tackle fuel poverty and social exclusion;
- to improve the health of the population overall;
- to reduce the proportion of unfit housing stock.

2.3 In addition, the Government invites the Authority to seek to exercise its functions consistently with the Government's objective of improving the health of everyone, and the health of the worst off in particular⁴.

Social Action Plan

2.4 In this context the Government welcomes the Authority's Social Action Plan which provides a valuable framework for tackling fuel poverty. The Government particularly welcomes the development of a set of indicators and measures to monitor progress on alleviating fuel poverty. The Government regards it as important that these measures are comprehensive and kept under review, and deliver real benefits to the fuel poor. It welcomes annual updates by the Authority. The following paragraphs identify the key concerns which the Government considers the Authority should consider in its regular reviews of the Plan.

The Interests of Consumers and the Benefits of Competition

2.5 The Utilities Act 2000 gives the Authority the principal objective of protecting the interests of consumers, wherever appropriate by promoting effective competition. Increased competition following liberalisation of gas and electricity markets has already generated benefits for consumers through downward pressure on prices, an increased range of tariffs and improved handling of complaints. The Government welcomes these changes. The Government asks the Authority to ensure that, in promoting effective competition, it considers carefully the benefits gained by all groups of consumers, especially the disadvantaged and takes action against any abuses of market power which harm consumers.

2.6 The Government is concerned that the benefits of competition should be fairly distributed between different types of consumers. In particular, the Government believes that the poorest consumers and those suffering from fuel poverty (see paragraph 2.7 below) should demonstrably share in the benefits of competition. In giving effect to its duties the Authority should have regard to the desirability of ensuring that the benefits of competition in the supply market are broadly distributed, and in particular the desirability of:

- greater choice of tariffs and payment options;
- sustaining improvements in the clarity and accessibility of information on choices between different terms of supply, to enable consumers to make an informed choice;
- ensuring that clear and acceptable procedures are in place to govern interruptions of supply for prepayment meter consumers and to reduce any risk of such interruptions;

⁴ *Saving Lives: Our Healthier Nation*, CM 4386, Department of Health, July 1999

- reducing the price differential between prepayment and other payment methods through ensuring that it does not exceed the accurate cost differential;
- promoting an innovative approach to provision of services to poor consumers and those suffering fuel poverty.

Fuel poverty

2.7 The Government regards fuel poverty as a major priority – a problem with serious consequences for health, social exclusion and general well-being, particularly affecting the elderly, children, and the disabled or chronically sick. It has published a Fuel Poverty Strategy, setting a target of ensuring that by 2010, no vulnerable person need risk ill-health due to a cold home (the target for England – others apply in Scotland, Wales and Northern Ireland.) The attainment of this target involves the Government's New Home Energy Efficiency Scheme (and devolved administrations' equivalent schemes), future Energy Efficiency Commitment schemes and other Government programmes, but also calls for effective energy regulation, to ensure that fuel poor householders get full benefit from the operation of the energy market. In particular, the Government invites the Authority to consider what it can do to ensure that fuel poor householders:

- are aware of the assistance available through the New HEES scheme and the devolved administrations' equivalent schemes, utilities' Energy Efficiency Commitment (formerly EESOPs) programmes and other company initiatives;
- have effective access to clear, accurate, information and advice on energy efficiency, and are encouraged to follow up measures of value to them;
- are aware of other advice and help available from the Energy Saving Trust, local Energy Efficiency Advice Centres, Local Authorities, and other agencies;
- have access to, and information about, tariffs which meet the needs of low-income and low-use households (see paragraph 2.9 below).

Payment for services

2.8 The Authority's Social Action Plan should have continuing regard to the:

- desirability of consumers having access on reasonable terms to a wide range of payment options (including options for payment in cash, for frequent payment, for prepayment and for utilising Fuel Direct);
- benefits of ensuring consumers are provided with clear information on the payment methods available to them, so they can as far as possible adopt the method of payment best suited to their needs and preferences;

- beneficial role utilities can play in the development of credit unions and basic bank accounts as a means of helping low income consumers without traditional bank accounts gain access to lower cost tariffs;
- desirability of ensuring that consumers paying in cash have reasonable access to means of making such payments, and that they are provided with clear information on any charges for such services;
- importance of prepayment meter consumers having clear information on the operation of their meters and access to emergency credit and procedures for rectifying faults.

Debt

2.9 The Authority should have continuing regard to the problems that vulnerable groups of consumers may have with debt for services provided and where possible promote assistance by gas and electricity suppliers to such consumers in reaching arrangements to overcome problems associated with debts. In particular disconnection for debt should not be considered until other avenues to remedy the situation have been exhausted.

Disconnection

2.10 The Authority should have regard to the need for gas and electricity suppliers to have clear and acceptable procedures in place to govern disconnections where these prove necessary. In particular, the Government invites the Authority to recognise the potential social and health consequences of disconnections during the winter months.

Energy Efficiency

2.11 Energy efficiency can play a significant part in enabling all consumers, including vulnerable consumers, to reduce their energy bills and enjoy greater comfort and well-being, as well as contributing to the attainment of environmental objectives. Energy efficiency is further discussed in paragraphs 3.6 – 3.8 below.

2.12 The Government considers that energy suppliers – and others in the market – should take every opportunity to promote energy efficiency in their marketing, and to develop energy services in the market, as a way of securing increased energy efficiency without significant additional costs for suppliers and consumers. In exercising its functions, the Authority should have regard to the desirability of these initiatives.

The Availability of Gas

2.13 Access to the gas network carries with it benefits in terms of consumer choice and alleviation of fuel poverty. The Government asks the Authority, bearing these considerations in mind, to seek to exercise its functions in ways likely to assist the development of economically viable proposals for extending the network. In particular, the Authority should have regard to the desirability of assisting with identifying, and taking, opportunities to facilitate communication between parties where that may advance such proposals.

Metering

2.14 In considering regulatory actions with the potential to affect metering, the Government asks the Authority to continue to carry out its functions in a way which is supportive of innovation. In addition the Authority should have continuing regard to:

- reducing the costs and increasing the efficiency of all meters;
- the desirability of consumer choice;
- the needs of those with disabilities;

- any implications for fuel poverty (and particularly for fuel poor consumers with pre-payment meters);

- the attainment of environmental objectives, especially reducing emissions of greenhouse gases.

Security of supply

2.15 The Government believes that all consumers should have access to safe, secure and economical supplies of electricity (and to gas where it is economically viable) at competitive prices. The Authority has a shared statutory duty, with the Secretary of State, to ensure that all reasonable demands for electricity and gas are met. In this regard, the Authority should have particular regard to the needs of vulnerable groups of consumers to have a high standard of security of supply, especially in winter months.

2.16 The Government welcomes the formation by Ofgem and the Department of Trade and Industry of a Joint Working Group on Security of Supply, and looks forward to receiving regular reports on the progress and recommendations of the group.

Contact with consumers

2.17 When dealing with consumers the Authority should have continuing regard to the desirability of ensuring the particular needs of vulnerable groups of consumers are met. Complaint handling is primarily a matter for the Gas and Electricity Consumer Council. The Authority should, however, have regard to the desirability of ensuring that matters raised with it, such as allegations implying breach of licence conditions concerning dealings with consumers or failure to meet its specified standards of performance, are handled in a way which is sensitive to vulnerable consumers' needs.

Welsh Language

2.18 The Authority should have regard to the Government's encouragement of gas and electricity companies to be mindful of the requirements of the Welsh Language Act 1993 when operating in Wales so that the needs of Welsh-speaking consumers are met.

Environmental Issues

Introduction

3.1 The Utilities Act 2000 places duties on the Authority to promote the efficient use of gas and electricity, and to have regard to the effect of licensed activities on the environment.

3.2 An important part of the environmental policy context of the Authority's exercise of its functions is the Government's sustainable development strategy. This sets out six broad objectives of environmental policy through which to pursue the overall goal of effective protection of the environment⁵. One of these, with clear significance for energy regulation, is to continue to reduce emission of greenhouse gases now, and plan for greater reductions in the longer term

3.3 The Government's strategy for reducing these emissions is set out in the Climate Change Programme and the Government invites the Authority to seek to exercise its functions in a way consistent with the objectives set out in this. Objectives which the Government considers particularly relevant to energy regulation include:

- meeting the UK's commitment under the Kyoto Protocol to reduce greenhouse emissions to 12.5% below 1990 levels by 2008-2012;
- the domestic goal of a 20% cut in carbon dioxide emissions by 2010;
- the Government's target for 10% of electricity to be supplied from renewable sources by 2010;
- the Government's target to increase the country's combined heat and power (CHP) capacity to at least 10 Gwe by 2010.
- reducing air pollution and ensure air quality continues to improve through the longer term;
- making prudent use of natural resources, with the objective of moving away from disposal of waste towards waste minimisation, re-use and recovery.

More significant emissions reductions will be needed in the longer term.

Environmental Action Plan

3.4 In this context the Government welcomes Ofgem's Environmental Action Plan. The Government believes the Plan is a useful vehicle for the Authority to take forward the environmental aspects of its work. The Government also welcomes the Authority's focus on areas such as energy efficiency, which simultaneously promote economic, social and

⁵ From *Quality of Life Counts*, Cm 4345, DETR, December 1999.

environmental concerns, and the Government invites it to regard as an important function stimulating and co-ordinating action and analysis for environmental improvement.

3.5 It is welcome that consideration of the environmental implications will in future form an integral part from the outset of any major initiatives. The Government considers that this could usefully include quantification of the positive and adverse environmental consequences of proposed regulatory actions, and possible regulatory measures which could enhance the environment. The Plan also provides an opportunity for the Authority to address its potential role in encouraging innovation and creativity in dealing with environmental issues. The Government welcomes annual updates by the Authority.. The following paragraphs, together with the Government's overarching environmental objectives set out above, identify the key concerns which the Government considers the Authority should consider in its regular reviews of the Plan.

Energy Efficiency

3.6 As noted in paragraph 3.1, the Authority has a duty to promote the efficient use of gas and electricity. The Government attaches importance to improved energy efficiency because of its role in reducing energy use, the consequent contribution it makes to climate change and other environmental objectives, and because it helps consumers to reduce their fuel bills and enjoy greater comfort and well-being.

3.7 The Government looks to the Authority to consider energy efficiency implications at all points in the energy chain, including:

- electricity generation, for example the contribution made by combined heat and power technology (see paragraph 3.12 below)
- gas transportation and electricity transmission and distribution, for example the impact of losses and the ability of CHP and renewables generators to access the transmission and distribution network; and
- the end use of gas and electricity, for example the impact of effective energy efficiency advice to domestic and business users and the potential impact of metering systems to support energy efficiency

and to take into account any implications for energy efficiency of other regulatory policies and decisions.

3.8 The Authority should have regard to the potential for the electricity distributors and gas transporters to use promotion of, or support for, cost effective energy efficiency (domestic and business) as a means of reducing or avoiding expenditure on energy networks.

Energy Efficiency Commitment (formerly Energy Efficiency Standards of Performance)

3.9 Under the Utilities Act the Government is responsible for setting energy efficiency targets and obligations in future. The Energy Efficiency Commitment' (EEC), commencing in April 2002 succeeds the previous regime of EESoPs, and it will run until 2005.. The Authority will have an important role in implementing EECs, and should have regard to EECs

when considering its other regulatory decisions and the effect those decisions may have on the ability of suppliers to meet their EEC commitments.

Energy Services

3.10 The Government believes that it would be extremely helpful if companies developed energy services and used energy efficiency as a marketing tool. This would widen energy choices for consumers, help consumers to reduce their fuel bills or enjoy higher comfort, and deliver environmental benefits. The Authority, in exercising its functions, should have regard to the benefits that are likely to result from the development of energy services, and consumers' awareness of their financial benefits.

Renewables

3.11 The Government has placed an obligation on electricity suppliers to secure an increasing proportion of their supplies from renewable sources. The Government's target is for 10% of supplies to come from sources eligible under the Renewables Obligation, including the Renewables Obligation (Scotland), by 2010. The Obligation will continue until 2027 and the Government is considering the need for a further increase in the renewables contribution to electricity supplies beyond 2010 as part of its review of energy policy. In exercising its functions, the Authority should have regard to the current and any future targets and to the contribution which projects developed under previous NFFO and SRO Orders can make to them. The Authority should also have regard to the desirability of access to the transmission and distribution network for renewable sources on reasonable and proportionate terms, which do not place them at an unfair disadvantage compared to load consumers, taking into account the advantage of these sources to the network and their contribution to meeting the UK's commitments to reduce greenhouse gases. In this regard the Government encourages the Authority to continue to assess the impact of the New Electricity Trading Arrangements on renewables and CHP generators, and to promote measures to ensure that electricity trading arrangements do not impose undue burdens on small generators, including renewables and CHP generators, and are consistent with the Government's policy objectives set out above.

Embedded Generation, including Combined Heat and Power (CHP)

3.12 The Government recognises the potential for local generation, including CHP, to provide consumers with lower-cost electricity; to reduce the costs of distribution systems and the electricity supply system as a whole, and to contribute to the attainment of environmental benefits. The Government also regards embedded generation, including combined heat and power, as contributing to its policy objective of diverse and secure supplies of energy, and relevant to the Authority's duty to seek to secure a diverse and viable long-term energy supply. Embedded generation also has a positive contribution to make in reducing greenhouse gas emissions as a result of losses in electricity networks. The Government attaches a high priority to these issues.

3.13 The Government asks the Authority, taking account also of its duty to encourage competition in generation, to have regard to the desirability of:

- removing barriers to embedded generation;

- access to the network on fair and transparent terms for embedded generation, including fair recompense for the benefits afforded to the network, through providing system security, deferring the need for system reinforcement, or otherwise;
- distribution systems which are capable of accommodating the likely growth in embedded generation, having regard in particular to the Government's targets for renewable generation, and for CHP;
- arranging charging regimes for the connection of embedded generation on fair and transparent terms;

easy availability within the public domain of information relevant to prospective generators' decisions, including clear and transparent rules governing the connection of generation to the distribution networks.

3.14 The Authority should also have regard to the environmental benefits of domestic generation such as photovoltaics and domestic-scale CHP, alongside their benefits to consumers' interests, and to the desirability of the development of domestic generation, including effective access to the network at fair prices, having regard to system benefits.

3.15 There are significant greenhouse gas emissions as a result of losses in both gas and electricity. More extensive embedded generation and CHP, as outlined above, may help to reduce these losses. In addition, the Authority, in exercising its functions, should have regard to the desirability of reducing these losses through other means, given the contribution that this would make to meeting the Government's Climate Change commitments and objectives.

Information, Consultation, and Reporting

4.1 Effective information gathering and consultation with stakeholders including the industry, consumers and their representatives, social and environmental interest groups and others will be key in helping the Authority to identify priorities in its social and environmental action planning and feeding back to them the results of its action.

Information Gathering

4.2 The Authority should have continuing regard to the desirability of collecting information relating to social and environmental objectives and the energy needs of vulnerable groups of consumers, the services they require, and the range and adequacy of the services which companies provide.

4.3 The Government recognises that the companies have an important part to play in developing an accurate picture of the situation of vulnerable consumers and those suffering fuel poverty. The Authority should have regard to the desirability of encouraging companies to be open about the social and environmental aspects of their activity, including through systematic public reporting.

Consultation

4.4 In the social and environmental spheres as elsewhere, the Authority should have regard to the desirability of consulting where practicable, even when not legally required to do so, on proposals to exercise its powers. The Government believes it is desirable that this should include, so far as is reasonably practicable, consultation with bodies which appear to it to have relevant expertise, in addition to consultation with the Gas and Electricity Consumer Council and any other appropriate representative consumer bodies, the relevant licensees, and other mandatory consultees.

Reporting

4.5 The Government generally encourages the provision of clear advice and information to consumers and welcomes the Authority's intention to report annually on the social and environmental aspects of its work. In respect of the social aspects, it is envisaged that such reports might cover tariffs of particular relevance to the fuel poor. The Government welcomes the Authority's contribution, working alongside others, to the annual publication of a range of social indicators. The Government also hopes that the Authority will monitor any initiatives undertaken, including industry codes of practice, and include an assessment of the progress made on these issues in its annual report.
