The case for an Office of Energy
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Executive Summary

The UK energy market has been subject to criticism and controversy, due, in part, to a lack of analysis that is both trusted and clear.

The provision of such analysis is an essential part of restoring consumer, stakeholder and investor confidence. The energy sector features a complex relationship between markets and the state, competing actors, and competing policy priorities, in particular affordability, security and decarbonisation. Such an environment naturally fosters and benefits from competing views. However, it has also led to a lack of trust that is preventing effective debate. A CMA review is addressing some of the current controversies, but the energy sector also faces long term challenges, such as the need for large investments and the low carbon transition, which can be delivered at a lower cost if policy is not destabilised by debate. No matter what the CMA outcomes are, controversy will remain if a lack of clarity persists on key points of contention. This report, based on a review of existing institutions and a number of stakeholder discussions, examines options for providing analysis that is both trusted and clear so that, in time, both consumer and investor confidence can be restored.

Now is an opportune time to consider a new role. Energy policy is changing as power production is decarbonised, electricity market arrangements are reformed and large investments are needed. The political system is also entering a new phase defined by major changes in the landscape of power. At the same time, there are proposals for broader reform in the energy sector and possible actions arising from the current CMA review. In this context, the benefits of reform may be greater than in the past and the political will to deliver it may be substantial.

The UK has a strong track record of establishing world class institutions to tackle similar issues. Current UK energy institutions have many good qualities but they have not been able, in the view of many stakeholders, to consistently deliver trusted and clear analysis of Britain’s key energy issues across the whole sector. Successive governments have a track record of establishing institutions in other fields that excel in this role, such as the Office for Budget Responsibility (OBR), the National Institute for Health Care and Excellence (NICE) and the CCC. This track record gives confidence that similar success could be achieved in the energy sector, especially if characteristics of these exemplars are embodied in a new or reformed institution.

Stakeholders see value in a new role to provide clear and trusted analysis of key energy issues, and identify options for how this role could be delivered. Stakeholders from the energy industry, environmental NGOs, consumer groups, industry associations, think tanks and academia were interviewed for this report. They largely agreed that trust and clarity could be improved, and that these could be usefully provided by an institution that was insulated from political pressure, actively engaged in public debate or inconspicuous but excellent at technical analysis, and which has a clear mandate that does not excessively restrict initiative. There was a great deal of interest in the options for the role, and its possible location within an existing or
new organisation. To facilitate debate, this report provides a framework for creating and assessing options for this new role.

Of the range of options that have been considered, a moderate and balanced role emerges as the most promising. In the assessment framework set out in this report, an option is defined by a set of attributes: the scope of issues within its mandate; whether its activities consist of objective analysis or value judgements; whether its external engagement is passive or active; whether its governance arrangements place it within an existing, reformed or a new, independent institution; and the strength of its rights and powers to be consulted and access information. This report develops various sets of consistent attributes, groups them into options and assesses them against criteria. The attributes of the leading option are consistent with a moderate and balanced approach. This set of attributes performs better against criteria than other options because it embodies sufficient scope and independence to provide clear, trusted analysis that is additional to that supplied by current institutions, while being moderate enough that establishment of the option is politically feasible.

This leading option is an ‘Office of Energy’. The scope of this option is to analyse the performance of the energy system in delivering affordable, secure and low carbon energy, and how changes in performance can be attributed to policy, regulatory and market developments. In terms of activities, the Office would examine the impact of policy, so that it can provide support to policy makers, but it would not make value judgements on the quality of outcomes. On governance, the Office’s role would be independent so that third parties can fully trust the objectivity of its analysis. It would be invited to comment on policy and would have moderate levels of engagement, to ensure its outputs are clear, useful and taken into account. It would have no stronger powers over access to information than current government institutions as these should be sufficient for its activities. These attributes are similar to those of the OBR.

A broader discussion is required to build a consensus of support. Interviews with stakeholders reveal clear support for a new role to provide trusted and clear analysis in the energy sector. However, the interviews did not produce a consensus on the nature of this role. The purpose of this report is to lay out options, provide an initial analysis of these options, and identify a leading option, the Office of Energy. The intention is to facilitate further discussion to ultimately arrive at a decision on how to deliver the clear, trusted analysis of energy issues that Britain needs if it is to restore consumer, stakeholder and investor confidence.
Contents

Executive Summary 3
1 The case for change 7
2 A framework for reform 13
3 Discussion of options 18
4 Conclusions 22
References 23
List of tables

Table 1. The five attributes have a range of options, from limited to expansive 14
Table 2. A new role could have one of a set of disaggregated responsibilities, consolidate responsibilities from current institutions or intentionally duplicate them to provide oversight 16
Table 3. The Office of Energy meets the criteria of success primarily because of independence and a scope that is broad enough to be valuable but not too broad 21

List of figures

Figure 1. A package of options across the attributes can be set out across this framework 15
Figure 2. Analogous institutions are all independent, with moderate scopes and levels of engagement 17
Figure 3. The three archetypes represent consistent sets of attributes for each level of scope 19
Figure 4. The Office of Energy, an equivalent to the OBR for the energy sector, is a version of the Analyst with a more focused scope and accordingly weaker powers 20
1 The case for change

A new role may enhance trust and clarity

This section makes the case for a new role to provide trusted and clear analysis. This role would, as its core function, report on actual and expected outcomes across primary energy policy priorities and how these change over time with policy, regulatory and market developments. The role builds trust and clarity so the policy debate can move on from questions of analysis to focus on the appropriate balance of policy priorities. This core role is arrived at through consideration of the UK energy context now and in the future, the nature of energy markets, analysis of the performance of current and analogous institutions and the views of a wide range of stakeholders interviewed for this report. Section 2, recognising that there are many options for delivering this role, develops a framework that may facilitate a broader discussion. Section 3 presents a range of options based on this framework and identifies the Office of Energy, an OBR for the energy sector, as a leading option.

1.1 The context of the UK energy system

The UK’s energy system is entering a new phase in which trust and clarity on the causes and magnitudes of changes are important. UK energy is radically changing for consumers, through rising bills and new interactions with energy through smart meters, energy efficiency initiatives and distributed power. It also changing for suppliers, through Retail Market Reform and increased political and regulatory scrutiny. At the same time, the low carbon transition affects the whole energy system. These are major changes that require significant investment: up to £100 billion by 2020 in electricity alone (DECC, 2014). UK politics is also entering a new phase, defined by major changes in the landscape of power. Thus, at a time when consumers might welcome clear, trusted communication on changes to their energy bills, and energy companies would prefer stable policy signals to lower the risk, and therefore cost, of their investments, the UK is learning how to make policy under a new form of politics. In this context, and with stakeholders expressing a range of opinions on the best way forward, a trusted and clear source of analysis on the causes and direction of changes in performance against UK energy objectives could make a valuable contribution.

Energy policy in the UK has four features that might frustrate trusted and clearly communicated analysis. These are:

- **complex issues**: the energy system is complex and it is subject to uncertainty, for example global energy market prices. Communication of this complexity and uncertainty in a clear manner is a difficult task.

- **competing priorities**: energy policy involves trade-offs between three main priorities, that energy be affordable, secure and low carbon, sometimes described as the ‘trilemma’. The balance between these priorities is a matter for debate, rather than analysis alone, but this debate needs to start from trusted analysis. The correct balance is a question that benefits from regular reappraisal. This means debate is ongoing and that not all stakeholders will be satisfied.

- **competing actors**: there are two principal stakeholders in the energy sector: consumers and energy companies, but there are many more actors including politicians, regulators, industry associations, environmental NGOs, consumer groups, think tanks and academia. These actors have varied duties and interests and are engaged in lively discussion. Responsibility for reporting on the low carbon transition resides with the Committee on Climate Change, but institutional responsibility for reporting on affordability and energy security is not delegated; it rests with the Secretary of State.
The case for an Office of Energy

- increased government intervention: in recent years, and arguably since the 2003 White Paper recognised the energy sector’s role in tackling climate change (Pearson & Watson, 2012), government intervention in the energy sector has increased. This has primarily been to support the low carbon transition, emphasise energy security and, more recently, in response to concerns over rising energy bills. Increased government intervention into a market-based system requires a delicate balancing of public and private interests.

A new role may be required. When the UK faced similar challenges in other sectors it has sometimes responded by creating world class institutions, such as the OBR for fiscal policy, NICE for health services and the CCC for the low carbon transition. An analogous institutional role could be created in the energy sector, and this role might be embedded in an existing, reformed or new institution.

The new, multi-party nature of UK politics may increase the value of trusted analysis. There is a risk that politics leads policy rather than evidence leading policy. In multi-party politics this risk may be greater if a more crowded public discourse rewards promises rather than results. In some countries with more established multi-party politics, independent public institutions serve politicians by providing analysis of political claims, for example the Netherlands Bureau for Economic Policy Analysis (CPB) analyses election manifestos and the social cost-benefit of infrastructure plans (CPB, 2015).

The possibility of major institutional reform in energy is on the political agenda. Before the election Labour advocated that Ofgem be abolished and replaced with a ‘tough new energy watchdog’ (The Labour Party, 2015) and an Energy Security Board, an independent body with statutory responsibility for energy security (The Labour Party, 2013). Any such broader reforms would provide an opportunity to establish an institutional role to provide trust and clarity. The next sub-section considers current institutions that could carry out this role and describes the challenges they face.

1.2 Trust and clarity in current institutions

Trusted analysis is transparent in its assumptions and handling of uncertainty, while clear analysis selectively presents relevant and accessible information to its audience. The two attributes are defined as follows:

- trusted analysis is high quality and is transparent in its assumptions and the uncertainty around its findings, and it is prepared by an institution that does not face incentives to support a particular outcome; and

- clear analysis highlights information that is most relevant for stakeholders, presenting it in a concise and accessible manner. Clarity may also require active engagement with stakeholders to ensure that findings are heard and understood by the relevant people. This engagement requires that analysts speak with authority, built upon a track record of reliable analysis, possibly reinforced by mutual consultation and powers of access to information.

Current institutions, while effective in many ways, do not provide sufficiently trusted and clear analysis on the overall performance of energy policy priorities: affordability, security and decarbonisation. There are several current institutions that are involved in delivering energy policy and which are candidates to provide clear and trusted analysis on a range of energy issues. These include energy institutions, such as DECC, Ofgem and the CCC, and governance institutions, such as the NAO and the Regulatory Policy Committee and the markets regulator, the CMA. However, these institutions either have a specific and distinct focus incompatible with analysis on the overall performance of competing policy priorities, or it is within their mandate but they currently do not provide this scope of output and some stakeholders interviewed for this report suggested that they might struggle to deliver it in a trusted and clear way.
There are three key gaps that a new role could fill to provide trust and clarity. Official performance reviews, reports from the institutions themselves and the views of interviewed stakeholders, identify that current institutions could make their communication clearer and their engagement more effective. Also, they are not, currently, universally trusted and their analysis does not provide clarity on the trade-offs between energy policy priorities. These gaps are discussed in detail in the following paragraphs.

First, current institutions do not provide clear summaries of performance against policy priorities and could be more effective in engaging with key influencers. Clear communication is sometimes hindered by the large volume of information that is published, which some stakeholders feel could be made more relevant and concise. There are several institutions in the energy sector that provide analysis, but no single institution is considered the authoritative source of information. Some stakeholders value this plurality of voices. Ofgem, DECC and the CCC all publish their own analysis on components of energy bills, which according to stakeholders has created confusion about the cause of recent price rises and the composition of bills.

Stakeholders recognize that much of the current analysis fails to enter the public debate; one reason is that the institutions spend too little resources on communication. According to DECC’s Annual Report and Accounts 2012-13, its communication function is the smallest in Whitehall; in 2011 it had a reduction in headcount by 38 per cent and a 95 per cent reduction in spending. In 2012-2013, it spent £2.9 million on communicating the launch of the Green Deal, about 2 per cent of the overall spend on that policy (UK Department of Energy and Climate Change, 2013).

There are challenges to presenting uncertain and complex issues. The treatment of uncertainty in cost projections is weak, despite the fact that uncertainty is so prevalent in energy. For example, DECC assesses the impact of its policies on bills currently, in 2020 and in 2030, but some stakeholders complain that the analysis is not transparent because DECC takes some policy impacts and offsets them with energy efficiency savings while sensitivity analysis is limited to fossil fuel prices.

Second, trust is undermined by a perceived lack of transparency and independence, limits to some technical work, and unclear incentives to provide objective analysis. Some interviewees believe that Ofgem has reacted to political initiatives rather than regulatory priorities, for example, by launching the Energy Supply Probe in 2008 as a reaction to political and consumer group initiatives, after recently confirming that the competitive market in energy was working (Ofgem, 2008). Some interviewees argue that DECC lacks the independence for critical assessment since it is responsible for developing policy and therefore has an incentive to defend its record.

In addition, interviewees identify a need for higher quality analysis and data publication. For example, stakeholders identified that it is difficult to obtain a time series on margins from Ofgem because there have been changes in the basis of published standard variable tariffs. Some interviewees criticise Ofgem’s supply market indicator for using an average household and producing inaccurate results. DECC’s quality of analysis has also been questioned by some; for example, asserting that estimates of costs of policy are not kept up to date or calculated using a common framework. NAO and Civil Service reviews have identified a lack of skills relative to the range and challenge of DECC’s portfolio and weaknesses in its evidence base. Key skills gaps include customer insight, programme and project management, commercial expertise, and behavioural and social research capability (Civil Service, 2009; National Audit Office, 2013).

Furthermore, current institutions have unclear incentives to provide objective analysis. Ofgem’s independence is formally strong, but some interviewees believe that in practice Ofgem has faced and responded to pressure from Ministers. DECC, as discussed above, has an incentive to defend its record, since it is responsible for developing policy. The CCC and the CMA on the other hand lack the mandate for a proactive review and are limited in scope on the topics they could address.
Third, current institutions do not provide clarity on trade-offs between policy objectives. Although DECC is responsible for all aspects of UK energy policy and for tackling global climate change on behalf of the UK, stakeholders point out that policy teams in DECC do not collate general narratives on its overall strategy in order to provide information on trade-offs. The other institutions do not have the mandate or a strategy to provide a unified analysis of how the UK energy system is performing across policy priorities. Interviewees suggested that the current institutions do not analyse the way in which policies interact with each other. Another key problem is that responsibilities for surveillance of affordability and energy security have no clear institutional home.

1.3 A new role

The analysis that is currently conducted does not make the interaction between policy priorities clear. Energy policy involves trade-offs, but performance against the core priorities is not currently analysed in a sufficiently clear and trusted manner.

A ‘balanced scorecard’ would succinctly summarise the UK’s performance across the trilemma. This scorecard could be used to track changes in key metrics as they respond to policy, regulatory and market developments. Key metrics could include drivers of bill changes and measures of affordability, reserve margins or a wider range of metrics of energy security, and carbon intensity and the carbon price in final energy consumption for decarbonisation. Projections of the scorecard could be produced, to assess how performance across the priorities may change in the future, incorporating and explaining uncertainty in the projections.

The new role that is required is, at its core, to make the interaction between policy priorities clear. Clear and trusted analysis of the performance on energy policy priorities and how this changes with policy, regulatory and market developments appears to be the core role that is missing from the current debate – and exploring the validity of this claim and ways to provide this role is the key purpose of this report. This, currently partially-unfulfilled, role analyses the performance on the priorities without opining on whether the balance between them is correct. Opinions on balance would be reserved for the ministerial department, although, for completeness, a role making value judgements is included in the framework of options in Section 2. The role described here could be provided by an existing, reformed or new institution, as long as the institutional form allowed this function to be delivered in a trusted and clear way.

The following sub-sections consider lessons from analogous institutions and interviews to understand whether the suggested role is appropriate and what it might take for the role to be established and effective in its work once established.

1.4 Lessons from analogous institutions

The UK has solved similar problems in other sectors by establishing world class institutions. The UK has a successful history of setting up institutions to provide technical answers to complex, politically sensitive questions. For example the OBR, on the effects of fiscal policy, NICE, for guidance on health services, and the CCC, to advise on the low carbon transition. These institutions have attributes, discussed below, that are seen as essential to their success. Given the role proposed in energy, these analogous institutions provide relevant lessons on how clear and trusted analysis could be delivered in the energy sector.

Selected institutions are widely considered to be independent and they have received cross-party support. Interviewees from a range of organisations say that both the OBR and NICE offer independent views on controversial decisions that involve trade-offs. For example, NICE assesses the cost-effectiveness of new treatments by analysing the costs and benefits of the proposed treatment relative to the next best treatment that is currently in use. Concurrently, the OBR provides a ‘pre-measures’ economic and fiscal forecast of policy to policymakers providing them with a stable evidence base to make decisions. Since the OBR is accountable and responsive to the Chancellor and Parliament, an Oversight Board was created to strike the balance between accountability and independence (Chote, 2013). Stakeholders also acknowledge that the CCC provides independent, evidence based advice to the UK government and Parliament on the low carbon transition.
The case for an Office of Energy

These institutions enjoy cross-party support in Parliament. This has either led them to have a greater role, for example, NICE’s remit has been expanded by three governments, has eased their creation or has led to their retention across Parliaments. A recent example is the Prime Minister, Deputy Prime Minister and Leader of the Opposition signing a joint climate pledge on February 14th, 2015, committing to the CCC’s advice on the fifth carbon budget (Committee on Climate Change (UK), 2015).

They all have strong leadership and speak with an authoritative voice in public debate. Interviewees told us that the OBR’s head, Robert Chote, a former journalist, was at an early stage recognized as a credible commentator by the media. The CCC’s first chairman, Adair Turner was also styled by interviewees as an influential figure.

These analogous institutions have a clear mandate and a reputation for high quality analysis. The CCC has a strict mandate to provide independent advice on carbon budgets. It reports to Parliament on progress against carbon budgets and the 2050 target and whether the budgets and the 2050 target are likely to be met (HM Government, 2008). Interviewees noted that the CCC produces high quality analysis; for instance, its analysis on impact of policies on energy bills is thought by some to be more robust than that of DECC or Ofgem.

The OBR confines itself to analysis rather than making value judgements about the best policy options. As discussed above, it provides policy makers with a pre-measures economics and fiscal forecast and an accompanying assessment against the fiscal targets (Chote, 2013). This provides a baseline for politicians to take policy decisions and to measure the impact of their interventions. The OBR scrutinizes and certifies a table known as the ‘scorecard’ produced by the Treasury, showing the impact of policies on public sector net borrowing. It publishes detailed analysis, recognizes and quantifies uncertainty around forecasts, and provides accessible summaries of its work for a less specialist audience (Chote, 2013).

NICE’s role is to improve outcomes for people using the NHS and other public health and social care services. It has a clear framework and set of rules by which to make decisions. NICE’s technology appraisals (TAs) evaluate the health benefits and the costs of medical technologies such as medicines and surgical procedures. It uses a currency of quality-adjusted life years (QALY) to measure the health benefits associated with a technology. NICE does not usually recommend an intervention if it costs more than £30,000 per QALY unless a strong case can be made that it is an effective use of NHS resources. It has attained a worldwide reputation for producing authoritative, evidence based advice and guidelines (House of Commons Health Committee, 2013).

There are challenges in the energy sector that analogous institutions do not face. First, the political imperative for a new role is unclear, unlike NICE and arguably the OBR. NICE was set up since it is extraordinarily difficult for Ministers to take sensitive decisions in the health sector that can be defended technically but which are awkward politically. The OBR was set up in circumstances where fiscal deficit was a major issue, receiving huge attention that immediately led to its establishment. Energy, on the other hand, is inherently political and there may be little political will to depoliticize it. Also, energy outcomes, unlike health and fiscal policy outcomes, lack universally agreed comprehensive metrics. Third, as discussed in Section 1.2, the UK’s energy landscape is already crowded with institutions and other voices and it is difficult to add value in such an environment.

1.5 Views from stakeholders

Stakeholders see value in a new role to provide clear and trusted analysis on energy policy priorities, but can identify many options for how this role could be delivered. Seventeen stakeholders from the energy industry, environmental NGOs, consumer groups, industry associations, think tanks and academia were interviewed for this report. They largely agreed that trust and clarity are lacking, and that these could be usefully provided by an institution that was insulated from political pressure, actively engaged in public debate or inconspicuously excellent at technical analysis, and that has a clear mandate that does not excessively restrict political initiative.
The main points of discussion focused on whether a new role would be additional to current roles and whether barriers to its successful establishment could be overcome. Those in favour of a new role recognised that current information is not trusted, clear or authoritative, that this is preventing debate and that a new role is an effective way of filling this gap. Those against did not see a need for new information and analysis, either because they view current information as sufficient, or because more analysis will not change the debate. Undecided stakeholders thought there was a case for some reform, but were sceptical that it could be successful, or thought that small reforms to current institutions would be sufficient.

There was a great deal of interest in different options for the role, and where it would be located. This interest was generated, in part, due to the challenges stakeholders believe the new role could face – in particular the lack of political incentive to support the role and potentially unclear additionality relative to existing institutions and opinion formers – and the ways different options could overcome these challenges. However interest in different options also arose due to a sense that broader reform in the energy sector is needed and the place of this new role within that, although there was little consensus over what this might look like.

1.6 Summary of the case for change

There is insufficient trust and clarity in the analysis of the causes and magnitudes of changes in bills for the investment and policy challenges ahead. Several factors stand in the way of building trust and achieving clarity in the energy sector, related to the sector’s complex policy and market interactions. At a time of radical change in both the energy and political systems, there are unsurprising differences of opinion between stakeholders. Without greater trust and clarity on the causes and direction of changes in system performance, these tensions, which may grow in the future, threaten to inhibit investment and the efficient development of a low carbon energy supply system.
2 A framework for reform

An institution that provides trusted and clear analysis must have a consistent and politically feasible set of attributes

A framework is needed to explore the range of options for delivering clear and trusted analysis. Section 1 made the case for change and presented a core idea of what that change should be. However, considering the design of analogous institutions and, in particular, the views of stakeholders, it is clear that there are many options for how this core idea can be achieved and that a broad discussion is needed to arrive at an option that has support. To facilitate that discussion, this section first defines criteria of success for any new role to provide clear and trusted analysis, then develops a framework that maps out the range of options over key institutional attributes and illustrates how analogous institutions fit within this framework. Finally, this section considers possible relationships between the new role and current institutions. The following section, Section 3, presents a range of options based on this framework.

2.1 Criteria for success

The success of a new role in energy depends on the value and trustworthiness of the analysis it provides, and its credibility, scope and prospects for longevity. Analysis of current and analogous institutions and interviews with stakeholders highlights a clear problem and the desirability of solving it through a new role. However, there are many options for the role and so criteria are required to judge which options are best. Despite the many possible options, the criteria for success are relatively clear. A new role of providing clear and trusted analysis can be judged successful if it is established, and, once established if:

- its analysis is valuable and trusted;
- it is a credible and professional institution;
- its scope and focus are relevant and concise; and
- its prospects for longevity are good.

Its prospects for longevity depend on striking a balance between usefulness and challenge. The prospect of longevity is important if reform is to be worthwhile, and prospects can be judged on three criteria; that the institutional reform must:

- be value for money: the role’s funding will be allocated from a limited budget so it must offer at least as much value for money as other options;
- improve policy outcomes while not excessively restricting political initiative or undermining political reputations: energy has many political aspects and any analytical institution that undermines political initiative would rapidly lose support. However, analytical answers have an important role in delivering good policy outcomes and communicating such analysis clearly is a core purpose of the role, so a balance is necessary for longevity; and
- be valuable to a wide range of stakeholders: not all stakeholders will be satisfied all of the time, but an institution providing analysis across energy policy priorities will benefit from having different sides of the debate support it as the balance changes over time.
The case for an Office of Energy

2.2 The framework

The framework defines options over the scope, activities, engagement, governance and powers of a new role. This report identifies the core role that is required as: the provision of clear and trusted analysis of the balance between energy policy priorities and how this changes with policy, regulatory and market developments. The scope of this role could be broader, for example to consider issues of fairness as well as the trilemma, affordability, security and environment, or narrower, for example just focusing on affordability of bills. Furthermore, for a given scope, there are options over a range of other attributes, such as the degree to which activities are limited to analysis or also consist of making value judgements; whether engagement is passive or active; the governance arrangements, in particular whether or not the role is located in existing or reformed institutions, or as a new independent institution; and powers to consult and to have access to information. These attributes are further described in Table 1 and institutional options will be mapped onto these attributes using the diagram shown in Figure 1.

Table 1. The five attributes have a range of options, from limited to expansive

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Options for the attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope</strong></td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>Limited</td>
</tr>
<tr>
<td>Description</td>
<td>Narrow</td>
</tr>
<tr>
<td>Description</td>
<td>Focuses solely on issues of affordability</td>
</tr>
<tr>
<td><strong>Activities</strong></td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>Limited</td>
</tr>
<tr>
<td>Description</td>
<td>Analysis</td>
</tr>
<tr>
<td>Description</td>
<td>Provides information on the impact of current developments</td>
</tr>
<tr>
<td><strong>Engagement</strong></td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>Limited</td>
</tr>
<tr>
<td>Description</td>
<td>Passive</td>
</tr>
<tr>
<td>Description</td>
<td>Publishes reports and responds to requests</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>Limited</td>
</tr>
<tr>
<td>Description</td>
<td>Conventional</td>
</tr>
<tr>
<td>Description</td>
<td>Is a part of DECC</td>
</tr>
<tr>
<td><strong>Powers</strong></td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>Limited</td>
</tr>
<tr>
<td>Description</td>
<td>Weak</td>
</tr>
<tr>
<td>Description</td>
<td>No privileged position in consultations or special access to data</td>
</tr>
</tbody>
</table>

*Note: Developments refers to policy, regulatory or market developments; fairness refers to the distribution of costs across consumers.*

*Source: Vivid Economics*
Packages of options must be consistent and feasible. A role can be designed by selecting a dot on each line of Figure 1. However, not all combinations of options are consistent. For example an institution with a broad scope but weak powers may not be able to access sufficient information for its scope, or an institution undertaking value judgement activities could not have conventional governance arrangements as this could bias its judgements. Nor are all options politically feasible, which means an institution with such options will have low prospects for longevity. For example an institution with a broad scope and independent governance might need to tightly focus on objective analysis and be passive in its engagement so as to not restrict political initiative by being too vocal and prominent. It is also unlikely that any institution that is passive, with conventional governance and weak powers will add sufficient value to be worthwhile.

There are also options over the relationship of the new institutional role with other institutions. The interaction of the new institutional role with other institutions will depend on the extent and nature of reform to current institutions. While this broader reform is uncertain, there are three basic ways in which the new role could interact with other institutions:

- **disaggregated responsibilities**: responsibilities for each policy priority could be clearly assigned to a separate institution, with the new role receiving one of those responsibilities, for example reporting on affordability;

- **consolidated responsibilities**: responsibilities for policy priorities could be brought together within one institution, with the removal of institutions previously responsible; and

- **duplication of responsibilities**: the new role could have oversight and synthesis responsibilities in partnership with other institutions that have primary responsibility for those issues. This could be part of a more radical reform, for example, where some energy-specific institutions are removed and replaced by bodies with responsibility for a number of sectors, for example if BIS expanded to cover energy policy-making along with its other duties.
Table 2 outlines some possible configurations of institutions under these three categories relative to current arrangements.

<table>
<thead>
<tr>
<th>Possible relationship of new role to other institutions</th>
<th>Disaggregated responsibilities</th>
<th>Consolidated responsibilities</th>
<th>New role intentionally duplicates responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy-making</td>
<td>DECC</td>
<td>DECC</td>
<td>BIS</td>
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<tr>
<td>Network regulation</td>
<td>Ofgem</td>
<td>Ofgem</td>
<td>New Ofgem</td>
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<tr>
<td>Market competition</td>
<td>Ofgem and CMA</td>
<td>CMA</td>
<td>CMA</td>
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<tr>
<td>Affordability</td>
<td>Unclear, Ofgem</td>
<td>New role</td>
<td>N/A</td>
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<td>Energy security</td>
<td>Unclear, National Grid</td>
<td>Energy Security Board</td>
<td>New role within regulator</td>
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<tr>
<td>Climate change</td>
<td>CCC</td>
<td>CCC</td>
<td>CCC</td>
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<tr>
<td>Fairness</td>
<td>Consumer organisations</td>
<td>Consumer Futures</td>
<td>Consumer organisations</td>
</tr>
</tbody>
</table>

Note: Description of other institutions is for illustration only, rather than recommendation for how the institutional landscape could be reformed.

Source: Vivid Economics
2.3 Analogous institutions within the framework

The framework can be illustrated by analogous institutions. Figure 2 places NICE, the CCC and the OBR on to the framework:

- **NICE** has a narrow scope, focusing on health services, however, as it decides whether treatments should be provided or not, it makes value judgements; it is a technical body that does not actively engage in the wider policy debate, it has an independent statutory basis with strong powers to consult with experts and access information;

- **the CCC** has a narrow scope, focusing on climate change, and formally its activities extend to considering policy options, although some stakeholders are of the view that the CCC also makes value judgements about policy, hence the dashed yellow line; the CCC is also relatively active in debate but does not always seek to influence the debate, it has an independent statutory basis and has moderate powers of consultation and access to information; and

- **the OBR** has a medium scope, considering both the fiscal effects of government policy and general macroeconomic performance of the UK; as part of its role in considering government policy, it examines the impact of policies and is moderately active in engaging stakeholders, finally, it has an independent statutory basis and has moderate powers of consultation and access to information.

**Figure 2.** Analogous institutions are all independent, with moderate scopes and levels of engagement

Note: The dashed yellow line represents the views of some stakeholders that the CCC makes value judgements about policy

Source: Vivid Economics
3 Discussion of options

The Office of Energy is the leading option

A broad discussion of options is appropriate before a decision is taken. This section populates the framework developed in Section 2 to provide examples to facilitate that discussion. Three archetypes are provided, which represent consistent sets of attributes for each level of scope, with most other options being variations of these archetypes. One of these variations is presented, called the Office of Energy, which matches the OBR as presented in Section 2.3. Finally, Section 3.3 compares these four options against the success criteria of Section 2.1.

3.1 Archetypes

There is an archetype for each level of scope. For each level of scope there is a consistent package of other attributes that defines a distinctive institution. These archetypes are illustrated in Figure 3 and described as follows:

- **the Watchdog** vocally shines a spotlight on the affordability of bills, which requires a narrow scope, value judgements about bill levels, active engagement so that its message is heard, independence to give it the ability to make credible value judgements and moderate powers as these should be sufficient for its task;

- **the Auditor** keeps a technical eye on progress against the policy priorities of affordability, energy security and decarbonisation, which requires a moderate scope, a focus on analysis activities, moderate engagement to understand emerging issues and moderate powers; the auditor could sit within the regulator as this fits with its technical role; and

- **the Analyst** has the broadest scope, considering issues of fairness as well as affordability, energy security and decarbonisation, but unlike the Watchdog, the Analyst focuses on assessing policy options rather than making value judgements about whether policy is good or bad and is less actively engaged in the debate; however, its broad scope requires strong powers to access necessary information and the Analyst is independent to ensure its work is credible.

These archetypes take extreme positions within the framework and variations on these themes could be explored in discussions. The archetypes are distinctive options, but they are not the only ones. Variations on them can easily be considered by changing the value of an attribute, thus they may provide useful starting points for a broader discussion.
3.2 The Office of Energy

A new Office of Energy is one option, among others, which could deliver clear and trusted analysis. Figure 4 presents a variation on the Analyst archetype, which has a narrower scope and correspondingly weaker powers, but is otherwise the same. This option is equivalent to the OBR, presented in Section 2.3. This is an option that largely comprises of moderate attributes, focusing on how performance of policy priorities, such as affordability, energy security and decarbonisation, is affected by policy, regulatory and market developments. It is an institution that is invited to comment on policy outcomes, with moderate levels of engagement and no stronger powers than current government institutions, but which is independent. This option is called the Office of Energy.
3.3 Scoring of options

The Office of Energy is the leading option. Table 3 assesses the three archetypes and the Office of Energy against the criteria for success. The Watchdog scores well for its relevant and concise focus, given its single issue mandate, however, by shining a spotlight on the affordability of bills alone, its prospects for longevity are poor. The Auditor performs worst, primarily because it lacks independence, which may prevent trust and credibility from being developed. The Analyst on the other hand scores well on trust and credibility as it is both independent and has a broad scope, making it a powerful institution; however, this may undermine its focus. The Office of Energy balances the strengths and weaknesses of the other options. It could have sufficient scope and independence to provide clear, trusted analysis that is additional to current institutions, while keeping clear of political debate. Its independence would contribute to trust in its work, a characteristic the Auditor may lack. Its clear focus would make it relevant while also being concise, more so than the Analyst. Its more moderate activities and engagement would enable it to improve policy outcomes while not excessively restricting political initiative, unlike the Watchdog. So an Office of Energy is promising, but it is one of several options, and a broader discussion and closer evaluation of options would be appropriate before any decision is taken.

Note: The dashed blue lines represent the attributes of the analyst, presented in Figure 3, that are not shared by the Office of Energy.

Source: Vivid Economics
The case for an Office of Energy

Table 3. The Office of Energy meets the criteria of success primarily because of independence and a scope that is broad enough to be valuable but not too broad

<table>
<thead>
<tr>
<th>Criteria for success</th>
<th>Watchdog</th>
<th>Auditor</th>
<th>Analyst</th>
<th>Office of Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score: Medium</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Valuable and trusted analysis</td>
<td>Reason: As an independent institution it has no incentive to be biased, instilling trust, but this is tempered by its activities of making value judgements</td>
<td>Lacks the independence for trusted analysis and activities are limited to considering current policies only, reducing value</td>
<td>As an independent institution it has no incentive to be biased, and has sufficient mandate to produce valuable analysis</td>
<td>As an independent institution it has no incentive to be biased, instilling trust, and has sufficient mandate to produce valuable analysis</td>
</tr>
<tr>
<td></td>
<td>Score: Medium</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Credible and professional institution</td>
<td>Reason: Active engagement and independence result in a professional institution. However, its single issue focus may undermine its credibility</td>
<td>Location within the regulator ties its credibility to that of the regulator, while it may also lack the profile to encourage professionalism</td>
<td>A broad mandate, independence and strong powers should provide credibility and encourage professionalism</td>
<td>Independence, a relatively broad mandate and relatively active engagement provide credibility and encourage professionalism</td>
</tr>
<tr>
<td>Relevant and concise focus</td>
<td>Reason: Has a concise focus on affordability</td>
<td>Has a moderate focus, encompassing the trilemma</td>
<td>Has a very broad focus, which may reduce clarity of work</td>
<td>Has a moderate focus, encompassing the trilemma</td>
</tr>
<tr>
<td></td>
<td>Score: Low</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Good prospects for longevity</td>
<td>Reason: Likely to restrict political initiative given its judgement of policy while its narrow scope will reduce value to a wide range of stakeholders</td>
<td>Likely to provide value for money by providing a service additional to current institutions and unlikely to restrict political initiative</td>
<td>Broad focus and strong powers may restrict political initiative, although likely to be valuable to a wide range of stakeholders</td>
<td>Likely to provide value for money by providing a service additional to current institutions and unlikely to restrict political initiative</td>
</tr>
</tbody>
</table>

Source: Vivid Economics
4 Conclusions

A broader discussion on options for reform is necessary but the purpose is worthwhile

Now is an opportune time to consider a new role. At a time when there have been proposals to make changes to the institutional arrangements in the energy system, it is worthwhile examining the satisfaction of stakeholders with the status quo and then to consider whether lessons can be drawn from other sectors to address the concerns that some of them have. A new administration might have the political capital and time to fully consider the options and to make changes.

The UK has had success in creating valuable institutional roles. This track record gives confidence that it could do so again, in part because some of the characteristics that have led to previous success could be embodied in energy sector reform. UK governments have also shown commitment to consultation in energy sector reforms and a consultative approach will be necessary to fully understand the pattern of support across the range of options that is possible here. This track record includes the building of cross-party support for institutional reform and a strong role for Parliament in the governance of institutions, so a strong indicator of robustness in a proposal for reform would be its broad support across political parties and across stakeholders, and a role for Parliament.

Of the range of options which have been considered, an independent, moderate and balanced role emerges from the assessment as the most promising. This Office of Energy would draw attention to and inform discussion on the performance of the UK energy system and the impact of policies. At a time of great change due to decarbonisation, this transparency could be valuable in supporting high quality debate, policy and investment choices. In particular, there is a serious argument that the preparation of independent, trusted and credible analysis on performance and trade-offs of affordability, security and decarbonisation would reduce political risk for investors and lead to a better informed discussion between consumer representatives, the supply chain and government. If true, this would result in a reduction in political risk and hence a fall in the cost of investment, which would be of benefit to everyone.

A broader discussion is required to build a consensus of support. Interviews with stakeholders reveal clear support for a new role to provide trusted and clear analysis in the energy sector. The Office of Energy is the leading option according to the framework developed as a result of these interviews. However, there is a diversity of views among stakeholders on the extent to which reform is required and what form it should take. Thus we conclude that, while the Office of Energy is the most promising option assessed here, further discussion is needed to develop the recommendation further so that any reform is widely supported and effective.
The case for an Office of Energy

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Company Profile

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