



Regulate for the people, not just the government

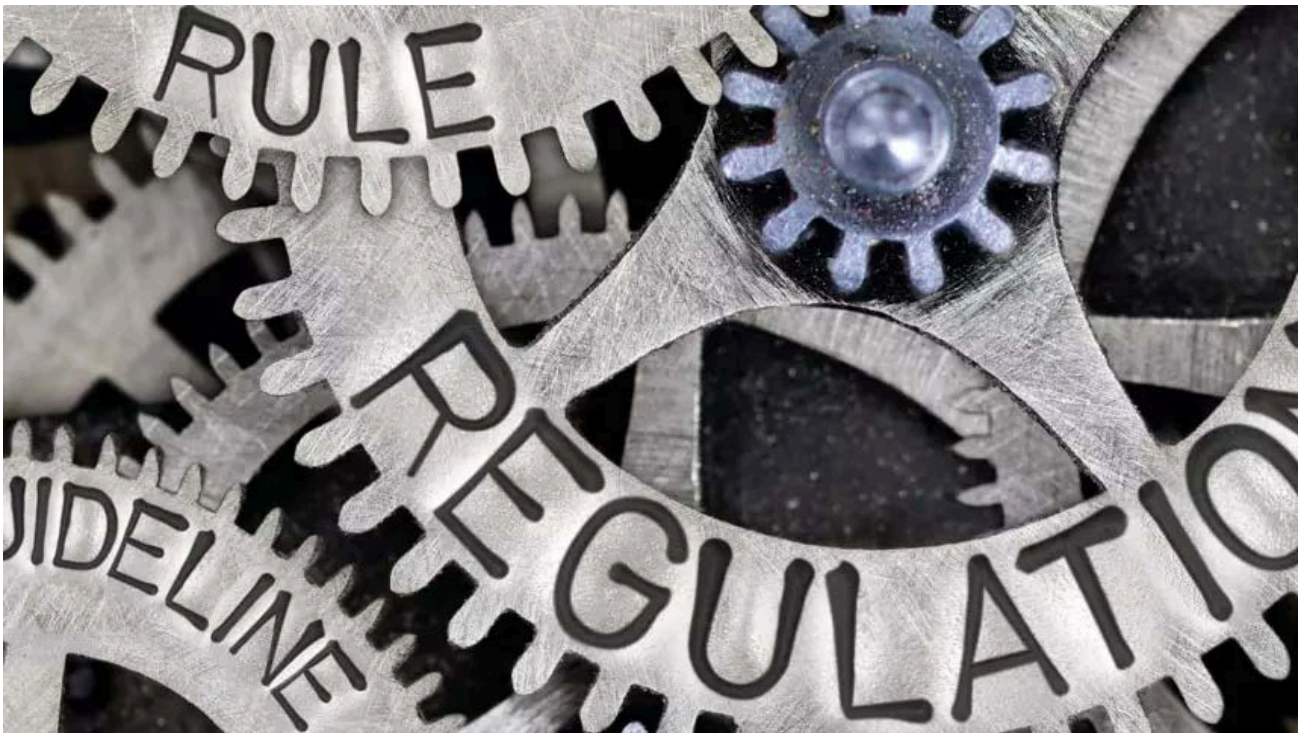
Stephen Littlechild

Published 25 June 2025

[CUSTOMERS](#) [ENERGY NETWORKS](#) [ENERGY RETAIL](#) [REGULATION](#) [STRATEGY, POLICY & REGULATION](#) [WATER](#)

Share [f](#) [X](#) [in](#) [✉](#)

[Bookmark](#)



Utilities regulation is increasingly driven by the need to carry out government policy with too little focus on customer needs. Former regulator Prof Stephen Littlechild sets out his view of how certain powers could be stripped from Ofgem and Ofwat and instead decided on a local level.

The aim of privatisation was to make the nationalised industries more effective at discovering and providing what customers want. Customers obviously wanted greater efficiency and lower prices. This was to be achieved by competition where that was possible, and by economic regulation where it was not.

RPI-X was the first stab at incentive regulation, to encourage cost cutting generally. Which it achieved. But customers didn't like the reluctance of the regulators to intervene to remove the initially high profits. RPI-X was then refined as RIIO in 2010. This was more focused on particular investments and allowed interim adjustments to changing circumstances.

This approach was supported by the regulators' statutory duties: basically, to promote competition and protect the interests of consumers.

However, over time, governments have gradually undermined these statutory duties. So now, regulators can consider promoting competition – but only if they have tried and exhausted every other possible way of discharging their statutory duties. And the interests of customers are now defined as the achievement of government policy.



So economic regulation has become essentially a means of carrying out government policy. Which at the moment is principally the government's net zero policy. To which end, Ofgem is proposing longer-term planning for electricity distribution and transmission networks, and Ofwat is proposing long-term delivery strategies.

What to think? I have some reservations.

First, some newer technologies will inevitably work better than others, or better or worse than expected. So there

needs to be some ongoing method of assessing performance and revising plans accordingly.

Second, technologies and customer tastes seem to be evolving faster than ever before. So the plans will need to be revised more frequently than before.

Third, it seems possible that technologies and their related costs will develop in such a way that local networks become more significant than national networks. For example, wind, solar and battery technologies are becoming more viable for individual premises and houses and local communities.

Fourth, customer views on technological developments cannot be assumed always supportive. We have long known of customer resistance to some transmission lines, windfarms and solar farms. But within the last two months we read Sir Tony Blair calling for a major rethink of net zero policies, arguing that limiting energy consumption and fossil fuel production is "doomed to fail". He says voters "feel they're being asked to make financial sacrifices and changes in lifestyle when they know the impact on global emissions is minimal".

To summarise, government wants the regulators to do more longer-term planning for net zero. But technology seems to be evolving so rapidly that plans will need to be constantly revised. Whether customers will go along with these long-term plans is another matter. And a respected former prime minister is calling for a major rethink.

How best to deal with all this?

The approach that I have been proposing is to make greater efforts to involve customers – and other interested parties notably environmental and residential groups – in the

electricity network and water delivery price control process, via what is known in the US as “negotiated settlements”.

Various parties are concerned about building or not building transmission lines or wind generators or wastewater treatments plants, or about the cost of such investments. Let them all talk to each other and see if they can find a mutually acceptable way forward.

Ofgem and Ofwat have previously supported a similar approach in terms of the companies’ business plans – and that has generally worked well. However, the regulators have insisted that the regulators alone should set the price cap. Which has not worked so well. The price caps have often been hotly disputed, and profitability has often seemed excessive.

So my proposal is that the regulators give the customer groups – and environmental groups and local authorities – the opportunity to put together, with each network or water company, a mutually acceptable plan. Together with an agreement about how prices should evolve. The regulator would step in if, and only to the extent that, the interested parties are unable to agree a mutually acceptable way forward.

Put simply, this would mean net zero being introduced in a way and at a rate that customers and residents would find acceptable, rather than at a rate that is forced upon them and that they reject.

Now, different network companies, residents and local authorities could well take different positions. Fine: this means that approaches would be better tailored to local conditions. And we should learn more from a greater variety of agreed ways forward, than we would if the regulator were to impose a uniform plan on all companies.

The plans would also be more flexible, because the parties would be able to reexamine the situation and agree a change of plan whenever they thought it necessary or appropriate to do so, rather than have to wait for the regulator’s next five-year price control policy.

What if the companies and their customers and the environmental groups fail to agree? Ofgem or Ofwat would step in to make a determination, which as now could be appealed to the CMA. But I think the companies and their customers and the environmental groups would prefer not to have decisions imposed upon them, so I think they would make every effort to find a mutually acceptable way forward.

To summarise, regulation has gradually moved away from promoting competition and efficiency, and more generally from trying to discover and provide what customers want. This is in favour of trying to provide what the government wants, particularly to address the issue of net zero. This could lead to unnecessary tensions and resistance. But there is a way forward, and that’s by negotiated settlements. Let each energy network and water company, its customers, local residents and environmental groups work out a mutually

agreed plan for the way ahead, in the light of government policy. Then monitor and if necessary adjust the plan in the light of events. The economic regulators would be facilitators rather than ringmasters.

Stephen Littlechild is emeritus professor, University of Birmingham; Fellow, Cambridge Judge Business School; and an associate of the Energy Policy Research Group there. He was director general of electricity supply and head of the Office of Electricity Regulation (OFFER) 1989-98.

This article is based opening remarks given at the Indepen Forum in June 2025

 **Bookmark**

[View Comments](#)

[© Faversham House Ltd 2025](#)