

Corporate Plan briefings

Domestic Customers – 16 January 2002

Making the competitive offering readily available to customers and encouraging those who are less active in the market.

- Ofgem needs to do more to target rural customers and customers from ethnic minority groups. The references to plans for this work in the corporate strategy are welcome – energywatch.
- To promote the benefits of the market Ofgem needs to do more to demonstrate actual benefits (financial) to customers as distinct from its present emphasis which is on the level of activity ie. switching rates – NCC
- We need to build a better understanding of what matters to customers and ‘market’ accordingly. Recent energywatch research identified price as being one of the major factors influencing customers’ decisions to switch. However, another key factor was the way in which customers are served by their supplier - energywatch.
- Older customers and pensioners are far less active in the competitive market. This may be due to natural conservatism, a fear of losing supply through switching and a lack of confidence in the process. Another key factor is the reliance by suppliers on distance selling (telesales etc) and a lack of face-to-face contact between supplier and customers . Older people are less used to this communication medium and this is undoubtedly a factor in the lower levels of activity among this group – Help the Aged.

In targeting older customers, an effective approach might be to make better use of trusted third parties such as local community representatives, CAB, DWP (etc) all of whom have a regular interface with older people – Help the Aged.

- The experience of the success of Staywarm was discussed and the fact that this had been built largely on referral and by word of mouth.
- It is important to get the message across that you can benefit from the competitive market without switching and that competition has served to put pressure on incumbents’ prices – NCC
- Negative publicity surrounding misselling is a real barrier to greater participation in the market by older customers and indeed all customers groups. The practices, and more particularly the media reporting of them, do nothing to build confidence in the market – NEA

Mitigating the impact of higher prices on the fuel poor which will flow from environmental measures?

- While recognising the importance of these issues, energywatch has deliberately avoided engaging in this debate and for the time being, at least, will continue to keep its head down on this instead targeting its efforts on tackling fuel poverty – energywatch
- Having taken the step to introduce new codes of practice and obligations on suppliers to give better customer advice on special services and energy efficiency, Ofgem should ensure that it gives equal emphasis and resource to monitoring compliance with these and evaluating their impact – NEA.
- With regard to energy efficiency, Ofgem could do more to encourage the consolidation of different measures in order to maximise their impact – NEA
- Beyond measures to promote synergies, such as energy efficiency, there are other instruments which will help meet environmental targets on both the supply and demand side. For example, on the supply side improvements in the efficiency of generation and distribution will serve to reduce emissions and losses. On the demand side, the development of locational signals will encourage more localised generation (distributed generation) – CA.

General

- CA expressed an interest in Ofgem's work in the Scottish market. CA had itself recently opened a Scotland office in recognition of the need to better serve the interests of Scottish customers.

Environmental Interest Groups – 22 January 2002

The emphasis and importance which Ofgem gives to environmental issues

- The emphasis and priority which Ofgem has given to the environment has increased over the course of the last three corporate plans – this is to be applauded. However, the language and tone which Ofgem tends to use to describe its work on markets and competitiveness is still far more positive and upbeat than that used to describe its work on environmental issues and energy efficiency. This does not serve Ofgem or the wider debate well – CHPA
- The new corporate strategy gives increasing priority to environmental issues which was welcomed. However, it is still disappointing that Ofgem's language on energy efficiency is not more enthusiastic.

Similarly, Ofgem has given a high profile to its work on fuel poverty, Ofgem could usefully give a similar profile to its work on energy efficiency and sustainability and generally work harder to convey a more positive message - EST.

What other contributions can Ofgem make to the environmental debate?

- Ofgem could be more proactive and open in its analysis, and constructive criticism of government measures to meet environmental objectives – EST
- Ofgem should be more proactive in expressing its views on how to tackle carbon reduction and should engage in the debate more readily and openly – WWF
- Ofgem has plenty of opportunities privately, if not publicly, to put forward its views on the environmental instruments which Government is employing – for example ROCs and their perverse effects on CHP. Similarly, the opportunities presented by future legislation on BETTA and on nuclear liabilities could be used to progress reforms and introduce more effective measures. Within Europe, there are also opportunities to engage in the wider debate. Ofgem could, if it desired, pursue these – will it? – CHPA

Are Ofgem's priorities right?

- Distributed generation

The proposals on distributed generation are welcome. The transmission access and losses proposals will provide important incentives for the development of more decentralised and distributed generation – CHPA.

While determining the new Distribution price control framework and the implications for distributed generation (and vice a versa), Ofgem should be careful not to stand in the way of any commercial opportunities for the development of distributed generation that might emerge before these issues are fully addressed – EST

- Industrial structures

Ofgem needs to be thinking now about the likely forms of generation for the future and addressing now the distribution arrangements which might be needed to support these so that regulatory issues do not impede their development – CHPA.

- Emissions and losses

Ofgem should be applying as much effort to reducing losses in distribution as it appears to be in transmission – EST

- Energy efficiency

Ofgem could be far more proactive in giving customers advice on energy use. It could do more to encourage more efficient use of energy and help customers to make more informed choices about the type of energy they use – WWF.

A note of caution on energy efficiency: energy efficiency measures will always be second order in terms of the range of measures which can have a real impact on reducing carbon. Similarly, energy efficiency could have the perverse effect of

increasing energy use and therefore the consequential harm on the environment – SEPRA

- Electricity Storage

A more important priority should be the development of electricity storage technology. This is a particular priority for the energy industry in Scotland which is likely to be a heavy investor in the development of renewable energy. Storage will be key to the commercial success of renewables – SEPRA.

- NETA and cost reflectivity

There are question marks over whether the prices realised in the balancing mechanism are truly cost-reflective. The continuing doubt about this, and the criticism it attracts, is damaging. It is in Ofgem's interests to undertake a fuller and thorough analysis of whether NETA is fully cost reflective. Some work on this now, or following further BSC modifications, could tackle the criticism as well as demonstrating the efficacy of the modifications process to address distortions. Similarly, by undertaking this work Ofgem could shift the responsibility of tackling the issues facing renewables and CHP back on to Government – Carbon Trust

- Encouraging new thinking about the definition of energy services

Ofgem could be instrumental in encouraging more radical thinking about the definition of energy services. At present we purchase a commodity - gas and electricity - not a service. New ways of packaging and selling energy services are required from suppliers – SEPRA

The profiling of energy flows is also key. In the absence of more sophisticated metering systems, and appliances which integrate with these, we are not in a position to manage our energy consumption more intelligently and efficiently. Developments in metering and appliances will contribute to improved efficiency, lower energy costs and greater environmental benefits. If Ofgem directed the same level of energy and creativity to addressing these issues as it did to the implementation of NETA, then we could make much bigger strides - CHPA

Licence fee payers – 23 January

Balance of resources

- Ofgem is streets ahead of other utility regulators in Great Britain.

Is the allocation of resources to projects right? Are 30 people enough in price controls in view of importance of developing RPI-X? Are 4 people sufficient resource to allocate to the important work in Europe? Overall, is the apparent 50:50 split between policy and operations staff right? - TXU

- Ofgem is right to place its emphasis on the quality of staff rather than the quantity. Is Ofgem working to reduce its staff turnover? – SP

- Is the pool of contractors from which Ofgem draws support sufficiently broad and deep? Can this be improved? - NCG.

Improving the way in which Ofgem works

- Ofgem needs to take a different approach to how it develops certain policy. A preferred approach would be to spend more time at the beginning asking questions in order to better define the problem before moving to developing solutions – often the emphasis was the other (and the wrong) way round – Transco.

There was some discussion about Gas Balancing as an example of an issue which could have, but failed, to generate industry solutions to the problem. On this Transco felt that balancing was not such an immediate priority for the industry. In future Ofgem could benefit from giving clearer signals its expectations of industry to identify solutions.

- Is there more that Ofgem could do to get staff out into the industry to improve understanding of industry issues and pressures? - TXU.
- It is important to maintain transparency in the workings of Ofgem and of the Authority. Greater contact with the Authority is welcomed - TXU.

Interaction with other regulators

- Could Ofgem bring more of its influence to bear on other regulators! – TXU

Are Ofgem's priorities right?

- Security of supply considerations and the price control reviews are the key issues going forward while Transmission access should drop down the list – SP
- The level of detail on regulatory accounts that Ofgem was demanding was excessive. Ofgem is now seeking information below the level at which companies do, and can, account for their costs – NGC.
- In looking to the forthcoming price review, some of the uncertainties which will be created by the PIU need to be addressed so that the right measures can be identified – EME.
- The metering and connections work is less of a priority, although it was noted that both were worth a lot of money - LPN

Major energy users – 24 January 2002

General

- Customers urge evolution not revolution in the on-shore gas market. A revolution, however, is required offshore and in Europe! – EIUG.
- There is general concern about lack of references to I&C customers in the corporate strategy – was this reflective of the priority which Ofgem was giving to I&C customers? Lagar/Laser and UCC.
- Generally, Ofgem should focus its effort (this year) on bedding down the major gas and electricity reforms which have been effected and ease off on further reforms, in particular, proposed exit capacity arrangements – MEUC
- Ofgem needs to ensure that it is pragmatic in its proposals and strikes a better balance between pragmatism and market fundamentals. The example of LTIS was given. Here the concern is that debate to secure a perfect economic solution may slow down important work which is needed now to bring investment into the network - CIA.

The impact of reforms on customers

- There is concern that an incentive (and penalty) based approach to gas market reforms have a real impact on customers because the costs of these are ultimately borne by customers. If the concern which these reforms seek to address is one of security of supply, then surely that can be met by the use of other (statutory/legal) powers? – Lagar/Laser
- Is there a risk that the increasing expectations of Government and others for companies to meet wider social and environmental responsibilities will mean that the greater costs associated with the implementation of these will be passed on to I&C customers – CIA

Cost benefit analysis

- In its proposals, Ofgem should identify more clearly the costs to customers, as well as the benefits – EIUG.
- It is disappointing that despite Ofgem having been consistently and regularly criticised on cost benefit analysis that such little mention is made of it in the corporate strategy. It is important that Ofgem addresses itself to this – MEUC.

Are Ofgem's priorities right?

Market monitoring and enforcement

- There is a real concern, and interest in the amount of resources that Ofgem is dedicating to market monitoring and enforcement – EIUG, MEUC and UCC.

Gas Balancing

- On gas balancing the view is that this is more of an issue of policing current arrangements than needing to reform arrangements. It is important for Ofgem to understand that the commercial impact of these reforms will be fed through to customers in terms of greater costs – MEUC

Any system that required detailed forecasting is flawed - it is difficult enough for Transco to forecast with any degree of accuracy on the basis of present arrangements – MEUC

- **Metering strategy**

This appears to be slipping down Ofgem's agenda in terms of priority - MEUC

- **Standards of Performance**

There is concern that these are based on the numbers of customers per company. However, larger customers should count for more than just one customer. Ofgem's approach to this needs to be more sophisticated and it is hoped that the IIP process might provide an opportunity for review. - UCC

- **Data quality**

There is concern that the lessons of Independent Energy (IE) have not been learnt. IE failed because it did not have the accurate data to bill customers. This problem is ongoing - there is a real issue over the quality of data, particularly for multi-site customers - UCC

- **NETA**

There is clearly a need for further work to extend NETA to Scotland (BETTA). However, customers are keen to see continued priority given to developing the demand side aspects of NETA. The new demand-side working group is welcome but it was disappointing to see no reference to this in the strategy - EIUG

Similarly, there is grave concern over any attempt to tilt the NETA market in favour of renewable or smaller generators in response to wider political pressures - EIUG

- **Europe and Offshore**

Wholesale prices are heavily influenced by linkages with oil prices and anti-competitive European prices. Ofgem should continue to press Government and the Commission to tackle this - MEUC.

- **Gas blocking**

The success on preventing suppliers from blocking electricity transfers must be replicated in gas - MEUC

- **Electricity consolidation**

Electricity distribution businesses are becoming too large. Further consolidation is contrary to key principles of NETA which are about creating competitive markets - UCC

- **Transmission access**

If the system aint broke don't fix it. The capacity constraint problems on the Transmission system are not of that same order of magnitude as those for gas. Transmission access reform is not a priority – UCC.

- **Governance**

There is no effective customer involvement in the process for gas governance as there is in electricity - MEUC.

Public meeting - 28 January 2002

General

- Transparency of working - SP

Will the Authority publish its minutes and details of its discussions to help make the work and role of execs and non-exec's more transparent?

- Contingency planning - energywatch

In view of the heavy programme of work (again) does Ofgem have a contingency plan? What would it jetison if the pressures of planned or unplanned work become too great?

- Reform implementation - Centrica

The lead-time to implement reforms is great and often Ofgem does not appear to recognise or take account of this. Lead times are driven by the need to make internal business cases, implement change programmes and update IT systems. In this respect, it is key that Ofgem gives industry as much notice of reforms as possible to ensure that industry can deliver.

In this regard the development of a three-year plan is a welcome step and should be acknowledged as such.

Cost/ benefit analysis

- Ofgem states that its impact is great and far outweighs the costs it incurs. Is there more Ofgem could/should do to value the impact of its work and reforms, a key component of which is to identify more clearly the costs associated with its actions – AEP.

- Ofgem's actions create regulatory risks. These have costs which need to be identified and factored – AEP
- The references in the plan to regulatory impact assessments are somewhat begrudging. What is Ofgem doing to adopt the recommendations of the BRTF report in this respect? Unknown
- With reference to gas balancing, Ofgem cites security of supply as a key driver for reform. Companies need to understand the economic aspects of security of supply in order to inform their responses to proposals – Centrica

Consultation and communication

- Does Ofgem intend to publish its consultation best practice standards? Will Ofgem respond to companies/others to answer views which are submitted? It is important for companies to understand Ofgem's position – Shell Gas UK
- Does Ofgem look to other regulators and share consultation best practice? – Powergen
- In the context of gas balancing, Ofgem could have done more to communicate clearly its expectations of the industry. In this case, Ofgem expected industry to work up solutions but was this message effectively communicated? – Shell Gas UK

Are Ofgem's priorities right?

- Disappointingly there is no mention in the corporate strategy of market surveillance and enforcement. Is Ofgem committed to this in gas? It is important and Ofgem needs to give more emphasis to this work. - MEUC
- Once again Ofgem has a large work programme. Ofgem does not recognise the pressures that are on industry to deliver on reforms and implement change. It is important for Ofgem to review its priorities closely with industry and, where necessary re-prioritise the priorities.
- The development of RPI-X is a greater priority than Transmission access. Under Ofgem's transmission access proposals there will clearly be losers, namely remotely located renewables providers. This is a concern – NGC
- BETTA is a key market reform and welcomed. If legislation is not forthcoming does Ofgem have a plan B? - Powergen

Groups representing Scottish domestic and business customers – 11 February 2002

Environment and energy efficiency

- It is important when considering future environmental measures and targets, and their costs, that these are looked in the wider context of their impact on Britain's international competitiveness - CBI.
- There is a clear role for Ofgem to play in informing the debate which the PIU will begin on future energy and environmental policy – will Ofgem play a full role in this debate? CBI
- What more can Ofgem do to promote efficient use of energy an important way to help bring down household energy costs? Ofgem needs to consider this, in particular, in anticipation of the new Energy Efficiency Commitment which has a much greater value to households than its predecessors.

Experience shows that the most effective way of giving advice on energy efficiency is through face to face contact. Under the Warm Deal advice giving is a compulsory part of the package. Ofgem should consider requiring this of suppliers under the new EEC – EAS

- The PIU report is likely to set higher targets for improved energy efficiency. What role will Ofgem play to encourage more efficient use of energy? EAS

Wholesale market reforms

- In 95 and 99 there was a requirement for divestment in England and Wales to encourage more competition in the generating market. Why was there no comparable divestment programme in the Scottish generation market?

BETTA is at least three years away from implementation. This means that Scottish customers will be at least three years behind customers in England and Wales in terms of benefiting from more competitive markets. BETTA should be a key priority for Ofgem .

Is there scope for transitional arrangements while we wait for the implementation of BETTA. As the Scottish wholesale market gears up for more competition new suppliers need encouragement to enter the market now to set up contracts and prepare for BETTA so that they are able to take full advantage when BETTA takes effect – Arjo Wiggins.

- BETTA is a key development for Scottish customers and Ofgem needs to build support for these reforms within the political and wider community.

Retail market issues

- There are around 200,000 customers in remote communities who are currently subject to teleswitching arrangements. This gives advantage to the incumbent

supplier and makes it difficult for competing suppliers to enter the market – reducing the choice available to customers on teleswitching arrangements. Similarly, there are Scottish customers in rural areas who are not connected to the gas network and cannot benefit from dual fuel offers. These are factors particular to the Scottish market which impede the development of competition and customer access to better deals - SCC

- Ofgem's focus appears to be on customers on teleswitching arrangements in the SSE area but there are a large number of customers on similar arrangements in Scottish Power's area - energywatch
- Ofgem has a key role to play in the work to promote competition and encourage customers to take up the benefits of the competitive market. Customers main experience of the competitive market is through the contact they have with suppliers, mainly on the doorstep. Ofgem, as the independent regulator, has an important role to play to lend credibility and help build customer confidence in the competitive market and the benefits of switching supplier – SCC

Other points

- There is poor information about Scottish generation prices and the generation market. This disadvantages suppliers and customers.
- There are problems with generation connections in the North of Scotland – Ofgem needs to address this.
- Ofgem claims that current generation margins are 30%. How real is this margin? Some generation is interruptible, other non-firm (eg some renewables) and some plant is reaching the end of its life. Is this plant included in the 30% margin available.

