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Our Ref:
AKP/ACB/OCS

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Gill Whittington
Chief Operating Officer
The Office of Gas and Electricity Markets
9 Millbank
London
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Dear Gill,

Please find below our response to Ofgem's proposed corporate strategy for 2003-2006. It is positive to see the efforts over recent months to engage and communicate more closely with the industry, and we found the recent workshop that took place in Millbank valuable for gaining a greater understanding of the reasoning behind Ofgem strategy.

As an electricity distributor, we are pleased to note Ofgem's recognition that its work should have particular relevance to the long-term investment needs of network businesses, e.g. taking into account developments such as embedded generation.

The key drivers behind the 3year plan are comprehensively outlined through the theme of the document and this is further evidence of greater transparency being developed by Ofgem. However, we do have continued concerns regarding the scope and prioritisation of Ofgem's objectives. Given the timetable of events, we remain concerned by the number of often complex issues for consultation to which we will be required to provide considered responses.

We endorse Ofgem's stated commitment to controlling costs and delivering value for money, especially when remembering that the costs incurred fall ultimately to consumers. In terms of the proposed budget, we would like to see increased transparency e.g. it is difficult to make year on year comparisons, as well as a greater breakdown of costs. This would contribute

to the effectiveness and efficiency of Ofgem as a regulator and the streamlining of regulatory objectives.

In our response to previous corporate plans and budgets we have consistently asked for Ofgem to use Regulatory Impact Assessments (RIA) as a tool to ensure that the correct work-streams are focussed upon. Once again we ask that Ofgem take these comments on board to ensure both greater transparency and better value for customers.

A number of more specific, detailed comments are provided below.

Workplan

Scope & Prioritisation

The scope of the timetable for 2003/4 is challenging, especially when remembering that projects significant to distributors, such as DPCR 4, incentivising distributed generation and a regulatory framework which ensures longer term network resilience are inter related and as such need robust project management to avoid slippage and ensure consistency.

There are still significant ongoing issues in areas such as credit cover, and Asset Management that are not immediately evident on the face of Ofgem's work-plan. Furthermore, the prioritisation of areas of work is a cause for concern with specific regard to the demands placed on companies' resources at the time of a price control review in relation to other intended projects.

Ad-hoc papers on mergers and other industry developments will no doubt swell the amount of consultations needing a considered response. Recognition of the volume of consultation responses, compliance returns, long term projects and not forgetting the day to day running of the business, should be factored into the decision making process. This points clearly to the need for RIA and cost benefit analysis, in order to demonstrate a robust decision making process for project scope and development going forward.

Budget

As stated, we endorse Ofgem's commitment to controlling costs and delivering value for money. The £36.0m estimated costs of Ofgem (still no indicator from energywatch regarding their estimated costs for the same period), does not include the indirect costs of regulation which falls on the companies and ultimately the consumers.

We note that over the period 2003-6, staff numbers are forecast to fall, whilst staff costs increase and hope that this is indicative of efforts to retain high calibre, quality staff, as this is essential to understanding the complex issues faced by the industry and will help to ensure better regulation.

This year there has been greater transparency in some areas, such as Ofgem's income, but less consistency in the naming of work themes from last year, making it difficult to identify and compare savings and expenditure. We would suggest greater transparency in this area.

Finally, a detailed annual review of actual performance and spend against predicted performance and spend would be a valuable tool in assessing and demonstrating Ofgem's effectiveness and efficiency. Although Ofgem's annual report for 2001 went some way to addressing the achievements made against actual spend through its "milestones and outcomes" section, it provides only a high level summary rather than a meaningful review.

I hope you find our comments to be constructive and helpful.

Yours sincerely

A.K. Phelps
Regulation Director