

Our Ref: DB.4100.ja

Email to [chris.chapman@ofgem.gov.uk](mailto:chris.chapman@ofgem.gov.uk) & Post

8<sup>th</sup> October 2003

Chris Chapman  
Head of Planning  
Office of Gas and Electricity Markets (OFGEM)  
9 Millbank  
London SW1P 3GE

Dear Mr. Chapman

**Re: OFGEM's Three Year Strategy 2004-07**

I refer to Sir John Mogg's recent communications seeking views on various matters in relation to the above.

The greatest challenge likely to be faced by OFGEM over this period will be pressure from various parties and interest groups to "bend the rules" and hence distort the market in favour particular objectives, particularly on environmental grounds.

It is important that the Authority's response to these pressures continues to be to insist that to the extent that action in pursuit of these objectives is desirable, they should be explicitly and transparently introduced by government through public expenditure/taxation and not by OFGEM allowing the market to be distorted.

The most important new area of work which OFGEM should address relates to security of supply issues. It is clear that the generating plant margin has fallen significantly and, whilst price signals may now encourage new investment in generating capacity, and the recommissioning of mothballed plant, it is not certain that this will occur in time to avoid a shortage of supply at peak demand periods. OFGEM might wish to consider the reintroduction of some form of capacity payment via the system operator to provide a limited level of income to ensure plant remains available. It should be possible to place an economic value on this. It is not certain that this would result in an increase in prices; there may be some offsetting fall in the energy price given the increased level of competition that would then be available.

Yours sincerely

**David Brewer**  
Director General