



ScottishPower

Mr Chris Chapman
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Dear Chris

Ofgem's three year strategy 2004-07

We are writing on behalf of ScottishPower in response to Sir John Mogg's invitation to comment on Ofgem's strategy for the years 2004-2007. We welcome this opportunity to give our views on the appropriate priorities for Ofgem over this period in the light of the challenges that it faces. We have recognised the positive steps taken by Callum McCarthy in developing a fuller understanding of Ofgem's role and aims and welcome the close look being taken by Sir John Mogg and Alistair Buchanan at the strategic choices for GEMA and Ofgem in the coming years.

In broad terms, we believe that much of what is in the existing strategy document for the years 2003-06, which was set against the background of the Government's Energy White Paper, remains valid. However, we believe there is now a need to narrow down the range of tasks over the next year or so in order to give greater focus to the top priority deliverables. Simply put, there are "must do" items that need to be in place over the next two or so years, while other "would be nice" items should now be put off until time is available.

ScottishPower believes that Ofgem's key priorities over the next two years should be:

A fair and equitable commercial and contractual framework for GB trading and transmission arrangements;

A framework that encourages investment in a mix of generation to achieve environmental targets while ensuring security of supply;

A distribution price review outcome that provides investment to accommodate distributed generation and address the ageing network asset base; and

Agreed funding arrangements for investment necessary to accommodate the impact of renewable generation on transmission networks.

We are of course aware that the current distribution price review is seeking to address a large number of other issues as well as distributed generation, such as quality of supply, losses and metering competition. However, while these are important issues, they are secondary (in our view) to those listed above. Further, progress in these other areas has been less rapid than previously expected. It is far more important that work in these inter-related areas is comprehensively carried out than to meet a pre-set timetable. We therefore believe that work in these secondary areas should not be constrained by the timetable of the current distribution price review.

We set out below ScottishPower's views on the issues raised and look forward to the publication of the draft strategic plan in January.

(1) Key challenges for the industry in the short to medium term

The key challenge remains ensuring consistency between the Government's broader energy and environmental objectives and the current price control regime, which promotes cost efficiency and energy price reduction, while maintaining reliable supplies of gas and electricity.

The current strategy includes a strong focus on "rewiring" Britain to meet the Government's energy policy objectives. Developing a robust framework to deliver these objectives, and in particular the expected growth of renewable generation is a key challenge for the industry in the short to medium term. This framework needs to be in place as a matter of urgency so that targeted infrastructure reinforcement proceeds in a timely fashion.

Measures based on emissions reductions are vital and fuel security is also a key issue which in certain circumstances may have CO₂ implications. Renewable energy and energy efficiency are fundamental areas for future expansion and energy efficiency is a critical part of tackling fuel poverty.

It is also important that arrangements for GB trading and transmission are progressed urgently if the target implementation date of April 2005 is to be met. However, we recognise that Parliamentary time is also an issue here.

A further challenge is the need to develop an integrated approach to network investment, security of supply and standards of performance. While customers' expectations of security of supply are increasing, this has not yet been recognised in industry planning standards. The storms of October 2002 and resulting claims for compensation have brought into relief the question of what security of supply distributors should be expected to deliver and how the corresponding resource requirements should be met. We look forward to participating in this debate to help develop a durable outcome for the longer term.

(2) What action should the Authority take to respond to these challenges

While these challenges are being recognised and addressed by Ofgem under its existing strategy there is a need to concentrate on key priorities over the next couple of years. For example, there is a greater need for a robust framework to deal with investment and other issues relating to exceptional events, than the wider review of quality of supply. While that wider review is important it should not be artificially constrained by the distribution price review timetable.

The incentives and regulatory mechanisms for development and refurbishment of the UK electricity infrastructure should deliver an investment driven framework with clarity and certainty of returns rather than further asset sweating.

Regulation has been successful thus far in reducing energy prices, securing efficiency gains and assisting in early market developments in renewables and energy efficiency. We are supportive of open markets for energy and in principle also for the trading of emissions. Regulation will, however, require to be developed and refined in order to continue to deliver the diverse demands of energy policy addressing such needs as fuel poverty, renewable technology development, fuel security and rural employment.

If energy efficiency is to achieve its target levels then a number of barriers must be tackled including regulatory difficulties surrounding energy services deals. Energy services contracts and sound customer relationships are key and energy efficiency products and services need a long term framework within which to evolve.

(3) Are there new areas that should be set in train?

We welcome the greater use of Regulatory Impact Assessments (RIA) in Ofgem's consultation papers where policy changes are put forward. However, we believe that some changes to the way these are compiled should be considered. Firstly, we believe that estimated costs of parties other than Ofgem could receive more attention. There is a tendency at present for these to be dealt with in very general terms, and sometimes with little or no quantification. Secondly, benefits are also sometimes dealt with in mainly qualitative terms (such as "greater choice for customers"). While such observations are useful, we believe that more could be done to quantify benefits, so that these can more readily be set against the costs of the changes concerned.

(4) Is there existing work that should be given lesser or greater priority or stopped?

We support the themes for driving Ofgem's work over the next three years as set out in the current 2003-06 plan and see these continuing to set the framework to 2007 for Ofgem to continue to promote effective competition through replacing traditional regulation with a greater reliance on competition powers. In view of the current climate we believe that securing Britain's gas and electricity supplies should be the overriding priority in the short term.

We are concerned that now that Ofgem has recognised that competition is established in both the wholesale and retail markets that over 60% of Ofgem effort is still being allocated to competitive markets. Even without BETTA the level is still over 50%. Ofgem must let the market do its work and reduce effort in this area.

There is a need for competition in connections to take greater account of priorities in other areas such as the Information and Incentives Project (IIP) and distribution losses. This is because third party connectors are focussed on providing least cost connections, and at present have little or no incentive or requirement to take account of possible impacts on distribution losses or quality of supply. We would like to work with Ofgem to ensure that such considerations are given more weight in future, for example in considering changes to technical standards.

As noted above, there are a number of issues being addressed as part of the current distribution price review which we believe are of secondary importance. While work on these should not be stopped, it should not be constrained by the price review timetable.

Yours sincerely

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