

15 October 2003

Sir John Mogg
Chairman
The Gas and Electricity Markets Authority
9 Millbank
London SW1P 3GE

Dear John,

OFGEM'S THREE YEAR STRATEGY 2004-2007: DTI RESPONSE

Thank you for inviting us to contribute to the formation of Ofgem's Three Year Strategy for 2004-2007. There are a number of key areas on which we hope Ofgem will focus.

Summary

Following recent events in the UK, and internationally, we believe the priority must be to ensure that there is **security of supply** as well as **investment in the infrastructure**. How Ofgem plans to deliver the Energy White Paper's **social and environmental objectives** is something we look forward to seeing in the strategy. Ofgem's work facilitating **new transmission for wind farms** will also help towards the aspirations of the Energy White Paper. We also hope to see Ofgem's strategy for playing its part in helping the Government drive forward **energy liberalisation in Europe**. Last, but certainly not least, is Ofgem's **consumer agenda**.

Detail

On **security of supply**, you do not need reminding that there is currently a great deal of external focus on the potential of a capacity shortage this winter. We all must continue demonstrating the importance we attach to ensuring the market, and market participants,

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deliver energy security. The power cuts on 27 October 2002 and more recently in London and the South East on 28 August and in the Midlands on 5 September, coupled with events over the summer in North America and Europe have also raised questions of **investment in the networks**; the standards of performance for the networks; and the operational controls exerted through licence conditions. Your review of distribution price controls will provide a clear lead on future investment. We should all have been able to analyse the reports on the most recent UK power cuts before your current three year strategy is published.

We can already demonstrate that significant progress has been made, through the Joint Electricity Security Of Supply (JESS) Group, which has provided a means of bringing together Ofgem and DTI thinking on this issue. The twice yearly reports monitoring electricity and gas security of supply are an example of this. I hope we can build on this early success.

We also look forward to seeing your plans to achieve **the social and environmental objectives**, targets and aims set out in the Energy White Paper. We hope to encourage a “partnership” approach that allows all the key players to work towards the same objectives. Ofgem has a key proactive and constructive role to play in this process. The Draft Social and Environment Guidance should help focus work in this area. Our view is that we do not wish to be prescriptive in how targets are achieved. We hope that Ofgem will report annually on progress, setting out a full analysis of the likely impact of any decisions on social and environmental targets and aims, and reporting on how its decisions have impacted on the targets

Renewable energy can make a significant contribution to the UK's electricity generation mix. As has already been highlighted in the Energy White Paper this will mean that there will be major sources of generation in areas poorly serviced by the existing transmission network. We hope the strategy will look at how the **distribution and transmission network** can be made available at the same time as the first **wind generation projects** are ready for construction. The Transmissions Issues Working Group (TIWG) has started the process of identifying throughout the UK where new renewable energy generation is planned, over the next 10 years. The TIWG studies, the Renewable Energy Transmission Study and the England and Wales Transmission Study (RETS and EWTS) indicated the work required, with budget costs, to add an additional 12 GW to the transmission network. We are pleased that Ofgem has facilitated some initial planning work on this project and we hope this will continue.

The costs of additional transmission lines, including the offshore hubs, will need to be treated as an extension to the Transmission Network, and added to the Regulated Asset Base. We hope future Ofgem involvement designing the regulatory framework for offshore wind will be another key component of future strategy. I hope we will continue to co-operate to ensure this work progresses.

We know that Ofgem is keen to be more engaged in the **European energy debate**. The increase in gas imports highlights the importance of achieving full liberalisation,

competition and interoperability (including gas quality) within the EU. In addition, there is an important longer-term agenda on which we must remain on the front foot, notably a possible commission initiative on security of supply. I know your team are already working closely with Liz Baker (020 7215 2769) and Sue Harrison (020 7215 2778) on all of this. Your input has been extremely valuable and I hope we can continue this close collaboration so as to achieve the best results for the UK.

Underpinning all your work is, of course, the **interests of the consumer**. We hope your strategy will look at the continued failure of electricity suppliers to reduce in-area prices for domestic customers. The apparent slowdown in transfer activity will tend to reduce market pressure on suppliers to make such reductions. A strategy which will set out the ways in which more consumers can be encouraged to switch supplier would be welcomed, without the adverse effects that have, in the past, accompanied the marketing of offers. Detailing how Ofgem will work with disadvantaged consumers, and we see this as complementing other activities on the social agenda, would also be well received. Your thoughts on how you will work with Energywatch, on both a tactical and strategic basis, to deliver the common objective of permanently reducing consumer complaints to a minimum within the strategy period, will also be welcomed.

There are other issues which we believe should be on your radar such as public safety, to help reduce fatalities and injuries due to contact with overhead lines. Making networks more resilient to storm damage and reviewing competition in connections are also items which, we are sure, are on your agenda.

I know that our officials are already working well together to ensure that these issues are being tackled. I hope that this will continue. I look forward to seeing your 2004-07 strategy.

Yours ever,

A handwritten signature in black ink, appearing to read 'Joan MacNaughton', written in a cursive style.

JOAN MACNAUGHTON

DG Energy