

RWE Innogy



Chris Chapman
Head of Planning
Ofgem
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Dear Chris,

Ofgem's Three Year Strategy 2004-7

RWE Innogy welcomes the opportunity to comment on your future strategy and plan. The format of the consultation process in respect of the development of this plan is one that we find easy to engage with and we thank you for the opportunity to contribute.

The key points for RWE Innogy in relation to Ofgem's activities are:

1. Ofgem is no different to any other business, in that it needs to evolve to take account of the changing environment. One area we believe is key for the future is the move away from more formal regulation (in some areas) to one of facilitating change.
2. Ofgem has a role to play in creating the environment within which businesses operate. Stability is key here and we would ask that markets are allowed to develop and not be the subject of micro management when a consideration in the round may be appropriate.

Our more detailed points follow:

- Regulatory Stability

The electricity and gas industries are characterised by long-term investment and planning horizons which require regulatory transparency and stability. Accordingly, Ofgem should be mindful of their influence and ensure that their objectives are complementary to this environment, particularly when the industry moves into a period of more challenging capacity balances.

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- Europe

We appreciate the involvement of Ofgem and DTI in European matters and feel that they have helped to avoid issues that might otherwise have transpired.

Ofgem should continue to press for the liberalisation of Europe's energy markets whilst ensuring that our policies are not developed in isolation. The reverse is also true that Ofgem should input into European policy development such that as far as possible the impact is consistent with our market.

- Working with Industry

There have been many examples of industry participants working together and with the regulator to introduce new industry arrangements or to improve existing procedures. This is mature interaction between the industry and its Regulator and should be explored fully before resorting to formal regulation.

The review of customer transfer procedures is bringing together key industry players, customer representatives and the regulator. Ofgem has a key role to play in assisting in the process and helping to facilitate any change. It is therefore appropriate that the project should retain its place within this three-year strategy. We look forward to Ofgem and industry working together on future projects for the benefit of customers.

- Energywatch

There have been suggestions that Ofgem should withdraw from areas where energywatch are active. We would caution against this.

energywatch describe themselves as a partisan consumer advocate and as such they cannot be expected to offer more than a limited analysis of industry issues. We are not seeking to deny energywatch's role, merely to point up their lack of requirement to be omniscient.

- Monopolies

We hope Ofgem continue to ensure that (natural) monopoly businesses are appropriately managed and maintained.

- Social and Environmental Objectives

We believe the number of occasions where energy companies provide the most efficient channel for Government to achieve its social or environmental objectives is relatively limited.

Most importantly, instruments should not be designed that seek to meet both environment and social objectives when these are mutually inconsistent.

- Costs

Like all businesses and especially those that derive their income from the regulated companies, it is essential for Ofgem to have an open and transparent budget that has been challenged on the basis of value for money. It is also for Ofgem to justify the balance between regulating competitive markets, monopoly businesses and social and environmental responsibilities. We hope Ofgem keep these points in mind when setting the budget for the coming years.

The next stage of the process includes the publication of the Strategic Plan for consultation. It would be a useful comparator at this stage to include information on how the current plan is performing against budget using the same format as in your Corporate Strategy for 2003-2006.

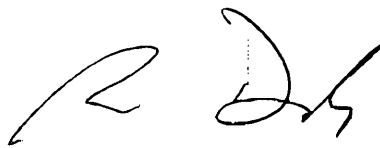
- Ofgem Organisation

Ofgem's role over the years has changed and will continue to do so. As in any organisation it is important to ensure that the internal structure fits the needs of the environment. We are therefore pleased to note that one of the first actions of Sir John Mogg is to carry out a review at Ofgem.

We would ask you to focus on the balance between regulating competitive markets, monopolies plus the social and environmental aspects of your role.

There is perhaps a subtler shift in emphasis, from that of the more formal regulation that has been necessary in the past, and is appropriate for monopolies, to one of facilitator. This is perhaps a change in role for Ofgem and you will need to ensure that the people have the appropriate skills.

Yours sincerely,



Andrew Duff
Chief Executive Officer