

**Summary of responses to the Corporate Plan
2004-7 consultation letter**

January 2004

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1. Respondee

This document summarises the main points made by respondents to the open consultation on Ofgem's strategy for 2004–7. Copies of the full text of all responses can be downloaded from the Ofgem website (by selecting 'Corporate planning' from the drop down menu on the home page). The organisations and individuals listed below provided responses.

Aquila—owner of the electricity distribution network in Midlands area

Association of Energy Producers—trade association for the electricity generating industry

BEMCA—representative body for the UK Meter manufacturers and metering system providers

BG MicroGen—developing a micro-combined heat and power (CHP) unit as a replacement for domestic gas boilers; part of BG group, upstream gas producers

BNFL—state-owned company responsible for power generation from the remaining operating Magnox nuclear power stations, as well as other activities in the nuclear sector

BOC Gases—supplier of gases to many industries; major consumer of gas and electricity

BP—major oil and gas explorer, producer, and refiner; significant source of gas to the UK market

British Energy—nuclear power generator.

British Hydropower Association—trade association for the UK hydropower industry, representing about 120 companies

C E Electric UK—parent of Northern Electric distribution and Yorkshire Electricity distribution; CE Electric is owned by MidAmerican Holdings

Centrica—major integrated energy company

Chemical Industries Association—represents the chemical industry, a significant consumer of gas and electricity

Comunn Dion Na Pairc—community group opposed to the construction of a wind farm on the Isle of Lewis

Confederation of UK Coal Producers—trade association representing most of the deep and surface coal producers in the UK

The Department of Trade and Industry

EAGA partnership—specialising in energy efficiency, manages a range of public and private schemes aimed mostly at low-income homes

EDF—French state-owned integrated energy company, owners of London, Seeboard and Eastern distribution businesses and London, Seeboard and Sweb former supply businesses

Edison Mission—worldwide operator of independent power plants, operating two pumped-storage and one co-generation plant in the UK

EEE—independent consultant

EKT—Energy Koch Trading a wholesale energy trading company

Energy Action Scotland—charity that aims to end fuel poverty in Scotland

Energy Saving Trust—non-profit company funded largely by government to deliver sustainable energy solutions to households, small firms and the road transport sector

energywatch—the gas and electricity consumer organisation

Environment Agency—responsible for protecting and improving the environment in England and Wales

Health & Safety Executive—responsible for the regulation of risks to health and safety arising from work activity in Great Britain

Horstmann Controls Ltd—electricity metering and heating controls manufacturer

National Grid Transco—owners of the high voltage electricity transmission system in England and Wales and the gas transmission and distribution network in Great Britain

NEA—develops and promotes energy efficiency services to tackle the heating and insulation problems of low-income households

Oxford Institute for Energy Studies—a centre for research into the social science aspects of energy

Powergen—major integrated European energy company owning generation, distribution and supply businesses in the UK; owned by E.ON

Prospect—union for engineers, scientists, managers and specialists in the public and private sectors

RWE Innogy—major integrated European energy company owning generation and supply businesses in the UK (formally National Power, supplies under the npower brand)

SBGI—trade association for the on-shore gas industry

Scottish Executive

Scottish Power—major integrated UK energy company, owning generation, transmission, distribution and supply businesses

Scottish & Southern Energy—major integrated UK energy company, owning generation, transmission, distribution and supply businesses

SEPA— for protecting and improving the environment in Scotland

Shell Gas Direct—supplies gas to industrial and commercial customers

Sustainable Development Commission—advocates sustainable development across all sectors in the UK and reviews progress towards it

Total—major international oil company; supplier to industrial and commercial customers

United Utilities—owns electricity distribution and water networks in north-west England

V-is-on—shipper and supplier of gas to industrial and commercial customers

Western Power Distribution (South West/South Wales)—owns electricity distribution networks in south-west England and Wales

Alex Zimmerman

2. Comments by Main Theme

Competition and markets

Aquila

- 2.1. Aquila look forward to Ofgem fully addressing their concerns regarding competition in new connections & metering in the corporate plan and particularly within the DPCR.
- 2.2. The strategy should be underpinned by a process that is consistent with recognised principles of good regulation—the case for introducing competition into new connections and metering markets was not adequately made.

Association of Electricity Producers

- 2.3. Ofgem should re-evaluate its role in industry governance—its involvement in operational matters can be at odds with its position in making rulings.

BEMCA

- 2.4. More progress is needed in pursuing the overall thrust of Ofgem's Metering Strategy. It should be reviewed and metering in other EU and non EU countries could be taken into consideration.
- 2.5. Ofgem should initiate a policy to identify the role of better metering in the improvement of billing and service to consumers including the problems of switching suppliers. Metering Innovation Zones should be incorporated as part of Ofgem's Metering Strategy. The New Metering Technology Working Group needs to be given a greater direct role in shaping policy, with the aim of creating a workable forward thinking Ofgem metering strategy

BNFL

- 2.6. Minimising costs to the consumer consistent with achieving security and environmental objectives will be a key challenge for the Authority and the industry.

BOC Gases

- 2.7. BOC Gases supports NETA and BETTA and agrees with proposed actions on making competitive markets work successfully. BOC Gases is concerned that consolidation and vertical integration of energy companies may reduce customer choice and reduce competitive pressure on prices. It is very important for Ofgem to ensure customers' interests are protected with regards to gas wholesale markets.
- 2.8. Ofgem should use its influence to support open and competitive markets across Europe.

bp

- 2.9. The main challenges to the gas industry are: the UK's transition to being a net importer of natural gas; transposition of the 2nd Gas Directive into UK legislation; and the pace of liberalisation across Europe.
- 2.10. Metering Separation and Retail Governance has consumed significant costs and has yet to set a realistic date for delivery.
- 2.11. It would help if Ofgem could recognise issues of commerciality and appreciate the impact of regime changes on industry participants and consumers. RIAs will help with this and are appreciated.

British Energy

- 2.12. British Energy urges Ofgem to conduct an open and comprehensive review of the issues surrounding vertical integration, including an examination of the effects of increasing vertical integration on competition in generation and supply markets and whether this is, or is not, in the public interest.
- 2.13. BETTA should be a high priority, and sufficient resource should be devoted to Europe. Ofgem needs to consider more carefully the compatibility of arrangements in Great Britain with those developing in EU markets

British Hydropower Association

- 2.14. Ofgem should take greater account of the needs of smaller generators and operators: it is important that administrative burdens are commensurate to the benefits projects will bring.

C E Electric UK

- 2.15. Ofgem should divert resources from regulatory accounts to developing an annual return that gives Ofgem the information it needs on a consistent basis.

Centrica

- 2.16. There is a need to help to ensure the development of energy market liberalization in the EU member states is driven through while ensuring that UK market reforms are not undermined.
- 2.17. Successful implementation of BETTA will be a significant challenge in the light of the range of issues still to be addressed. It is important to produce a roadmap of associated ideas.
- 2.18. A reassessment of licences is required so that customers are protected by competition where possible and only by regulation where necessary as a safety net.
- 2.19. A more rigorous system of reporting information from distributors to suppliers in respect of the large numbers of outages affecting suppliers' customers should be set up.
- 2.20. Theft of electricity needs to be addressed.
- 2.21. Customer Transfer Programme should be given a higher priority.
- 2.22. Linepack services should be removed from the list of active areas.
- 2.23. Storage should be included within the ongoing work on wholesale market surveillance.

Chemical Industries Association

- 2.24. The CIA would like to see greater Ofgem focus and resource on BETTA, NETA, transparency of gas market information, and reform of exit capacity arrangements.

DTI

- 2.25. Ofgem's input into the European energy debate has been extremely valuable and the DTI looks forward to continuing the close collaboration. Key priorities to protect consumers' interests should be:

- ◆ looking at the continued failure of electricity suppliers to reduce in-area prices for domestic customers;
- ◆ determining how Ofgem will work with disadvantaged consumers; and
- ◆ how Ofgem will work with energywatch to permanently reduce customer complaints.

EDF

- 2.26. EDF are supportive of the review of the customer transfer process. Development options which emerge should address root causes rather than symptoms of problems. New investment should be fully recoverable by service providers, and increases in prices may be necessary.
- 2.27. Ofgem should give greater priority to removing regulatory constraints on competitive markets which have outlived their original purpose. Ofgem should also devote fewer resources to the ongoing management of wholesale and retail markets.

Edison Mission

- 2.28. An early investigation of the impact of vertical integration using Enterprise Act 2002 powers should be an Ofgem priority. Ofgem should support changes which result in improved price signals and incentivise the use of existing capacity and, as necessary, new investment. Ofgem should also review

interactions between the various industry codes governing generation and propose a simpler unified approach.

- 2.29. Ofgem should make it a priority to review its activities in competitive parts of the energy market and reduce the scale of its detailed involvement.

EEE

- 2.30. Wholesale prices have fallen, but not as a consequence of NETA. There has been no significant increase in demand side participation. Wholesale market governance has changed but is seriously flawed. A survey of market participants revealed many criticisms of NETA, and the benefits of introducing it have not justified the costs. No attempt was made to learn from foreign energy markets, namely NordPool. Domestic customers will not benefit.
- 2.31. Governance arrangements should be restructured.

EKT

- 2.32. Market participants must be assured that incentives are aligned with the best outcomes for the market. EKT would welcome a stronger relationship between Ofgem and the DTI to solve the problem of upstream gas information.
- 2.33. Ofgem should continue to recognise the role of the market.
- 2.34. Current electricity governance arrangements increase the risk of developing barriers to entry. This should not be repeated in the gas market.
- 2.35. Strategic priorities for Ofgem should be: increasing transparency and information flows; increasing scrutiny of how the actions of the regulated monopoly businesses affect the operation of the market; creating an environment conducive to the development of traded markets; increasing activities in European fora with the aim of encouraging faster effective liberalisation; giving greater consideration to how governance arrangements can affect the efficient delivery of policy changes; and ensuring that objectives such as the promotion of renewable energy are pursued in a manner that makes the costs transparent and are not detrimental to the functioning of the wider market.

energywatch

- 2.36. Customer confidence about switching needs to be improved. Ofgem should be more dynamic about what it intends to do to ensure customers benefit from competition.

Horstmann Controls Ltd

- 2.37. More progress is needed in pursuing the overall thrust of metering strategy—a review of progress in other countries would help. Metering Innovation Zones should be introduced.

National Grid Transco

- 2.38. Market signals that result from NGT's actions in both gas and electricity markets need to be sharpened so that there are effective incentives on market participants to meet energy demands reliably and to bring forward new capacity in a timely manner.

NEA

- 2.39. Price increases threaten to reverse the gains made by regulation and competition. Former monopoly suppliers have retained the substantial majority of domestic customers. NEA therefore does not view competition as a success.
- 2.40. Ofgem should reconsider its evident willingness to allow suppliers to offer substantially lower prices to new customers than to those they have retained.
- 2.41. Ofgem should be more concerned about switching by pensioners and those on low incomes.

Oxford Institute for Energy Studies

- 2.42. Industry has now begun to resent the expense of funding and complying with regulation. When the Enterprise Act is fully implemented, Ofgem's role in promoting competition will be usurped by the OFT and Competition Commission. In future, energy imports will come to dominate the UK energy industry but Ofgem has no offshore regulatory powers. Consistency is essential to prevent regulatory arbitrage. OFT and Competition Commission have

necessary powers to implement competition remedies. The rationale for Ofgem's work is therefore not clear.

Powergen

- 2.43. Economic regulation of energy markets needs to focus increasingly on creating a sustainable environment for long-term investment and on supporting the Government in achieving the same goal. If the industry is to deliver the investments needed to enable the UK's energy policy objectives to be met, durable and stable policy mechanisms will be needed.
- 2.44. Powergen has concerns over whether strong or early enough economic incentives exist to ensure new or mothballed capacity is made available. Ofgem should actively keep under review the effectiveness of the current market structure and, in the light of experience, consider the case for changes (more likely to be pursuing competition than increasing the role of the SO).

Prospect

- 2.45. There is a case for strategic review of the electricity supply system including:
- ◆ consequences of regulatory action on long-term supply strategies;
 - ◆ the role of generators in long term strategic planning, including new build; and
 - ◆ the role played by transmission and distribution companies in securing cost reductions and passing on savings to consumers.

RWE Innogy

- 2.46. Regulatory stability and transparency is required for long-term investment and planning horizons. Markets should be allowed to develop and should not be subject to micro management.

SBGI

- 2.47. Unbundling of meters will be a key challenge.

Scottish Power

- 2.48. Ofgem should reduce its work in the area of wholesale and retail market monitoring.

Scottish & Southern

- 2.49. On the implementation of BETTA—clarity is needed as soon as possible on some of the major structural issues.
- 2.50. SSE would like the Authority to seek to minimise any unnecessary burden on the UK industry arising from new European legislation. In the EU emissions trading scheme, SSE is firmly opposed to the proposal to hold back a proportion of the allocation for the electricity generation sector and provide this instead to installations in other sectors.
- 2.51. The industry should be allowed a greater degree of self governance with regards to industry codes.
- 2.52. SSE are concerned over the operation by Centrica of the long term interruptible gas contracts.
- 2.53. Metering competition work should be reduced, and a wholesale reform of the customer transfer process would not be justified. SSE sees little value in the following areas: supply competition and deregulation; market infrastructure; customer contact; and supplier failure and licensing.

SEPA

- 2.54. Ofgem must continue to ensure that Scotland's concerns and issues are adequately addressed. Ofgem could be more instrumental in encouraging more radical thinking about the definition of energy services.

Shell Gas Direct

- 2.55. To move to a 'light touch' regulatory regime will be a key challenge.
- 2.56. There is a need for a review of the metering competition project: it has taken longer than expected, and its scope has widened considerably.

Total

- 2.57. The competition focus should move to 'monitoring competitive markets to ensure their continuing success'. Ofgem should review its level of activity in instigating change to determine its justification, and the overall level of Ofgem resource should not be increased.

United Utilities

- 2.58. In connections and metering the focus has not been on removing regulation to allow competition to flourish. Guiding principles should be established which describe Ofgem's priorities as the market changes.

V-is-on

- 2.59. Ofgem should have intervened in gas metering at an earlier stage in order for industry to progress the project. This should be one of Ofgem's priorities in 2004.

Alex Zimmerman

- 2.60. Utilities are overregulated. Prices are artificially too low and the current situation is not sustainable.

Network regulation

Aquila

- 2.61. Aquila's experience to date of the distribution price control (DPCR) has been positive. Ofgem's proposals incentivising distribution network operators (DNOs) to reduce system losses are welcomed—it is important to balance tension between the losses incentive and other incentives for operating expenditure and capital expenditure.
- 2.62. DNOs must be protected from stranded costs that were effectively incurred whilst fulfilling their licence obligations to metering, and any potential distortion of the market between them and new entrants.
- 2.63. Ofgem should make the long term future of electricity networks its priority. Incentives must be sufficient to encourage the necessary network investment and performance improvements and to aid the achievement of environmental objectives. Suitable mechanisms for dealing with the risk and uncertainties arising must be in place to ensure a stable regulatory environment.
- 2.64. There is a need for Ofgem to prioritise better and make decisions in a more timely fashion on issues which are of significance to DNOs.

Association of Electricity Producers

- 2.65. Day to day regulation of monopolies should be routine.

BEMCA

- 2.66. The opportunity should be taken as part of the DPCR and subsequently to resolve the ongoing difficulties facing the introduction of new metering technology and systems in GB.

BOC Gases

- 2.67. Ofgem should consider discontinuing proposals if both customers and industry are opposed to it. BOC Gases does not agree with approach to introducing new transmission access arrangements: the new incentive scheme is too complex and

has no obvious benefit to consumers; BOC is sceptical about trading of secondary trading of access rights and introduction of overrun charges; complexity will increase leading to costs which customers will have to bear; a shallow SO incentive scheme would lower barriers to entry and promote competition. BOC would like to retain the 'Triad' system.

bp

- 2.68. Ofgem have progressed the LNG import debate positively, but potential distribution network sales should be deferred.

C E Electric UK

- 2.69. A central consideration for DNOs is managing the implications of a period of asset renewal, and the drive to increase the proportion of energy generated by renewable, distributed sources has deep significance for DNOs.
- 2.70. Recruitment into the industry has been poor resulting in an ageing workforce. It is a challenge to carry out DPCR so that licensees are able to make positive strides in the period 2005-2010 towards meeting the challenges of asset & workforce renewal, and continue to be able to finance their activities and comfortably maintain their investment grade issuer status.
- 2.71. If comparative data is to be used for the DPCR, Ofgem needs to invest a great deal more effort in ensuring that the data relating to each company is truly comparable. The cost-risk-performance profile of any companies used to 'set frontiers' must be properly understood to represent a sustainable position.
- 2.72. Interim incentives must be introduced for DNOs to support distributed generation connection.
- 2.73. Greater priority should be given to developing: a better understanding of the business of each DNO; a consistent data set across DNOs; incentives for DNOs; a long-term vision for DNOs; a total costs benchmarking methodology; alternatives to comparator-based methods of regulation; and a method of remunerating pension costs.

Centrica

- 2.74. Some plans should be put in place in the area of distribution governance arrangements, where current arrangements differ markedly from those in other parts of the industry. NGC system operator incentives should be given a lower priority in the short term.

Chemical Industries Association

- 2.75. The CIA would like to see greater Ofgem focus and resource on gas network investment and reform of transmission access.

Comunn Dion Na Pairc

- 2.76. It should be a priority to make the transmission system more efficient in preventing energy losses in transmission.

DTI

- 2.77. Ofgem's main priority should be to ensure that there is security of supply as well as investment in infrastructure. The DPCR should provide a clear line on future investment.

EDF

- 2.78. The biggest challenge for Ofgem is to create a sustainable environment for long-term investment in infrastructure. Key factors in achieving this are clear objectives, transparent price controls that give a balance between risk and reward, and the minimisation of political and regulatory uncertainty.

EEE

- 2.79. On transmission access, Ofgem began with a solution not a problem, and does not have the necessary knowledge to deal with the issue. Ofgem's papers are neither clear nor concise.

EKT

- 2.80. Ofgem should be vigilant in how transmission companies contract in the market, and how those contracts are publicised. If Transco increases its long term contracting there will be a need for greater transparency. Ofgem should provide clarity on NGT's role in obtaining system reserve.
- 2.81. Obligations may be more appropriate than incentives in some areas.
- 2.82. Ofgem has to ensure that DPCR provides the correct focus on long term investment.

Environment Agency

- 2.83. Network companies should be enabled to invest efficiently and manage their networks effectively to meet future security of supply and environmental priorities.

Health & Safety Executive

- 2.84. HSE expect Ofgem to take full account of independent risk assessments in the area of connections. The system governing connection to networks and the location and identification of lines and equipment will be important to aid future operational maintenance. HSE are keen to work with Ofgem to develop a system for identifying the presence of underground cables

Horstmann Controls Ltd

- 2.85. DPCR should be used to resolve ongoing difficulties facing the introduction of new metering technology and systems in Great Britain. DNOs should be permitted to spend 0.5-1% of their metering services turnover over 5 years on fostering innovation in metering.

National Grid Transco

- 2.86. There is an increasing need to undertake capital investment in both transmission and distribution networks for electricity and gas in order to: replace network assets at risk; accommodate new renewable generation, especially in remote areas; facilitate distributed generation; and enhance interconnections with

Europe and LNG facilities. There will be a continuing need to fund capital investment under price controls to ensure robust, flexible networks

- 2.87. There is a need to enhance the mechanisms that address the uncertainty in requirements that may exist at the time that price controls are set.
- 2.88. There are substantial customer benefits that arise from the potential sale of gas distribution businesses, and NGT would welcome Ofgem's continued co-operation to deliver the industry changes required.

Powergen

- 2.89. The RPI-X framework for DNOs now needs to focus on delivering the investment needed to maintain sustainable networks through the use of 'smart' asset management processes to identify and fund long term needs. The aim should be to incentivise efficient investment in networks whilst ensuring that clearly identified objectives for DNOs are met.
- 2.90. Powergen would welcome more clarity in respect of the different roles of the DTI engineering inspectorate and the HSE in respect of technical, performance and safety standards, and a more coordinated approach by Government agencies to minimise investment and regulatory risks for DNOs.

Prospect

- 2.91. Distribution and potentially transmission networks need to be strengthened and in some cases new ones will need to be built to meet the needs of new renewable generation, and appropriate incentives are required.
- 2.92. The distribution price control review is an important focus for Ofgem's future work. Market mechanisms based on short term cost criteria militate against investment-led plans and decision making. A period of infrastructure renewal is necessary and the current five year segments must be extended to allow for a major investment programme.

SBGI

2.93. Key challenges are:

- ◆ the potential sale of Transco distribution networks, where all likely implications must be identified and addressed; and
- ◆ distributed generation—Ofgem must ensure that electricity networks are prepared to accept more locally generated electricity, and overcome other potential barriers to the development of the market for micro CHP.

2.94. The priority for competition in connections should be higher because it offers real scope for improving the service to customers, and is key to delivering competition in other services (e.g. metering).

Scottish Power

2.95. Ofgem's key priorities should be: a fair and equitable commercial and contractual framework for GB-wide trading and transmission arrangements; a DPCR outcome that provide 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.

2.96. Developing an integrated approach to network investment, security of supply and standards of performance will be a key challenge.

2.97. The review of quality of supply should not be constrained by the DPCR timetable.

2.98. Competition in connections needs to take account of areas such as IIP and distribution losses.

Scottish & Southern

2.99. Ofgem should bring further pressure to bear on Transco to achieve their involvement in SPAA. Local gas distribution (LDZ) separation has been

constructive and SSE would like to see the regulatory and structural arrangement finalised as soon as possible.

- 2.100. SSE is opposed to suggested new Distribution Use of System charges. The regulatory accounting and statistics work should be a short, focused process but has gone on for too long.

Total

- 2.101. There will be requirements for significant investment in networks over the next decade to meet changes, and this area will benefit from a strong regulatory presence. Total welcomes the review of incentives for NGT.

United Utilities

- 2.102. Regarding the DPCR, Ofgem should work with energywatch to identify customers' requirements and consider if there is a separate public interest that reflects government social policy. The price control must allow companies sufficient funds to operate; more appropriate comparison methods should be developed.

V-is-on

- 2.103. Ofgem should place a much greater focus on independent gas transporters and their ultimate impact on consumers. When dealing with an IGT the marginal costs to consumers are greatly increased, and there are no incentives to reduce these. The service level to consumers is inhibited by the constraints of the IGT's systems.

Western Power Distribution (South West/South Wales)

- 2.104. Key challenges for the industry are undertaking and completing the DPCR process, and the Streetworks trials.
- 2.105. Ofgem needs to ensure that appropriate incentives are placed on distributors to connect distributed generation and to enable full cost recovery. It is essential that the outcome ensures long term investment and sustainability in electricity distribution, and recognises performance. A normalised cost, based on cost

drivers, needs to be established for each company assuming that it delivers benchmark performance. Companies who exceed benchmark performance should be financially rewarded. Priority should be given to pension costs

2.106. Following implementation of the DPCR in April 2005, WPD would support a review to evaluate the process, methodology and the outcome in order to assist in considering the best way forward for DPCR.

2.107. The Authority needs to ensure that National Streetwork proposals are considered carefully and full cost recovery is allowed so that companies are not disincentivised to undertake essential works and companies do not defer expenditure elsewhere in order to cover costs.

Alex Zimmerman

2.108. National Grid has been treated badly by Ofgem: it and other utilities have not enjoyed a level playing field.

Securing Britain's Gas and Electricity Supplies

Aquila

2.109. Aquila looks forward to Ofgem fully addressing their concerns regarding investment, storm resilience and long-term network integrity in the corporate plan and particularly within the DPCR. Long-term integrity of networks and resilience to severe weather events are of paramount importance—investors must be given sufficient incentives to invest for the long term.

BNFL

2.110. Achieving security of supply in generation, transmission and distribution is a key challenge for the Authority and the industry. BNFL expects the role of nuclear power to be considered.

bp

2.111. Security of supply is the main challenge the UK is facing. It is particularly important to consider how the regulatory regime needs to evolve in order to ensure security of supply, for example:

- ◆ are incentives appropriate?
- ◆ is gas quality variation manageable, and if so how?
- ◆ does a level playing field exist across Europe?

British Energy

2.112. A review of how and whether generators are sufficiently rewarded and whether additional incentives and/or solutions are required to maintain an appropriate level of generation capacity should be Ofgem's top priority.

Comunn Dion Na Pairc

2.113. Security of energy supply is Ofgem's main priority. This rules out prioritising intermittent renewable energy, including wind generation.

Confederation of UK Coal Producers

- 2.114. Security of supply is Ofgem's most important area of work. Ofgem should consider the reintroduction of a form of capacity payment via the system operator to provide a limited level of income to ensure generating plant remains available.

DTI

- 2.115. Ofgem's main priority should be to ensure that there is security of supply as well as investment in infrastructure. DTI hopes to build on the early success of the JESS working group.

Edison Mission

- 2.116. Ofgem should review the stance it has taken against any form of capacity payment.

EKT

- 2.117. Market arrangements and government policy need to be conducive, and Ofgem should focus on creating the right environment.

Energy Action Scotland

- 2.118. Continuity of supply can be achieved by encouraging new generating plant and structuring the market through processes such as BETTA to encourage and support smaller generators to produce renewable energy at a local level. Ofgem should also work with more traditional suppliers to extend the life of the current generating plant.

energywatch

- 2.119. Given recent blackouts customers must be confident in their future security of supply. Communication should be improved so that customers know exactly what to do after a supplier failure.

Energy Saving Trust

2.120. Security of supply will need to be delivered through reduced energy usage

Environment Agency

2.121. Work should continue to ensure that competition and regulation continue to help deliver safe and secure supplies.

Health & Safety Executive

2.122. Ofgem's work with the JESS group is key and needs to remain a high priority. Security of supply is of increasing concern.

Powergen

2.123. Powergen would be concerned if Ofgem adopted a negative approach to coal plant in the light of social and environmental guidance from the Secretary of State, which does not address security issues.

Prospect

2.124. Security of supply and reduction of carbon emissions are important for future energy policy.

RWE Innogy

2.125. The Joint Energy and Security of Supply group (JESS) has an important role to play. The first retrospective report on the performance of the electricity and gas industries in delivering a secure supply will be welcomed.

SBGI

2.126. Security of gas supply will be a key challenge.

Scottish Power

- 2.127. A framework that encourages investment in a mix of generation to achieve environmental targets while ensuring security of supply should be a key priority for Ofgem. Security of supply should be the overriding priority in the short term.

Shell Gas Direct

- 2.128. To ensure that security of supply concerns do not lead to unnecessary interventions in the workings of the competitive market will be a key challenge. Further work on security of supply should focus only on areas where problems have first been clearly identified.

United Utilities

- 2.129. Attention should be focused on security of supply.

Meeting Ofgem's Social and Environmental Responsibilities

Aquila

- 2.130. Aquila look forward to Ofgem fully addressing their concerns regarding environmental issues in the corporate plan and particularly within the DPCR. Aquila supports the Distributed Generation work, but DNOs must not be forced to bear undue financial risks as a result.

BG MicroGen

- 2.131. The Authority has a key role in helping to realise the benefits of MicroGen units in the home, in particular: the regulation of electricity distribution companies; and the approach to gas and electricity supply licensing. Current work by Ofgem on the DPCR, and the structure of electricity distribution charges, should recognise the benefits of micro-CHP and ensure that mechanisms exist to reward these benefits.
- 2.132. A review of existing supply licence conditions, and their applications, would help to ensure that suppliers are able to make ESCO offerings that provide long-term value to domestic customers.
- 2.133. BG MicroGen recognises and appreciates Ofgem's commitment, enthusiasm and support in the Distributed Generation Co-ordinating Group

BNFL

- 2.134. Meeting government environmental objectives in the electricity sector will be a key challenge for the Authority and the industry. BNFL expects the role of nuclear power to be considered when the Authority considers reducing carbon emissions.

British Energy

- 2.135. Ofgem's work programme and policy initiatives should remain consistent with, and where possible reinforce, the Government's environmental policy initiatives.

C E Electric UK

- 2.136. Early signals should be given of the distributed generation arrangements that are expected post 2005.

Centrica

- 2.137. It will be a challenge for the industry to meet the government's environmental targets and aspirations. While progress is being made in the area of social action it is taking time to deliver the benefits.
- 2.138. Work should be undertaken with the DTI to resolve the difficulties arising from the failure of TXU and Maverick with regards to their renewables obligation to ensure the market has confidence in the mechanisms.

Comunn Dion Na Pairc

- 2.139. Subsidies for wind turbine development should be stopped because they are promoting a technology which will increase prices and drive increasing numbers back into fuel poverty. A viable and scientific energy policy requires removal of the emphasis on onshore wind turbines in the Highlands because physical constraints of transporting electricity make it economically unviable, and developers are attracted by large subsidies not the desire to cut carbon emissions or concern for rural communities. Ofgem should take steps to dispel the 'spin' surrounding onshore wind energy—unearned windfarm income is no answer to rural economic regeneration.
- 2.140. All hydro-electricity should be classified as 'renewable'.
- 2.141. Britain should aim to become self-sufficient in energy through giving top priority to scientific research to improve energy generation and to improve efficiency in all forms of energy use.

Confederation of UK Coal Producers

- 2.142. Ofgem will face a challenge from interest groups to 'bend the rules' and hence distort the market in favour of particular objectives, particularly environmental ones. The Authority should state in response that where initiatives are desirable

they will be introduced by government through public expenditure/taxation and not by Ofgem allowing market distortion.

DTI

2.143. DTI hopes to encourage a 'partnership' approach to social/environmental targets that allows all key players to work towards the same target. Ofgem's work facilitating new transmission for wind farms will help towards the aspirations of the Energy White Paper. DTI hopes that 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. DTI also hopes that future Ofgem involvement in designing the regulatory framework for offshore wind will be a key component of future strategy.

EAGA

- 2.144. Consideration should be given for the inclusion of domestic carbon savings in future trading mechanisms. Some of the income derived from the sale of carbon savings could be redistributed to protect the customer from the financial impact of the 'greening' of the energy supply sector.
- 2.145. The issue of installing energy efficiency measures in hard to treat/reach homes will need careful consideration, including the fact of not being able to apply Energy Efficiency Commitment (EEC) or Warm Front funding to customers living in buildings of multiple occupation where only one or two occupiers are granted eligible. The cost of installing energy efficiency measures in multiple occupations buildings is prohibitive if scaffolding is required.
- 2.146. Ofgem should give consideration to providing innovative solutions to the funding of training for heating engineers.

EKT

2.147. Renewable technologies cannot compete in terms of price and reliability, and they are difficult to fit within a dynamic traded market. Renewable generation could be exempt from a variety of charges or risks. Industry charges could be used to subsidise: any such subsidies could then be reported to help explain the rise in energy costs.

2.148. Renewable energy should be developed in a way that has the least impact on the efficient allocation of resources and the working of the traded market.

Energy Action Scotland

2.149. To end fuel poverty three areas must be tackled: the energy efficiency of the home; the level of disposable household income; and the cost of domestic fuel. Ofgem has a major role in the cost of domestic fuel and energy efficiency.

2.150. Ofgem should deliver clearer information on pricing and service levels to all customers in order to assist in their informed choice, and EAS would like Ofgem to work with suppliers to achieve this.

2.151. It is vital that Ofgem works to ensure a continuity of supply that matches consumer need, and continues to promote the efficient and lower use of energy through dedicated energy efficiency programmes.

2.152. No real evidence has been produced on EEC and Energy Efficiency Standards of Performance (EESOP) regarding

- ◆ the effect on the energy efficiency of the homes treated; and
- ◆ the real numbers lifted out of fuel poverty.

2.153. Future challenges are: to address the balance of the current EEC programme with twin aims in social and environmental targets; and finding and funding new measures which will deliver carbon savings and lift households out of fuel poverty.

Energy Saving Trust

2.154. Key challenges are: implementation of Energy White Paper commitments; balancing economic, social and environmental priorities; and strategic development of a sustainable energy industry in the UK.

2.155. Ofgem should assist the government in developing an efficient and workable EEC2. Energy suppliers should not be encouraged to think that their EEC obligations could be met outside the household sector. Ofgem should consider

balancing economic, social and environmental priorities as part of its core function—energy efficiency should be promoted more heavily to consumers.

- 2.156. Ofgem will have to ensure that its decisions contribute materially to the sustainable development of the UK energy industry. Ofgem should be explicit that emissions reductions and functioning markets are not mutually exclusive.
- 2.157. Ofgem should continue the work on distributed generation and give it the profile and value it requires.

energywatch

- 2.158. Companies' social obligations should be given the same priority as environmental obligations. More needs to be done if fuel poverty targets for 2010 and 2016 are to be met. Companies should be given targets for delivering innovative social objectives.

Environment Agency

- 2.159. The Agency would wish the main points raised in its response to the DTI's draft Social & Environmental Guidance to the Authority regarding the requirements of the Energy White Paper to be reflected in Ofgem's three year strategy. Work should continue to ensure that competition and regulation contribute to a sustainable energy, at least cost to consumers. It will be a challenge to meet the ambitious targets of the Energy White Paper.
- 2.160. Ofgem should recognise that environmental requirements will place extra pressure on coal-fired generation, which is likely to decline as a result.
- 2.161. High priority should be given to the use of Environmental Impact Assessments for each of the actions by the Authority, and the development and implementation of environmental reporting requirements for the electricity and gas industries including key environmental performance indicators.
- 2.162. The electricity and gas markets should be structured such that market penetration by cleaner technologies is not disadvantaged.

Health & Safety Executive

- 2.163. The growth of distributed generation presents a technological challenge to the industry. The work of the Distributed Generation Co-ordination Group and the TSG remains a priority for Ofgem.

NEA

- 2.164. Ofgem's efforts to eliminate fuel poverty are appreciated. The key challenge facing the industry in future years will be the protection of vulnerable households. All customers in debt should be able to switch supplier not just prepayment customers. Ofgem should focus on developing tariff options which meet the needs of low income consumers.
- 2.165. Best practice under the Social Action Plan should be transformed into standard practice before price increases aggravate the problems of affordability
- 2.166. First preference is for legislation to remove suppliers' powers to disconnect. Ofgem should specify that disconnection should in no circumstances take place during the heating season. Ofgem should aim for a steady decline in the number of disconnections and then fix a date at which it will be eliminated.
- 2.167. Ofgem should establish targets for the progressive elimination of debt. A ceiling should be set above which the customer is no longer liable for arrears.
- 2.168. Ofgem could do more to ensure that suppliers' energy advice services help customers make improvements in energy efficiency which could reduce their bills. Suppliers can use their customer information to direct their EEC programmes to those most likely to be in greatest need.

Oxford Institute for Energy Studies

- 2.169. The government, not Ofgem, drives policy on social and environmental issues.

Powergen

- 2.170. Would be concerned if Ofgem adopted a negative approach to coal plant in the light of social and environmental guidance from the Secretary of State, which does not address security issues.

2.171. Welcomes Ofgem's agreement to a trial suspension of the 28-day rule. It is important that suppliers are able to offset the effects of rises in retail costs and prices (from market interventions to achieve carbon reduction targets) through marketing energy efficiency services.

Prospect

2.172. Security of supply and reduction of carbon emissions are important for future energy policy. Achievement of the government's energy policy objectives requires a move to large-scale generation from renewable sources. A financial incentive is required to encourage business commitment to renewable sources.

2.173. The government's initiative in re-examining Ofgem's terms of reference is welcomed. Social and environmental guidance that emerges must lead a new era of investment-led planning

2.174. All energy companies should be required to publish clear corporate and social responsibility objectives within a national framework.

SBG

2.175. Ensuring the gas industry's contribution to the achievement of government objectives is managed appropriately will be a key challenge.

2.176. The Authority needs to identify the implications of the growth in the market for natural gas vehicles expected in the coming years.

Scottish Executive

2.177. The regulatory framework for electricity generation, trading and transmission should recognise the increasing importance of renewable energy. It should be sensitive to development of renewable energy and needs of small renewable generators. A substantial upgrading of the electricity transmission and distribution network in Scotland will be essential if the UK is to realise its renewables objectives. The required investment should be stimulated and encouraged. New arrangements for transmission charging being developed through BETTA should not penalise generation in peripheral areas where renewable resources are found.

Scottish Power

- 2.178. A framework that encourages investment in a mix of generation to achieve environmental targets while ensuring security of supply should be a key priority for Ofgem.
- 2.179. Ensuring consistency between government's broader energy and environmental objectives and the current price control regime will be a key challenge. Delivering a robust framework to deliver the government's energy policy objectives will be a challenge.
- 2.180. A number of barriers must be tackled if energy efficiency is to achieve its target levels.

Scottish & Southern

- 2.181. To achieve renewable targets, it is vital to create a framework that establishes with certainty that capital expenditure by DNOs to accommodate distributed generation will be remunerated by earning a return on the regulatory asset base at least equal to the cost of capital. SSE is opposed to the proposed introduction of generator distribution use of system charges. There are outstanding issues regarding recovery of costs associated with the Renewable Energy Transmission Study.

SEPA

- 2.182. Achieving the desired reductions in carbon emissions will be a challenge for all. It would be appropriate to see in the Ofgem Strategy a target to 'work with the environmental regulators so that environmental priorities are comprehensively addressed and adequately financed'. Ofgem could play a lead role in ensuring the coherence of various regulatory regimes.
- 2.183. SEPA would wish to be actively engaged in any strategic processes with an environmental and/or sustainable development dimension. SEPA would like formal involvement in Ofgem's Environmental Advisory Group.
- 2.184. There is a fundamental tension between Ofgem's core business and the need to reduce the demand for energy. Ofgem could develop its role in energy

efficiency to ensure that energy is saved throughout the supply chain. In some cases it may be better to trade off gains in other areas to reduce the overall environment impact of generation.

- 2.185. The national electricity transmission and distribution system needs to be developed in such a way that it can cope with embedded generation. Energy storage is an essential requirement if the UK is to rely on greater generation of energy from renewable sources

United Utilities

- 2.186. Attention should be focused on environmental policy.
- 2.187. Ofgem can play a major role in advising government of what is needed and suggesting detailed solutions to problems as regards distributed generation. Ofgem should not be too concerned with cost avoidance, and risk should be shared with society in anticipation of the long term benefits.

Western Power Distribution (South West/South Wales)

- 2.188. The Energy Policy will be a key challenge for the industry. The Authority needs to take account of the revised Social and Environmental guidance

Developing Ofgem's Efficiency and Effectiveness

Aquila

2.189. Aquila are pleased to see that RIAs have been introduced.

Association of Electricity Producers

2.190. The current budget is much too high. Ofgem should plan to reduce its staffing and budget substantially.

bp

2.191. There is a need to update priorities and allocation of resources.

British Energy

2.192. The resource implications of a possible Energy Bill should be fully accounted for in the development of Ofgem's three year plan.

2.193. There is a clear need for improvement in the transparency and accountability of Ofgem's decision making process.

Centrica

2.194. Ofgem needs to prioritise better in order to achieve more targets on time. It could work along a primary and secondary list.

2.195. RIAs are welcome but should also include: the assumptions underlying the analysis; a range of costs and benefits highlighting the likely outcome(s) where the outcome is in doubt; the amount of cross subsidy (if any) being created or removed; the value being transferred, if any, between different industry groups; and taking early soundings with potentially affected parties.

2.196. Ofgem should improve policy development by providing early visibility of plans and workstreams together with more holistic 'route maps'; working more closely with DTI, DEFRA and participants in the energy industry to help meet White Paper targets; providing sufficient time and debate to consider major changes that affect the industry; and publishing a matrix of typical consultation paths.

EDF

- 2.197. Ofgem's decision making should be informed by robust cost/benefit analysis.
- 2.198. An effective appeals mechanism should be put in place for Ofgem's decisions.

EEE

- 2.199. Ofgem's reports should be validated by an external party appointed by NAO. TISC should conduct an annual enquiry into Ofgem's work or a major aspect of it.

EKT

- 2.200. Close working arrangements should be formed between market arrangements, price control and environmental areas.

energywatch

- 2.201. Ofgem should consult widely about how to balance economic and other objectives and be as transparent as possible.

Health & Safety Executive

- 2.202. HSE would like to see Ofgem addressing safety issues at an early stage in RIAs.

Powergen

- 2.203. Ofgem should continue to look for opportunities to withdraw from regulation of competitive markets (e.g. reduce its role in the management of trading arrangements and the approval of Code modifications and eliminate superfluous licence obligations such as the restriction on self-contracting).

Prospect

- 2.204. Ofgem's new more open approach is supported but the assessment of future costs and their explanation should be open to public scrutiny.

RWE Innogy

- 2.205. Ofgem needs to move away from more formal regulation (in some areas) to facilitating change.
- 2.206. RIAs are important—including on existing policy such as transmission access proposals where there is concern within the industry that the costs of introducing this regime outweigh the benefits.
- 2.207. It is essential for Ofgem to have an open and transparent budget. In the publication of the Strategic Plan for consultation, it would be a useful comparator to include information on how the current plan is performing against budget.

Scottish Power

- 2.208. RIAs are welcomed. Estimated costs to parties other than Ofgem should receive more attention and more should be done to quantify benefits.

Scottish & Southern

- 2.209. SSE has concerns about the high and rising costs of Ofgem in contrast to the privatised companies and regulators in other countries.
- 2.210. SSE supports the introduction of RIAs.
- 2.211. SSE sees little value in co-ordination and strategy.

SEPA

- 2.212. The Energy White Paper should give Ofgem a firmer platform from which to plan its forward strategy.
- 2.213. SEPA would welcome discussions on more integrated and holistic research.

Shell Gas Direct

- 2.214. To develop rigorous RIAs will be a key challenge and SGD would also welcome further work on best practice in consultation.

- 2.215. The Authority should consider a holistic approach to ensure Ofgem's work is better integrated. Ofgem should take more time at the beginning of projects to scope out the extent of change required before establishing a timetable for completion.
- 2.216. SGD would welcome a clearer indication of how Ofgem's work is being prioritised.
- 2.217. SGD would like to see Ofgem's staffing levels decrease

Total

- 2.218. RIAs are welcomed.

United Utilities

- 2.219. Ofgem has a tendency to take on too many tasks simultaneously. Work priorities should be fewer and more focused.

V-is-on

- 2.220. The gas and electricity, domestic and I&C markets should be treated separately. Ofgem should identify and separate the markets affected by proposed work.
- 2.221. V-is-on is pleased that all future policies will be subject to an RIA and would like to see them published.
- 2.222. Ofgem should devote resources to industry discussions to ensure the requirements of all parties, not just individuals or minorities, are addressed.
- 2.223. Timetables are usually too optimistic and should be more realistic. Consultation periods should be in proportion to the magnitude and quantity of issues discussed.
- 2.224. Ofgem should be mindful and considerate of synergies between projects

Western Power Distribution (South West/South Wales)

- 2.225. The recent decision to undertake RIAs is welcomed and it should continue for all major areas of work being undertaken by the Authority.

Alex Zimmerman

2.226. Ofgem uses consultants far too much. Consultants reports are expensive and of little use.

General comments

Association of Electricity Producers

2.227. Ofgem's principal objective has been largely achieved. Ofgem's strategy should fully reflect the circumstances in which the Authority now operates. Ofgem's main challenge is to maintain and improve the delivery to UK energy users of secure and competitively priced energy.

BOC Gases

2.228. DTI should devolve power to Ofgem for regulating offshore.

British Energy

2.229. Ofgem's primary aim should remain the same.

British Hydropower Association

2.230. BHA welcomed the additions made to the corporate plan after the publication of the Energy White Paper.

Oxford Institute for Energy Studies

2.231. Utilities Act 2000 formally terminated Ofgem's independence. Ofgem has to introduce regulatory initiatives at the behest of the DTI. License fees are used in part to fund policy development at DTI.

2.232. Trading on the financial markets to manage volatility in energy prices has resulted in disaster for 3 firms. This would not have happened if they had been banks regulated by the Financial Services Authority (FSA). The energy industry should be regulated by the FSA because: the gas and electricity industry is as critical to the UK economy as the banking system; and it has the necessary

monitoring and reporting procedures and enforcement authority already in place.

- 2.233. There would then be no continuing rationale for Ofgem's existence. Security and supervision issues would be dealt with by FSA, and the Office of Fair Trading and the Competition Commission deal would with competition issues. Existing government departments have responsibility for social and environmental issues.

Scottish & Southern

- 2.234. SSE looks to the Authority for early regulatory clarity when structural changes are proposed. No new work should be considered.

United Utilities

- 2.235. Many areas of concern require clarity of government policy objectives. Ofgem should press the government for this.
- 2.236. Quicker decisions and more obvious precedents should be set.