

Ofgem's Corporate Plan

Response by Powergen

1 Improving Ofgem's Efficiency and Effectiveness

The corporate plan emphasises improving Ofgem's effectiveness, efficiency, transparency and willingness to engage with industry. The forthcoming introduction of an RPI-X regime is a good indicator of Ofgem's commitment to 'Better Regulation' and we look forward to the accompanying budgetary audit and review; we trust that there will be an element of public consultation to this process, perhaps reflecting the "Willingness to Pay" programme under DR4.

During the review, care must be exercised to ensure that the focus on cost reduction is not at the expense of 'quality' regulation (e.g. attracting and retaining staff of sufficient calibre). Paragraph 1.5 identifies this important balance between cost and quality and identifies correctly the key challenges for Ofgem, i.e. to prioritise successfully resources and deliverables, and to deliver value for money to consumers and the industry.

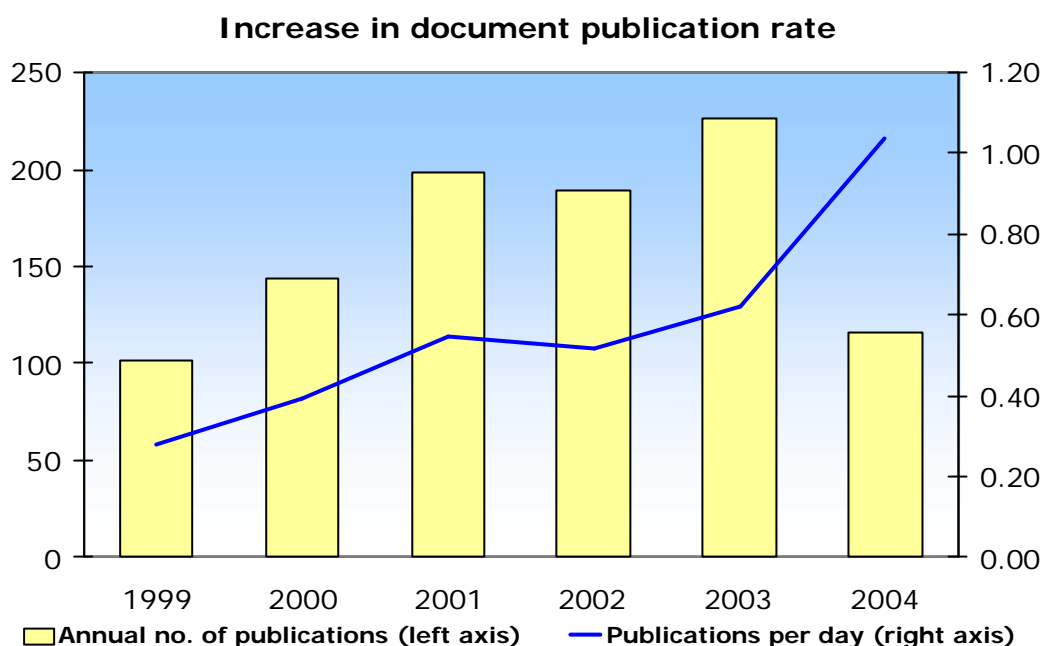
We welcome the 75% deliverables target and quarterly progress reports. The reports will be of most use to industry if they also contain some forward-looking information (e.g. revised timetables, predicted delays or bottlenecks and suggested mitigating actions). As well as helping industry to plan and target its resources efficiently, this would help to provide evidence that Ofgem is also prioritising its resources.

We share Ofgem's desire to continue to improve the consultation process. Some progress has been made, but we believe there is still room for improvement and that more effort should be made to give a minimum of four weeks' notice. Having consulted on an issue, Ofgem should also have a clear timescale for reaching a decision. For example, almost two years have elapsed since the initial consultation on the removal of the restriction on self-supply.

Ofgem also needs to continue to be mindful of ways to minimise regulation's indirect costs to industry. The chart below shows how the rate of publications has increased considerably in recent years. Whilst we acknowledge that Ofgem's transparency has improved too, quantity does not equate automatically to quality and Ofgem needs to ensure that the publication of consultation documents does not become a substitute for proper engagement with industry.

Ofgem's commitment to 'light touch' regulation can be demonstrated by focussing on fewer but better quality consultations. This might well be achieved through greater industry involvement and consensus building on policy development at an earlier stage. In this context, the review of

Regulatory Impact Assessments is a sensible development, and one that we look forward to being able to contribute to.



2 Specific Points on Deliverables

2.1 *Creating and Sustaining Competition*

Achieving the right balance between cost and quality, given the increasing complexity of network regulation, will necessarily involve an examination of Ofgem's involvement in competitive markets. The review of supply licences is a welcome step. Additionally, there is still scope for planning regulatory withdrawal from code modification processes without compromising Ofgem's ability to monitor markets and protect consumers. A welcome development would be an indicator measuring Ofgem's withdrawal from areas that do not require regulation.

2.2 *Regulating Network Monopolies*

There is still a lack of focus on sustainable investment in distribution networks. The focus in Ofgem's Corporate Strategy and Draft Plan documents is on network expansion and reinforcement to accommodate renewable and other distributed generation. The need to invest in an ageing asset base to ensure sustainable networks (and hence security of supply) is not explicitly addressed. This should be a recognised priority and is something DNOs will continue to debate with Ofgem through DR4.

The deliverables do not mention the outstanding issue of supplier credit cover and the treatment of bad debt. This is something that needs to be resolved to address ongoing regulatory uncertainty in this

area, although we acknowledge that there may be timing or resource issues caused by the DR4 process.

2.3 Security of Supply

Given the importance of this issue, it is surprising that only one deliverable is included (announcing plans for Winter 2004/05). Although highly important, there are other activities in this area, for example production of retrospective reports, contribution to JESS etc., and these do not appear to have been recognised. Furthermore, there does not appear to be any specific indication of how Ofgem will keep security of supply under review in the longer term, to ensure that existing market mechanisms are indeed sufficient to ensure new generation capacity is delivered in a timely manner. In this regard, it will be important to examine not only forward prices, but also the trends in generators' costs.

2.4 Europe

Ofgem is rightly directing a lot of attention to this area. In particular, we are pleased to see that Ofgem will be seeking to exert a strong influence on draft legislation, as it is important that evolving regulation is consistent with UK regulatory policy and the operation of competitive markets. Also, given recent Commission proposals (e.g. the draft Energy Efficiency and Energy Services and Security of Supply Directives) it will be essential to ensure EU regulation is proportionate and not overly interventionist.

Ofgem has an important role to play in developing the emerging European regulatory framework in a way which follows the principles of 'Better Regulation'. The KPI for Europe (relating to CEER documents) provides an objective and measurable starting point for gauging Ofgem's influence. However, we hope this KPI will be added to in future to reflect increased influencing activity outside the CEER (e.g. the European Parliament). The specific deliverables will also need to be updated to reflect new European proposals as they arise.

3 Budget

Some of the items in the budgetary statement would benefit considerably from a greater level of detail. Perhaps this detail could be provided electronically on Ofgem's website, or as an appendix in the final version. The detail is important in helping to understand the relationship between Ofgem's resource commitments and its deliverables. For example, there is only one deliverable under 'Security of Supply'. This alone cannot account for a budget of £1.43m; greater detail would not only be helpful, but also provide an assurance that the entirety of Ofgem's budget in this area is not being devoted solely to short term issues.

We note that the budget for "Creating and Sustaining Competition" exceeds that for network regulation, even if BETTA, the DN sales process

and DR4 are treated as exceptional items. Given Ofgem's commitment to withdrawing from unnecessary regulation, we would hope to see this relationship change in future budgetary forecasts.

4 Summary

We have highlighted some areas where we believe the plan could be improved. These include:

- quarterly progress reports to contain forward looking information;
- an increased focus on the consultation process;
- a reference to the need to invest in an aging distribution network;
- further deliverables to reflect Ofgem's involvement in ensuring security of supply and withdrawal from unnecessary regulation;
- additional KPIs and deliverables for Europe to be added in future, to reflect increasing involvement and influence;
- provision of greater budgetary detail to help industry understand the relationship between Ofgem's resources and deliverables.

Overall, however, the plan demonstrates Ofgem's desire to follow the principles of 'Better Regulation' and become more effective and efficient. The plan also reflects the need to take account of the changing European regulatory environment and ensure consumers' interests continue to be protected. We support all of these aims and look forward to being able to work with Ofgem over the coming year.

Powergen

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