



## ScottishPower

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Dear Chris

### **Ofgem's Proposed Corporate Plan 2004-07**

ScottishPower welcomes the publication of Ofgem's corporate plan setting out the key deliverables, performance indicators and budget for 2004-05 following the review of Ofgem's structure and resources. We welcome Ofgem's confirmation that the budget for 2004-05 will be reduced from the 2003-04 level as set out in last year's plan and Ofgem's commitment to operate under an RPI-X budget cap. In establishing the new cost control, in line with normal regulatory practice we would expect an external audit of actual and projected costs, and that proposals for 'X' would be made independently of Ofgem itself.

We believe there is some scope to improve the transparency of the plan and strengthen the links between the corporate strategy and the plan. In some cases, such as the commitment to review supply licences in order to reduce barriers to entry, there is a clear link to the strategy document. However, elsewhere the link is less apparent. In addition, some of the proposed deliverables are not accompanied by sufficient detail to enable the reader to understand the context and background of the objective concerned. Some examples of this are set out further below.

### **Deliverables**

It is disappointing that Ofgem's projected achievement of deliverables on target for 2003-04 has fallen to 56 per cent. However, we welcome Ofgem's clear target of 75 per cent achievement for the forthcoming year.

### **Creating and Sustaining Competition**

BETTA now accounts for around 30% of the activity in this area and this confirms the importance of ensuring that when BETTA is implemented the significant reduction in Ofgem's workload is reflected in the cost to licence payers and is recognised in the audit of Ofgem's costs to be carried out later this year and the work on setting the RPI-X cost control mechanism.

BETTA costs this year are significantly higher than anticipated in last year's plan as a result of the delay. This has, however, been offset by significant reductions in other anticipated work on electricity trading arrangements and on gas trading arrangements confirming that this work was not urgent and has not proved to be necessary. We do not believe that significant further work will be required on electricity trading arrangements following the implementation of BETTA and that GB arrangements should be allowed to settle in for a period without any further major changes.

As regards the area of competition in connections, we note the proposal to "Implement national DNO service level agreement for unmetered customers". It is not clear why this objective has been singled out. It would be useful to understand why this is felt to be a priority within the area of competition in connections.

### **Regulating network monopolies**

The significant reduction in Ofgem's workload when the distribution price control review has been completed should be reflected in the cost to licence payers. While additional work associated with the proposed sale of a number of gas distribution networks is anticipated this should not be sufficient to offset a significant reduction in required resources.

A key deliverable for Ofgem later this year will be approval of appropriate arrangements for GB electricity transmission charging. A fair and equitable commercial and contractual framework for GB transmission arrangements is vital and should include non-discriminatory GB transmission charging arrangements which do not result in market participants facing volatile changes in their costs. ScottishPower believes the current England & Wales transmission charging method is entirely unsuitable for extension to GB.

### **Helping protect security of Britain's energy supplies**

Ofgem has an important role to play in conjunction with the DTI in assessing supply security and publishing forward-looking indicators. We believe that the current market arrangements may not be sufficient to avoid future security of supply problems and that there is a need for a market mechanism to ensure sufficient generation capacity remains available. While the prospect of higher prices has resulted in some mothballed plant being brought back in to service it has still not encouraged any significant build of new conventional plant.

We note the proposal to announce plans for security of supply for winter 2004/05. However, this review is not mentioned in the Strategy document, and there is no detail given as to what such a plan will entail or how it will be carried out. While a review of security of supply for this coming winter would no doubt be worthwhile, it would be helpful if the final corporate plan set out in more detail the context for this proposal.

### **A leading voice in Europe**

A key deliverable in this regard is Ofgem's work to ensure appropriate implementation of new EU legislation, both directly and in collaboration with other Government departments. In particular the EU Directive 2003/54 concerning common rules for the internal market in

electricity requires GEMA (as the designated GB regulatory authority) to have the authority to require transmission and distribution operators to modify the tariffs for connection and access to networks to ensure they are inter alia proportionate.

While the Energy Bill has recently been amended at the Report stage in the House of Lords to include a duty on the Government and GEMA for each to have regard to the principles under which regulatory activities should be proportionate this is currently not directly linked in UK legislation or licences to network access tariffs. It is Ofgem's responsibility to ensure GB compliance through the exercise of its authority in relation to proportionality in network access tariffs.

### **Improving Ofgem's efficiency and effectiveness**

We look forward to Ofgem's fundamental audit of its costs to take place later in 2004-05 to set the basis of the RPI-X cost control regime under which it will operate from April 2005. As set out above, we would expect there to be an external audit of actual and projected costs, in line with normal regulatory practice. Despite disposal of some surplus property and reduction in occupancy, the costs associated with support functions of Ofgem are still high in proportion to the total budget. In particular the costs associated with accommodation and running costs are high and should be recognised as such in the forthcoming audit.

We look forward to publication of the final plan.

Yours sincerely

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