

Tel: 020 7752 2200  
Fax: 020 7752 2128

Andy MacFaul  
Head of Government Affairs  
Ofgem  
9 Millbank  
London SW1P 3GE



1 October 2004

Dear Andy

**Ofgem's three year strategy 2005-8**

I refer to Sir John Mogg's letter dated 5 August. EDF Energy is pleased to have the opportunity to contribute to the development of Ofgem's strategy for the next three years.

Clearly, Ofgem will wish to build on the strategy it has developed over the last year, which we largely support. At the same time, its focus must always be on maintaining a high quality, efficient and reasonable process of regulation. This must include the continued development of expertise in the preparation of regulatory impact assessments, and therefore the proposal of only those changes that are necessary and the setting of realistic timescales for the development of changes. It should also mean completion of investigations and reviews in a timely manner, thereby minimising market uncertainty.

It seems to us that security of supply will become an increasingly important challenge over the coming period. We welcome Ofgem's regular reports and its joint leadership with the DTI of the JESS work. We very much support Ofgem's statement in its most recent report that "all our major policies are assessed to see what impact they will have on security of supply". Clearly, Ofgem has a major responsibility to ensure that the regulation of network companies encourages sufficient reinvestment in networks that are ageing and subject to new pressures, such as renewable generation. It will also be necessary to consider the effectiveness of market rules and mechanisms in ensuring that sufficient new electricity generation capacity will be commissioned over the coming period. As far as concerns the increasingly important and volatile gas market, there will need to be more transparency and rules for cross border flows in Europe that ensure a sufficiently liquid market.

EDF Energy plc  
Registered in England and Wales  
Registered No. 2366582  
Registered Office:  
40 Grosvenor Place Victoria  
London SW1X 7EN

[www.edfenergy.com](http://www.edfenergy.com)

The challenge in Europe, which Ofgem rightly sees as increasingly important, is to ensure that a single energy market is developed where possible and that a reasonably consistent approach is taken towards regulation. It is inevitable that Ofgem will have a “leading voice” in Europe and we would hope that it will use it to further these aims.

The challenge in respect of retail energy markets is to apply light touch regulation in order not to stifle innovation by companies, while protecting customers. It is important that both Ofgem and energywatch share this aim. It is right that they continue to work with the industry to improve processes and adopt best practice. However, such initiatives should not lead to more rigid regulation but rather to increasing reliance on industry self-regulation, where it is required. We would like to see a rigorous review of all reporting of information and data to Ofgem to ensure that is necessary and useful.

We recognise that Ofgem must take into account the government’s social and environmental guidance. As concern for climate change increases and price rises have the effect of keeping fuel poverty on the political agenda, it is inevitable that social and environmental factors will become increasingly important. We believe that the way in which Ofgem takes them into account in its work and decisions should be as transparent as possible. Rather than simply being an administrator of government policy in the areas of renewables and energy efficiency, we would like to see Ofgem openly join in the debate, along with industry, about the cost effectiveness of different policy options, since Ofgem should have a unique and independent perspective on these questions.

Finally, there remains an issue about Ofgem’s own cost effectiveness, particularly when compared with other regulators in Europe. We look forward to seeing the proposed new controls being agreed and applied to its own costs.

We look forward to commenting on Ofgem’s draft Strategy and Plan in due course.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a long horizontal flourish extending to the right.

**Denis Linford**  
**Director of Regulation**