



**ScottishPower**

Andrew MacFaul  
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Dear Andrew

**Ofgem Proposed Corporate Strategy and Plan 2006-2011  
Consultation  
January 2006**

Please find attached the response from ScottishPower to the invitation from Sir John Mogg and Alistair Buchanan to comment on Ofgem's Corporate Strategy and Plan for the years 2006-2011.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

**Alex MacKinnon  
Regulation and Trading Arrangements Manager  
ScottishPower Energy Management Ltd**

## **OFGEM PROPOSED CORPORATE STRATEGY AND PLAN 2006-2011**

### **RESPONSE FROM SCOTTISHPOWER**

#### **1. Do the themes remain valid?**

We agree with the retention of the seven major themes from the current strategy and the benefits to the industry in terms of regulatory continuity and predictability of working within a stable overall regulatory framework.

#### **2. Has Ofgem identified all the relevant issues within each theme?**

##### **Creating and sustaining competition**

We welcome Ofgem's confirmation that increasingly it is looking to rely on self-regulation or general competition and consumer protection law wherever possible and the reduction of 10% in the resources being allocated to this theme in the first year of the plan. The competitive GB energy markets now require less intervention or detailed scrutiny from Ofgem and general competition provisions provide the necessary powers to deal with anti-competitive behaviour.

However, the plan does not show any further reductions in the resources required under this theme in subsequent years and we believe there will continue to be scope for greater efficiencies.

A significant proportion of the resources allocated under this theme are for dealing with modifications to industry codes, particularly in relation to wholesale energy markets. Ofgem is now however required to take account of the new rights of appeal to the Competition Commission when making decisions on modifications to the industry codes underpinning the gas and electricity markets. We believe that this should lead to a reduction in the occasions when Ofgem makes decisions which are opposed by a significant number of industry participants and thus should result in a reduced workload for Ofgem and the industry. The industry has extensive governance procedures for its major codes and Ofgem should only use its powers to overrule industry decisions in exceptional circumstances.

We support Ofgem's continued focus on ensuring that there are no significant barriers to entry. In some areas though it would appear that institutional and regulatory structures may inhibit innovation or market entry. For example, the combination of highly regulated DNO metering obligations and risks to suppliers of asset stranding as new metering technology becomes available may present barriers to the take up of emerging metering technology and consequently the adoption of domestic micro generation which requires 'import/export' metering to measure the energy used and produced.

##### **Regulating network monopolies**

As outlined in our response to the August consultation, we view the main challenge for Ofgem in terms of network regulation as ensuring consistency between the price control reviews and the Government's broader energy and environmental objectives. It is vital

that network operators are incentivised to invest efficiently and in a timely way to meet customers' needs and to support on-shore and off-shore renewable generation. Such network investment should provide a return at least consistent with comparable utility sectors to enable companies to raise the necessary investment.

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

We welcome recognition by Ofgem in the recent price control reviews and the extension to the Scottish transmission price control of the need for increased investment to counter the effects of the ageing asset base. Further increases will be required as part of a prioritised programme of investment to preserve the long term safety and security of the network.

We support Ofgem's comments regarding the role of regulation in improving security of supply and network reliability and in particular the contribution of renewable generation. In order to fully exploit the potential of renewable resources Ofgem should ensure that incentive mechanisms are reviewed regularly in light of new information and decision making processes are simple and straightforward so as to enable the timely delivery of network infrastructure.

Ofgem has an important role to play in conjunction with DTI in assessing supply security, informing the market about key developments with respect to security of supply and providing information to market participants to help plan investment decisions. We are however concerned at the number of reports now being required to be produced on security of supply and look to Ofgem and DTI to ensure effective use of resources on this theme.

Gas quality is an increasingly important issue for operators of gas generation plant and it is important that before any changes are made to the quality specifications for gas imported to GB the impact on generators is fully quantified and the option of treating gas at entry points to the GB system is assessed against the expenditure that would otherwise be required at each individual gas-fired power station.

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

We welcome the leading role Ofgem is taking in Europe to encourage EU-wide implementation of existing directives and regulations. The development of effective trading and infrastructure capability in Europe is vital with stronger price transparency, equal access rights and appropriate market concentrations. Ofgem can play an important role in promoting transparency to increase liquidity, enhance market efficiency and confidence and facilitate new entry across Europe while recognising the need to preserve commercially sensitive information and avoid placing unjustifiable burdens on market participants.

### **Helping to protect the environment**

We recognise the positive contribution from Ofgem in establishing a framework to ensure that policies which have a significant environmental dimension are consistent with its statutory objectives and duties relating to the environment and sustainable development. Environmental legislation and constraints are having an increased impact on wholesale and

retail competition and it is important that their impact is taken account of in developing energy policy. With environmental regulation devolved and single GB-wide trading arrangements the market will be distorted if environmental measures are not implemented consistently throughout GB. Ofgem has an important role in working with environmental regulators to highlight any such adverse impacts on competition in the GB energy market.

We are concerned at the projected increase of over 40% in the resources required for administering the Government's environmental programmes, principally the Renewables Obligation and the Energy Efficiency Commitment, the reasons given being anticipated increased volume of activity and a planned new IT system. We do not believe that Ofgem should be diverted from its key priority tasks by administrative work which could be carried out by an industry body such as the Non-Fossil Fuel Purchasing Agency.

### **Helping to tackle fuel poverty**

We continue to fully support Ofgem in working with the Government to fulfil its aim to tackle the significant social problem of fuel poverty and agree that this remains a valid theme for Ofgem's corporate strategy. While we believe that primary responsibility for this issue lies with Government, we continue to seek ways to assist vulnerable and fuel poor customers wherever possible, and to improve the quality of information and assistance provided to these customers.

We appreciate the recognition that current wholesale energy costs and issues of gas supply are contributing to significantly higher prices than in recent years, but also that further impact on prices will be felt through efforts to improve infrastructure and generation assets and increased investment in renewable technology. The benefits of these efforts clearly outweigh the costs, although we recognise the necessary impact that these will have on energy prices, and subsequently fuel poverty.

We would observe that fuel price is only one of the contributing factors to fuel poverty and would encourage Ofgem to build upon their approach by encouraging the efficient use of electricity and gas by consumers. ScottishPower has directed £36 million in investment in energy efficiency to low income households over the last four years and is committed to continuing this trend. Encouraging best practice in energy efficiency could promote innovation and ideally increased take up of this service, reducing energy bills and ultimately fuel poverty.

We have been involved in working with Government and other agencies in approaching the issue of fuel poverty and have a number of innovative schemes underway. We have also been heavily involved, along with other suppliers, in the establishment of the Home Heat Helpline. We have also established the ScottishPower Energy People Trust with a focus on helping families and young people out of fuel poverty. Our holistic approach to these issues, and issues such as debt prevention and management, has earned us praise from Ofgem and others. We welcome Ofgem's pledge to continue monitoring activity in this sector, with a view to establishing best practice in respect of vulnerable customers.

We fully support the reduction of regulatory burdens wherever possible in order to drive developments within the industry, and agree that self-regulation can have the potential to play an important role in assisting vulnerable customers. The Energy Retail Association

Vulnerable Customer Safety Net is a key example of the positive effects of self-regulation in this area. Where the complete removal of regulation is not a viable option, then we believe that self-regulation is a suitable backstop. This is also consistent with the principles of Better Regulation and would enable suppliers to consider the optimum methods for assisting such customers. We remain keen to support the Government in its aim to eradicate fuel poverty and support the approach proposed by Ofgem in its Strategy.

### **Better regulation**

We agree with the widening of this theme to include the principles of good regulation as developed by the Better Regulation Task Force in addition to improving Ofgem's efficiency and effectiveness. We recognise Ofgem's commitment to cost efficiency now moving into the second year of the five year RPI-3 resource control. However, while Ofgem has implemented a RPI-X cost control formula on its own operations similar to that imposed on the regulated network monopoly businesses there is no incentive on Ofgem to reduce its costs below this level as there is on network operators. In the current plan Ofgem has doubled its contingency allowance from £2m to £4m. We see no reason as to why the proportion of Ofgem's work that is of a reactive nature should double over this period and thus the need for such an increase. This does not reflect the development of competition in the supply markets.

We have noticed the impact of 'Project Paperless' and the reduction in the number of consultation documents requiring responses from participants in the competitive energy markets. Costs incurred by market participants in responding to consultations and assessing proposed changes in regulation and trading arrangements are significant and initiatives reducing these costs are welcome. Over the last few years there have been significant changes in regulation and trading arrangements and we believe the next few years should be a period of consolidation.

We welcome the forthcoming redesign of Ofgem's website to improve transparency and make it easier for customers and regulated companies to access information. It would be useful to have updated licences more readily available.

We continue to have concerns regarding the timeliness and quality consistency of regulatory impact assessments. We would support a commitment to address this in order for these assessments to play a more central role in the policy development process.

### **3. Is Ofgem's approach to the challenges ahead the right one?**

We believe that consideration should be given to a more active role for Ofgem in facilitating delivery of the Government's energy policy goals such as renewables. We see a case for speeding up decision making in some areas and for addressing potential barriers to the timely implementation of projects to help meet Government targets. We acknowledge that there could be a need to revisit Ofgem's statutory duties to enable this to take place.

**4. Are there licence or other obligations that impose an unnecessary administrative burden?**

There are a number of licence conditions that appear to be redundant or involve unnecessary burdens. For example, although the distribution licence conditions dealing with business separation were reviewed in 2002 to simplify and streamline requirements, the equivalent transmission licence conditions were not included in the review. We would support a programme to remove 'unused' or unnecessary transmission and distribution licence conditions following the review of the supply licence.