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Dear Andy

Ofgem's Corporate Strategy and plan 2006-11

I refer to your consultation on the above and appreciate the opportunity to comment.

The latest version of your Corporate Strategy and Plan is the most comprehensive we have seen. It is particularly helpful that you have included more detail on your intentions beyond the first year of the plan period. We are broadly supportive of the work programme that is proposed in this document and agree that it will address most of the current issues facing the gas and electricity markets.

I will limit my comments to a small number of issues, raised in my letter of 28 September, that have not been clearly reflected in your plans, although this does not necessarily mean that they are not in your mind.

1. Customer Research – it remains essential that decisions on the future of energy markets are driven, at least in part, by the views of customers. We think there would be merit in Ofgem establishing a programme of customer research, which could inform debate across a range of issues. This may be more effective than a succession of ad hoc research projects aimed at specific topics.
2. Timing of work and decisions – it is important that your work programme reflects the urgency of action on particular issues. As an example, we note the linkages between work on metering competition and the possibility of a smart metering initiative. However, the overlap of price controls, incumbent licence obligations and notional competition does not provide a healthy environment for the development of new businesses. There is a danger that new entrants will be deterred from participation in the metering market unless decisions are taken quickly and future profitable opportunities can materialise. Otherwise, the very parties you hope will stimulate innovation may have been forced to cut their losses and exit the market.

3. Effective competition – on a similar theme, we have been critical in the past of your stance on competition in connections. This market has developed extremely slowly, with marked differences around the country in the extent to which new entrants have been able to navigate local procedures and restrictions. We believe that it is far more important to ensure that the current market (in terms of the scope for competition) is made to work as intended, than that further marginal changes are made to the definition of the competitive market.

Set against the major priorities that you have identified for the coming years, these items may appear second order, but getting the right approach here can also help you by avoiding unnecessary extra work in dealing with problems in markets that should be capable of operating without substantial additional regulatory intervention. I hope our comments are of assistance. I would be happy to discuss them with you if you would find it useful.

Yours sincerely

Mike Boxall
Electricity Regulation Director