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Dear John

Ofgem's Sustainable Development Report 2006

We were interested to receive a copy of the above report, which Steve Smith kindly sent to our Chief Executive, Ian Marchant, before Christmas. Sustainability, in all its forms, is becoming an important consideration in all economic decisions, whether in the business or political arena. We therefore welcome Ofgem's Report, with its clear divisions into themes and performance indicators and we agree that the issues are brought together in the framework of the report are generally the right ones. We believe that this report also helps the transparency of Ofgem's corporate planning process in setting out clearly where Ofgem intends to take further action in relation to any of the individual indicators covered.

The foreword to the report specifically asks for further actions that Ofgem could take to protect the interests of future generations of energy consumers. We set out a few ideas on this subject below.

Potential further areas of work for Ofgem on the sustainability agenda

Ofgem's first theme is that of managing the transition to a low carbon economy. Within this theme, Ofgem discusses its involvement in the review of the regulatory framework as it affects distributed generation (DG). We have recently responded to the DTI's call for evidence for the review of barriers and incentives to DG and have copied our response to Ofgem. One of the principal measures we advocated was the creation of a new energy services licensing framework, which would allow energy services companies (ESCOs) to offer customers such as Local Authorities a package of environmentally friendly energy services using DG installations and private electrical and heat networks. At present, there is considerable complexity around the requirements for such projects due to the nature of the licence exemption regulations. We are encouraged by Ofgem's use of the term "energy services" in its foreword to the Sustainability

Report and believe that Ofgem has a key role to play in adapting the present framework of licence requirements and exemptions in order to cater for and develop the ESCO approach to sustainable development.

Another issue that we would take the opportunity of raising in this response is that of Ofgem's role in promoting a stable regulatory climate for generation investment. This could be considered under either the first theme or the fourth one, which is concerned with ensuring a secure and reliable electricity and gas supply. Ofgem has previously recognised, as part of its corporate planning process, that the investment climate for generation is affected by perceptions of regulatory risk. We agree with this and believe that Ofgem could do more to promote stability in network charging as this is a fundamental future risk for potential new generation projects. In particular, we would urge Ofgem to review the negative impact of NGET's transmission charging methodology on investment in generation, including the development of renewables. In addition, we believe that Ofgem should stop trying to drive electricity distribution charge structures towards more unstable "forward-looking" marginal cost based models. It has also been proposed by Ofgem that existing DG (though not micro-generation) should start paying distribution use of system charges. In our view, this prospective change in commercial arrangements would be unacceptable to existing generators (who paid all the contribution asked of them by means of a historic connection charge) and also sends an adverse signal about regulatory risk to current developers of DG projects.

Finally, I thought you may be interested in the approach that SSE has been taking to develop a more environmentally focussed travel strategy. There are two elements to this.

- Firstly, we now charge cost centre managers a £20 surcharge for flights while rail travel, which is less environmentally damaging, is not charged directly to the cost centre. This has resulted in an increase of over 180% in the amount of rail journeys taken in the course of SSE business.
- Secondly, since a better environmental option is not to travel at all, we have invested in greater facilities for video- and telephone-conferencing, which we believe has resulted in over 1m km of business travel saved last year. We are planning further investments in this area and would commend this approach to Ofgem. We believe it fits well with the sustainability agenda for all organisations to seek to carry out their business with the least possible need for staff to travel.

I hope these comments are helpful and look forward to seeing further reports on this theme.

Yours sincerely

Rob McDonald
Director of Regulation