



Electricity industry participants
and other interested parties

*Promoting choice and
value for all customers*

Your Ref:
Our Ref: NET ETP GEN 05
Direct Dial: 020 7901 7498
Email: Robert.hull@ofgem.gov.uk

Date: 15 June 2007

Dear Colleague

Long Term Electricity Network Scenarios – Initial thoughts and workshop invitation

We committed in our Corporate Plan to give priority to long term investment and security of supply through our work with DTI on future market monitoring and our plans for new energy scenarios. This followed on from Ofgem's response to the Government's Energy Review consultation which included an offer to provide longer term scenario assessments.

We stated that we would take this work forward in 2007 with the aim of providing a longer term strategic contribution to the sector. This will help set the context for price control reviews in the future and aid consideration of other strategic issues. We plan to publish the first report in 2008.

Objective

Networks need to be developed to meet needs of future consumers and other network users; these requirements will change over time in ways we can't predict. To address this, Ofgem's main objective for the project is to ensure that the flexible revenue allowances set in price control periods are compatible with plausible long term outlooks. Ofgem therefore plans to facilitate the development of a range of future scenarios for 2050 around which to discuss longer term electricity network development issues with network licensees and other stakeholders. This approach provides a means of looking significantly further into the future than a price control mechanism. Whilst assisting strategic thinking, it will not prescribe particular strategies for the regulated companies.

Approach

The choice of scenarios will be guided by the potential impact on electricity networks of a range of future issues, including:

- Government policy and market developments (including carbon)
- Economic, social and demographic change
- European and international commitments and/or initiatives
- Potential significant shifts in the UK fuel mix
- Renewable and distributed generation
- Climate change and environmental trends

However, as the scenarios will have a strong networks focus, it is suggested that they would be classified by key networks drivers. This is an area where comments and suggestion would be particularly welcome, but possible drivers could be:

- Load growth (might include energy efficiency and carbon footprint)
- Distance - Generation remote or local to demand
- Utilisation (Load Profile/Variability/redundancy)
- Transmission /Distribution – which would differentiate between DNO network drivers and TO network drivers

This will recognise and build on existing and parallel work, where appropriate. We propose to draw on the expertise of the academic community, noting the modelling and scenario development that has taken place at a number of institutions. Bearing in mind the particular relevance of the 'Supergen' scenarios we have asked the University of Strathclyde to assist us with this project and act as a point of coordination with other Universities. We also note the work being done by the Electricity Networks Strategy Group's Horizon Scanning group in this area and the need to ensure that this is integrated with the project.

Three phases of work are envisaged:-

Phase 1 revolves around collating robust raw data on electricity supply and demand outcomes from some combination of primary modelling of supply/demand and use of existing scenarios. The economic foundation for the scenarios will be provided by one of the major 'whole economy' models for energy.

Phase 2 involves the appraisal of the phase 1 scenario raw data and the synthesis of four or five scenarios for the electricity sector in 2050. These will then be subjected to a 'backcasting' process to establish way-markers in 2025.

Phase 3 includes analysing the scenarios for 2025 and 2050 to establish a set of key issues for networks and for regulation of networks.

Consultation and a workshop will be included in each phase. The findings together with a description of the scenarios will be published in the first half of 2008.

Indicative Programme

Phase 1 June 2007 to Sep 2007

Phase 2 Oct 2007 to Jan 2008

Phase 3 Feb 2008 to May 2008

Report May 2008

Views invited

We would welcome views on the proposed approach set out in this letter. Responses to this letter should be received by no later than **23 July 2007**, preferably submitted by email to colin.green@ofgem.gov.uk. Responses will be published on our website. As such, any confidential responses should be clearly marked as such and confidential issues set out in an appendix to any response.

We are also proposing to hold an industry workshop on 17th August to discuss the issues set out in this letter. Should you wish to attend this event, please contact Shirley Ellis on 020 7901 7498 or by email: Shirley.ellis@ofgem.gov.uk by **6 July 2007** to register your interest. Unfortunately, we are unable to guarantee places to all those that have registered

their interest for the workshop. We will however endeavour to ensure that each organisation has at least one representative.

If you have any questions on this letter please contact Colin Green on 020 7901 7143 or via email on colin.green@ofgem.gov.uk in the first instance.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'R Hull', written in a cursive style.

Robert Hull
Director, Transmission