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Dear Colin

Long Term Electricity Network Scenarios – Initial thoughts and workshop invitation

ENA welcomes Ofgem's proposal to give greater priority to long term investment and security of supply considerations and to develop scenarios of long term network developments to inform its thinking. ENA and its members have for some time voiced their concern over the possible short term focus of the traditional RPI-X regulatory framework. At a time when there is a need for greater focus on investment to replace an aging asset infrastructure, we have urged Ofgem to adopt a longer term perspective when undertaking its regular network price reviews. Ofgem's initial thoughts paper goes some way to alleviating our concerns.

We are however concerned about the projected timetable outlined in your letter for the work on these scenarios which we believe should be far more aggressive than proposed. This is because the key results from the studies should feed into the DPCR5 process from the very start; hence the results should be available for inclusion in the proposed Initial DPCR5 Consultation paper which is to be published in February / March 2008 (see Martin Crouch's letter of 15 June).

In principle we should be seeking an agreed vision of the long term future that we can move towards through successive reviews rather than continuing to assess network requirements in discrete five year blocks. Failure to integrate this work into the DPCR5 process at a very early stage will mean that we have lost a key opportunity to introduce a long term context into the review which is, after all the rationale for these studies.

To facilitate those more aggressive timescales, and to tie the work more closely into DPCR 5, we suggest you forecast to 2050 as suggested, then "back-cast" direct to the 2010-15 period to inform the periodic review. It is essential that a radical view of possible futures is taken, using the 2050 horizon, to carry out (at least high-level) cost-benefit analyses of the potential roles and responsibilities of distributors in the period to 2015. This would inform, for example, whether we wish distributors to take

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a pre-eminent role in dispatching both generation and demand on low-carbon power systems.

It will also be important to ensure that the project is adequately budgeted, such that the work can be properly resourced and executed to the required quality and within the specified timescale. Any shortfall in funding would be a false economy in terms of the eventual cost to the industry, and indeed to the nation as a whole, arising from pursuing network development strategies based on what might eventually turn out to be a set of flawed scenarios.

As far as the approach you are proposing to take is concerned, we agree that the work should build upon that already undertaken by the academic community and the joint industry / government / Ofgem groups set up under the Electricity Networks Strategy Group (ENSG) on which of course ENA and its members actively participate. However, it is not clear precisely what the output from the scenarios will be – simple parameters such as levels of investment or a more detailed analysis of long term commercial and regulatory issues?

We are also interested to explore how you propose to incorporate the engineering / technical dimension into the project. The network drivers that you include in your letter are the conventional and established ones. For the future however we should look at new drivers related, for example, to the environment, carbon, sustainability and UK Government objectives (and more recently European proposals) for renewables. We should also examine the underlying network issues and enabling technologies to help us identify and overcome the possible technical and non-technical barriers.

Towards the end of 2006, we commissioned SKM to undertake a study to examine the range of network investment scenarios through to 2025 based on the original Supergen scenarios. Phase one of the project, recently completed, is a set of business as usual projections for the electricity network companies. We plan to follow this up with more sophisticated analysis of future developments, using output from the current ENSG project looking into future network architectures.

I will send you a copy of our Phase One report for your information in the next few days. One conclusion from this phase of our study is the need to refresh the Supergen scenarios in the light of recent developments, notably the government objectives for renewables set out in the recent Energy White Paper; it will also be necessary as you suggest, to develop more detailed assumptions than the scenarios currently contain about the key drivers of network development and functionality.

I hope you find these comments useful. I would be happy to discuss any of the issues raised in this letter or the SKM Report itself. Otherwise, I look forward to seeing you at the workshop on the 17 August

Yours sincerely,



Nick Goodall
Chief Executive

cc. Martin Crouch