



United Utilities
Lingley Mere Business Park
Lingley Green Avenue
Great Sankey
Warrington WA5 3LP

Telephone 01925 234000
www.unitedutilities.com

Robert Hull
Director, Transmission
Ofgem
9 Millbank
London
SW1P 3GE

paul.bircham@uuplc.co.uk

Your ref NET ETP GEN 05

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Dear Mr Hull

Long Term Electricity Network Scenarios

Thank you for the opportunity to comment on your proposals for scenario development and modelling.

We believe that your intention to look how scenarios can inform the development of revenue drivers to be entirely appropriate, and appropriate on two counts. Firstly we agree that predicting or directing any particular network development or strategy is bound to fail where the energy market develops naturally, ie not under any strong central direction. Secondly, that it underlines the principles of all participants in the energy markets being free to develop and follow their own strategies to suit their needs.

In terms of your proposed approach, given the long time frames within which changes to markets, and particularly to assets, occur, a 40 + year horizon seems entirely appropriate. We also believe that utilising an approach where one "backcasts" from 2050 to 2025 is more likely to generate new ideas and "out of the box" thinking that will make the whole process more useful and informative. We also agree with your list of issues and drivers, but at the risk of additional complexity, would suggest some others.

Security of supply - we believe that security of energy supplies will continue to become more important year by year as our dependency on technology continues to increase. In truth it is the security of operation of technology that is important, but in most cases this is dependent on security of electricity supplies. Over 40 years security of operation might become more decoupled from security of network electricity supplies (eg possible growth of batteries in appliances etc), but we see this as a key driver over that period.

Transport – Although this is probably picked up implicitly in your list of issues, we believe that future energy scenarios should probably deal with transport, and its

possible effect on the wider energy infrastructure, explicitly. From our observations a defect of the Supergen scenarios is that possible transport needs and effects on the energy infrastructure is ignored.

Technology and Customer Behaviour – again this could be implicit in your list of issues and drivers, but we believe that some allowance for technology developments and customer use of it should be made. Many aspects of technology and the way we use it (mobile phones; the internet) were essentially unknown even 20 years ago, and we must assume that there will be at least as many completely new issues that have an effect on energy needs in the next 40. Assuming that customers needs can be predicted from history would not be appropriate for all scenarios.

In relation to this last issue, we believe there could be merit in specifically considering how technology and market developments might affect future service and network needs. Although there are no direct parallels with, for example the telecoms industry, the way in which telecoms networks and services, and customer use of those service, has changed has been enabled by technology and markets in ways that many strategists or scenario-makers of the 1970s would probably have found hard to envisage.

In considering your proposed timetable we are concerned that this valuable work may be completed just too late to be fully utilised in the distribution price control review process. It would be sensible to ensure that this work is focussed on providing results that can be utilised in setting the scene for DPCR5. Therefore, we believe that the programme should aim for completion before drafting of the DPCR5 initial consultation commences.

We recognize that there are considerable challenges in making this an effective piece of work. However we look forward to contributing, and we will attend the 17 August workshop.

Yours sincerely,

Paul Bircham
Regulation Director

cc Colin Green by e-mail