

Andrew MacFaul
Head of Better Regulation
Ofgem
9 Millbank
London
SW1P 3GE

Direct line 01925 534504
Direct fax 01925 534571
paul.bircham@enwlimited.co.uk

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Dear Andy,

Ofgem's Corporate Strategy 2008-13

I refer to your consultation on the above and appreciate the chance to comment for the first time under our new ownership and operating name.

We are broadly supportive of the proposed programme as it addresses most of the important issues. We would particularly refer you to our detailed response of 24 September 2007, and we will therefore restrict our comments to a small number of the most important issues of particular relevance to DNOs based on your established themes.

Creating and sustaining competition

Whilst there were signs this time last year that wholesale prices were starting to fall as new infrastructure came on-stream and the price of oil decreased, other factors have caused those prices to rise again with the consequent increase in retail prices to customers. It is important that Ofgem maintains strong pressure on the relevant parties to ensure that customer's faith in the competitive market does not diminish whilst not acceding to some calls for intervening in the market to regulate prices. We appreciate this is a difficult balance to achieve, but it is one that Ofgem need to maintain during a potentially difficult economic period.

We have been a consistent supporter of competition in the metering and connections markets whilst recognising that striking the balance between competition and regulation is essential in these areas where competition has been developing in recent years. We welcomed the removal of the DNO obligations in respect of metering services in April 2007 and in connections we hope the focus will remain on making the existing market for contestable services more effective across the whole country. In our view, this will deliver greater benefits to customers than trying to extend the scope of competition before the current market is operating effectively. It is clear that competition in connections has developed more rapidly and effectively in the North West of England than in other parts of the UK and this should be recognised by Ofgem as we continue to present the evidence of this effect.

Regulating networks effectively

As we have indicated previously, the gradual replacement of energy network assets needs to be planned over a substantial period and it is important that managing investment is not limited to five year price control windows. This strand of Ofgem's work must be linked with the theme relating to security of supply where efficient and timely investment is imperative. This was brought into sharper focus with the storms and flooding during last summer, which are likely to be a recurring feature of the UK climate, possibly with increasing severity. The industry (including its regulator) needs to collaborate to establish a longer term vision for asset replacement, taking account of both emerging technologies and the risk of service failure if too much reliance is placed on aged assets. We hope your initiative on long-term future electricity scenarios can address this issue and we believe this initiative needs to deliver its initial findings early in the next Distribution Price Control Review process.

The forthcoming Distribution Price Control Review (DPCR5) should be built on established practice and as indicated in our response to your DPCR5 scope letter and subsequent discussions it is important that all stakeholders can see consistent messages over the long-term on issues such as future network investment. As capital expenditure requirements continue to grow it is essential that investors continue to be attracted to the energy sector and the results of DPCR5 must send out important messages of regulatory consistency to potential investors. It is also worth noting that facilitating a low carbon economy will be a dominant new topic for the review impacting on issues such as the revenue driver, losses, DG and smart meters.

Security of supply

In addition to our comments above, the repeated question for DPCR5 and for the future generally is the extent to which customers wish to pay for improvements to their quality of service. We accept that this is not an easy area to test, but we hope that collaboration between Ofgem, the new consumer bodies and the ENA will help in achieving a common view of customers' needs, requirements and expectations. In particular we recognize the challenge that considering the so called HILP events will bring to Ofgem. We continue to believe that it is important to rigorously consider HILP events and to resolve jointly the issues that this might reveal.

Sustainable Development

Whilst under the ownership of United Utilities, we had an enviable record of commitment to this issue and we supported the Ofgem initiatives. We intend to continue our commitment. We can only re-emphasise that progress on this issue will only be possible if there is sufficient network investment to accommodate the growth in distributed generation and to allow for the climatic changes that are already impacting on distribution systems.

Better Regulation

We have commented previously that there must be a distinction between better regulation and less regulation. The current wish to cut red tape should not increase the risk to customers or

other market participants. The proposals for the review of the Distribution licence have been generally welcomed and whilst supporting a limited review of Industry code governance, this must not lead to important resources being diverted from DPCR5 during 2008/09 within DNOs or Ofgem.

I hope you find these comments helpful. I would be pleased to join in further discussion on the issues raised.

Yours sincerely,

Paul Bircham
Regulation Director
Electricity North West Limited