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25 February 2008

Dear Andy

PROPOSED OFGEM CORPORATE STRATEGY AND PLAN 2008-2013

Thank you for the opportunity to provide further comment on Ofgem's Proposed Corporate Strategy and Plan 2008-2013 and build upon the views set out in our response to your open letter in September of last year. This response is submitted on behalf of the ScottishPower Group and ScottishPower Renewable Energy Ltd.

We remain in broad agreement that the seven themes outlined are both appropriate and realistic given the current challenges and priorities, which we face as an industry. We also concur that it will be important to revise some of the themes and work streams later in the year to take account of forthcoming legislative developments both at EU and UK level.

However, at this time there are a number of points which we would like to draw to your attention:

- **Facilitation of Renewable Generation** – The UK faces extremely demanding targets under the proposed EU 2020 Renewables Directive. We believe Ofgem has a pivotal role to play in facilitating the level of industry transformation required if we are to progress towards this target. Expansion of the network, and significant simplification of the processes required to connect and operate renewable generation (whilst maintaining a fair system for other generators) are vital. We would urge Ofgem to ensure that the obstacles to this scale of reform are overcome and that the necessary changes are delivered in as short a timescale as possible.
- **Smart Metering** – There is widespread support for a Government mandate for the accelerated deployment of smart metering across the UK. If this goes ahead, it will be vitally important that this major project is properly co-ordinated. Ofgem will need to play a key role in this, working with the suppliers and other key stakeholders. It is important that you provide in your planning for the resources to deliver this.

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- **Offshore Transmission** – We are supportive of developing a robust regulatory regime for offshore transmission that encourages efficient investment and operation while providing assurance to offshore generators about performance. However, we believe that it is important that the regime takes due account of the particular uncertainties relating to the early projects.
- **Political and Regulatory Stability** – We welcome Ofgem's recognition that investors require a stable political and regulatory environment before making investment in new generation capacity. We agree that greater certainty is needed about the arrangements for future phases of the EU ETS in order to encourage investment in low and zero carbon technologies and that it is important that carbon costs are passed through to customers to encourage energy efficiency. However, we are concerned at the number of changes that are being proposed for the wholesale market rules that determine the imbalance cash out prices and the degree of complexity that may be introduced into these very important arrangements.

I attach a supplementary Annex which provides a more in-depth response on the matters noted above and which seeks to address the other key issues outlined in the consultation document, under each of the seven themes highlighted.

We are keen to continue to work with Ofgem to develop workable solutions which incentivise the necessary investment in the network and encourage sustainable generation whilst ensuring secure energy supplies as well as providing maximum benefit for the consumer as a result of a wholly functioning, competitive market.

Finally, in this regard, we note the Authority's recent decision to launch a probe into the electricity and gas supply markets following mounting customer concern over increases in energy bills. We firmly believe the UK market is highly competitive and that this competition is the best route for protecting the interests of consumers. However, we would like to assure you at this time of our full co-operation in providing the data and information required to enable you to undertake the necessary analysis in order to formulate your own conclusions.

If you would like to discuss these or any other issues in further detail, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal line.

Rupert Steele
Director of Regulation

OFGEM'S PROPOSED CORPORATE STRATEGY AND PLAN 2008-2013

SUPPLEMENTARY ANNEX

1. CREATING AND SUSTAINING COMPETITION

The next five years are likely to bring a number of key challenges and opportunities for further development of the wholesale and retail markets in the UK. We believe that Ofgem's role in monitoring these markets and ensuring that competition remains effective in the UK is of vital importance in delivering lower prices, innovation and a diversified and sustainable generation portfolio.

We also agree that in the long term the benefits of competitive markets far outweigh prescriptive regulation and that there is scope to rely even more on competition in the provision of bulk supplies of gas, electricity generation and wholesale energy markets.

In this regard, we note the Authority's recent decision to launch a probe into the electricity and gas supply markets following mounting customer concern over increases in energy bills. We firmly believe the UK market is highly competitive and that this competition is the best route for protecting the interests of consumers. However, we would like to assure you at this time of our full co-operation in providing the data and information required to enable you to undertake the necessary analysis in order to formulate your own conclusions.

In the specific context of 'creating and sustaining competition' within this consultation, we believe that Ofgem currently have a key role to play in a number of areas, as noted below:

- Ensuring customers (particularly vulnerable customers) are easily able to switch between suppliers
- Playing a key role in the roll out of smart meters should a Government mandate be enacted, through the Energy Bill or otherwise
- Cutting customer confusion through the development of green supply guidelines for renewable energy
- Maintaining adequate consumer protection through facilitating an effective transition to the new consumer redress arrangements
- Creating a level playing field for competition between generators following the implementation of BETTA
- Simplification of wholesale market rules
- Reducing barriers to the wider uptake of distributed energy

Customer Switching

We are fully supportive of Ofgem's work on prepayment (PPM) switching. As you may be aware, an omnibus survey carried out by Ipsos Mori for Ofgem in 2007 demonstrated that switching energy supplier was most prevalent among higher social groups (AB), and, more recently, younger PPM customers. This change in switching among PPM customers is a clear indication of active competition in this part of the market and indeed is a trend currently reflected in our own PPM customer base, where our PPM customer gains have roughly trebled over the last two and a half years.

In demonstration of our ongoing commitment to promoting PPM as a preferred payment method for those customers who prefer the budgeting control that this technology affords, ScottishPower remains the only supplier to have set gas and electricity prepayment prices so that these are now on average lower than our standard credit prices. We are also continuing

to progress with our token meter replacement programme and believe that this will help to facilitate the continuance of this upward trend in PPM customer switching.

A key part of the switching process is the rule by which suppliers are allowed to object to customer transfers in cases of debt. We believe that this operates to the benefit of consumers as a whole, including fuel poor consumers, by reducing the scope for some customers to switch as a means to avoid their payment obligations. This reduces costs for consumers generally and also avoids the increase in security deposits and PPM installations that would inevitably follow a change in the rules. We are satisfied that Ofgem came to the correct decision under the Supply Licence Review in retaining the debt objection right. We understand that Ofgem is committed to monitoring this area and would be happy to discuss further as appropriate.

Role in Smart Metering

The Government made a clear commitment to support the delivery of smart metering in its May 2007 Energy White Paper. We were pleased that the principle received widespread support from key stakeholders, including consumer groups, parliamentarians and ministers. Not only do smart meters provide consumers with accurate, understandable and up-to-date information on the energy they are using, which will have a positive impact on fuel poverty and carbon emissions, automatic meter readings will bring an end to estimated bills, reduce debt and significantly alleviate complaints.

In our view, the accelerated deployment of smart metering across the UK over the next 10 years for both gas and electricity is essential in assisting Government in the achievement of a wide range of policy objectives and depends entirely on a mandate to this effect being present within the Energy Bill, which currently does not exist. Should this be enacted, it will be vitally important that this major project is properly co-ordinated. Facilitating this co-ordination will be a key role for Ofgem and it will be important that it devotes the resources needed to ensure that the process is firmly and effectively managed.

We would like to thank Ofgem and BERR for their support to date for the progression of smart metering through the Energy Demand Research Trials. We believe that these trials will provide the industry with much needed information on how a roll out can best take place and what the likely consumer behaviour changes will be together with the related carbon impact.

Green Supply Guidelines for renewable energy

We believe that voluntary Green Supply Guidelines, supported by an independent verification scheme, has the potential to provide greater and more standard information transparency for consumers, in the area of renewable energy. Clear, concise information will be essential in helping to empower consumers to drive the growth of the green supply market.

We think that the possible extension of this concept to “low carbon” products needs further refinement and consideration, in order to avoid distortions between the two sectors.

We acknowledge your recent letter regarding the delay in the publishing of the revised Green Supply Guidelines until early summer 2008. We understand the reasons for this and we are hopeful that the further consideration this will allow will result in a more relevant, robust and workable set of guidelines. We welcome your commitment to ongoing engagement with energy suppliers and we will continue to work through the Energy Retail Association (ERA) to ensure that the industry is able to establish a valuable verification scheme, ensuring confusion for customers in this area is minimised.

Maintaining Adequate Consumer Protection

We continue to support Ofgem's proposals in relation to the customer protection measures required by the Consumer, Estate Agents and Redress Act (CEAR Act). We believe that the Energy Supply Ombudsman (ESO) scheme is working well and support this as the basis for an approved redress scheme under the CEAR Act. However, we feel that it is important that energy providers have an opportunity to resolve the matter through their own procedures first. We are fully supportive of the outcome of the Ofgem review in this area.

In relation to the transition from energywatch to National Consumer Council (NCC), we greatly welcome the fact that Ofgem has now become involved in leading this initiative and we would like to reiterate our continued commitment and support in working with Ofgem to take this forward. We would suggest that the consultation process going forward must be fully collaborative, with all key stakeholders engaged in order to ensure that the changeover is delivered as efficiently and effectively as possible, with least confusion for customers.

We believe that the imminent change in the consumer representation landscape, and the high level of competition which exists within the market, mean that a review of the Guaranteed and Overall Standards of Service is now appropriate. The original purpose of the Standards of Service regime was to preserve the delivery of certain key services to consumers under the constraints of price controls on monopoly suppliers. The subsequent development of competitive retail markets, and separation of retail businesses from network interests, has reduced the need for these standards within the retail sector.

ScottishPower believes that the Standards, as they have developed, are outdated and overly prescriptive in nature, with an associated reporting burden that is no longer necessary in a competitive market. We are happy to support Ofgem in their review of the Standards of Service.

Creating a Level Playing Field for Generators

We feel that there are still some issues in establishing a level playing field, particularly for generators across Britain following the implementation of BETTA. The current structure of transmission charges should be reviewed to ensure that it is fair and operates in the public interest. Our perception is that the charges are volatile, which could impede the development of some necessary new investments, and wrongly signal closure of thermal plant in Scotland, when that plant is needed for security of supply. In addition, we are yet to be persuaded of the cost benefit justification for proposed zonal transmission losses charging. We would ask that Ofgem reflects further on these matters.

Simplification of Wholesale Market Rules

We are concerned at the number of changes that are being proposed for the wholesale market rules that determine the imbalance cash out prices and the degree of complexity that may be introduced into these very important arrangements. Changes to these arrangements can have a significant impact on security of supply, liquidity and wholesale price levels more generally and changes should only be approved by Ofgem if there is a clear benefit and minimal risk to market stability. This is particularly important for changes not supported by industry representatives with direct experience in market operation and also for changes aimed at encouraging distributed energy participation in the wholesale energy market.

Reducing Barriers to Distributed Energy

We agree that distributed energy is an important element for successful transition to a lower carbon energy economy and maintaining long-term security of UK energy supplies. We believe

that the Supplier Obligation Post 2011, combined with a roll out of smart metering in the next ten years, could see distributed energy becoming more widespread and agree that more needs to be done to ensure that there are no barriers to the take-up of these technologies and that our regulatory system is fit for purpose in this area. We welcome the joint Ofgem and BERR consultation and we are currently working to finalise our response.

Initial thoughts include the following:

- We believe the Distributed Energy agenda includes Government, the regulator, energy industry, local authorities (LA's), the construction industry and property developers
- It is imperative that we consider all the costs/potential, including financial and regulatory incentives and address the barriers
- We see heat as being a vital consideration and think it will be important to align the current consultation with the Call for Evidence on Heat

We look forward to discussing this issue further with Ofgem.

2. REGULATING NETWORKS EFFECTIVELY

We believe that all the relevant issues have been captured within this theme and we welcome Ofgem's continued support for incentive-based regulation and a transparent mode of operation.

All Networks

We look forward to the publication of the draft LENS report, and acknowledge the work that has been done in this area. We believe that this analysis should inform the forthcoming Distribution Price Control Review, so that that review is set in a longer term context.

Transmission

We are supportive of developing a robust regulatory regime for offshore transmission that encourages efficient investment and operation while providing assurance to offshore generators about performance. However, we believe that it is important that the regime takes due account of the particular uncertainties relating to the early projects.

Progress towards the EU 2020 renewables target is highly reliant on the outcome of the Transmission Access Review. Substantial changes in the way we use the infrastructure and improvements in the capacity of the network are vital. We envisage that the elements might include:

- Provision of better information for participants to allow improved utilisation of existing TEC products;
- Formalising a better process for managing the queue
- Implementation of an appropriate "connect and manage" process, with mixed firm and non-firm connection products (either on an hours or MW basis)
- More proactive initiation of grid enhancement schemes, to avoid an overly sequential approach to infrastructure development.

Some elements of this could be partly realised through the Review of Code Governance, however we believe that further consideration needs to be given to the best mechanisms to deliver the reforms needed.

Electricity Distribution

We look forward to the initial consultation document for DPCR5. As we have said previously, we think that there should be an update paper between the initial and final proposals, to help mark out the review process and enhance its transparency in the latter stages.

We note the comments on distribution charging methodology in paragraph 2.26. As we have noted on other occasions, we believe that Western Power Distribution's approved methodology contains a number of shortcomings against the licence objectives. We have been working with Ofgem and other DNOs, including the other members of the 'G3' group, on the development of longer term charging methodologies. Following a public consultation process during 2007, G3 have had informal discussions with Ofgem, prior to submitting a formal modification proposal. We believe that more guidance by Ofgem would assist in facilitating an approved charging methodology.

Code Governance

We welcome Ofgem's review of the code governance regime and believe that this review is timely and that improvements can be made to the current governance framework that applies in the gas and electricity markets.

In our view, current code arrangements have become too complex and have not fully kept pace with changes in the wider energy landscape. The time is now right to consider what changes can be made to merge some of the codes and simplify these arrangements, whilst ensuring a level competitive playing field and security of supply.

We have provided a detailed response to Ofgem's open letter in this area. One of the key points we made, and which we should mention here, is the importance of bringing transmission charging methodologies within the codes. We believe that transmission users should have the right to propose changes in this area; and that covering the methodologies in the codes would mean that where a code change had charging implications, both aspects could be considered together in a coherent manner.

Finally, in relation to signals on carbon, we agree that these are provided through the ETS and it would be economically inefficient to use the codes to amplify them. However, a different approach is required for renewable energy, where there are specific requirements at UK and EU level. It would make good sense for code objectives to include facilitating the development of renewable energy. It might also be helpful to mention security of supply.

We welcome future involvement in a project to review elements of the governance regime and identify where improvements can be made.

A Five Year View

We welcome the continued support for incentive based regulation over the next five years and we also welcome the continued support for policies to facilitate investment to accommodate low carbon generation and encourage innovation that adds value. It is clear that the profile of R&D has been raised in the networks sector as a result of the introduction of the Innovation Funding Incentive. We have been active in undertaking a range of projects under that heading that are intended to benefit future customers.

3. HELPING PROTECT THE SECURITY OF BRITAIN'S ENERGY SUPPLIES

We agree that competitive markets are the best way of promoting security of supply, through encouraging companies to contract for and build a diversified range of sources of energy supply and we welcome Ofgem's recognition that investors will require a stable political and regulatory environment before making investment in new generation capacity.

We agree that greater certainty is needed about the arrangements for future phases of the EU ETS in order to encourage investment in low and zero carbon technologies. To this end, we consider that talk of windfalls in relation to the existing ETS phases is both misleading and unlikely to support the necessary investment.

We firmly believe that any revenues raised through auctioning of carbon permits for electricity generators should remain within the energy industry to encourage future environmentally beneficial investment.

We welcome the Government's decision on the future of new nuclear which will set a framework for the development of nuclear power in the UK in the coming years. We believe that it will make a valuable contribution to both reducing carbon and maintaining security of supply.

4. A LEADING VOICE IN EUROPE

We welcome Ofgem's continued promotion of the development of energy markets across Europe and its support of the European Commission's drive to make them more competitive.

We also welcome the Commission's emphasis on ensuring that all EU Member States have strong independent national regulators with the necessary powers to carry out their role effectively and agree that competition has flourished most strongly in those countries where there is truly independent regulation.

We ask Ofgem to carefully monitor the progress made in Europe to ensure that any decisions taken do not bring unnecessary regulation on energy companies in the UK, particularly in the context of our maturing competitive market, unlike the situation in the majority of other European member states.

Finally, we are aware of the issues and concerns that have been raised in relation to some European markets and the reasons why unbundling has been proposed as a solution. However, in finalising the text of the Directive and dealing with its implementation in the UK, it will be important to take account of the following:

- The Scottish ISO model is in fact working well in the UK and delivering the benefits of liberalisation; far from dragging its feet on network improvements, ScottishPower has been pressing ahead
- The existence of more than one transmission owner in the UK with significant industry experience and knowledge provides a valuable diversity of approach which is likely to lead to significant consumer benefits.

5. HELPING TO ACHIEVE SUSTAINABLE DEVELOPMENT

We are keen to move to a low carbon economy and we support Ofgem's greater focus on sustainable development and the fact that environmental factors will be taken into full consideration across its range of decision making. We have witnessed some very good examples of this; however we would encourage Ofgem to give it even more focus, particularly in light of the recent and challenging EU targets, especially that proposed for renewable energy.

EU Renewable Energy Directive

We acknowledge the extremely demanding targets which the UK faces under the draft EU Renewable Energy Directive, which states that 15% of all UK energy consumption must come from renewable sources by 2020. We believe Ofgem has a pivotal role to play in facilitating the industry transformation required to encourage investment in and the deployment of renewable generation at the level required, if we are to progress towards this target. We believe that expansion of the network, and significant simplification of the processes required to connect and operate renewable generation (whilst maintaining a fair system for other generators) is vital. We would urge Ofgem to ensure that the obstacles to this scale of reform are overcome and that the necessary changes are delivered in as short a timescale as possible.

The Renewables Obligation (RO)

We would suggest that there is little to be gained from further reform of the RO, other than measures needed to secure that it promotes further renewables in accordance with the proposed EU target. With banding and guaranteed headroom, the RO is now economically similar in effect to a feed-in tariff as practised elsewhere in Europe. We think that this is an appropriate way to go forward and the disruption (and probably deferral of development) involved in bringing in a new system is unlikely to justify any benefits.

However, reform is needed to increase the amount of renewable power delivered by the RO. The most significant issue to address is the 2027 deadline, as new projects will soon not have enough years of support available to cover their payback periods. It will also be necessary to raise the cap, though this will not have any cost for consumers until the additional renewables are delivered, because of the headroom mechanism.

We note that the administrative costs of the RO are proposed to come from the RO buyout fund. This is a reasonable approach, but it will be important that the costs are properly controlled and full information on budgets etc is available to the industry players who will in effect pay those costs.

The Shadow Price of Carbon

We agree with the Government's view that it is appropriate to incorporate a shadow cost of carbon into decision making and that Ofgem should have regard to the Government guidance to this effect, particularly in relation to Impact Assessments. We agree that where ETS applies, it would be incorrect to double count the benefits. In applying this within the energy sector, however, Ofgem should consider the short, medium and longer term impacts on carbon of important decisions. We also believe that it is also important that Ofgem consider the system impacts of carbon reduction overall rather than simply the apparent immediate and sometimes local benefits.

Removing Barriers to Innovation and Supporting Long Term Investment

We agree that it is important that Ofgem and Government departments remove any barriers to innovation and provide regulatory and policy frameworks to support long term investment. This would enable companies to invest in new and innovative ways of delivering a more sustainable energy system within a competitive market place. CERT is a step towards this occurring, and the framework of the supplier obligation post 2011 will play an important part in seeing this happen, and changing the relationship between a supplier and the customer. Smart metering also has an important role to play to enable this and to give suppliers confidence in offering even more innovative contracts with customers.

6. HELPING TO TACKLE FUEL POVERTY

We believe that fuel poverty is a subset of the wider issue of poverty in general and that it is ultimately Government who is responsible for developing, delivering and sustaining a society which provides help for those who require it the most.

However, we do acknowledge that as an energy supplier, we have a role we can play. We acknowledge the recent pressure on retail prices and the growing problem which exists in the UK energy market in relation to affordable warmth, particularly for vulnerable and fuel poor customers. This is why as an industry we voluntarily spend over £50m a year to provide a range of schemes to support vulnerable customers in heating their homes/reducing their fuel bills and have committed to maintaining this spend for at least the next 3 years. Furthermore energy suppliers will also spend £1.4billion on energy efficiency schemes to help vulnerable customers over the next three years as part of our 'priority group' obligation under the Carbon Emissions Reduction Target (CERT).

Despite this effort, concern remains that Government will not meet its target of eliminating fuel poverty in vulnerable households by 2010 and is unlikely to achieve the 2016 target either. We were therefore disappointed to note that expenditure on Warm Front (the Government's key programme for tackling fuel poverty) will be 25% lower in 2008-11 than it was in 2007-08, especially in light of continued pressure on energy suppliers to do more. We would urge Ofgem to work with Government to provide clarity on their position in relation to the existing targets and their future strategy to tackle fuel poverty in an era of rising energy costs.

In this respect, we support Ofgem's efforts to promote energy efficiency and customer switching, particularly amongst more vulnerable groups. As stated previously, ScottishPower remains the only supplier to have set gas and electricity prepayment prices so that these are now on average lower than our standard credit prices. We have also now launched a new social tariff, which will be available for customers from April this year, which is targeted at relieving the pressure of increasing energy prices for our most vulnerable customers.

Despite the need for recent price rises, we continue to believe that a competitive market is the optimum solution for minimising price and protecting customers.

Ofgem's Review of Suppliers' Social Initiatives

We welcome Ofgem's review of suppliers' social initiatives as a way of raising awareness of the variety of activity carried out by suppliers in this arena. In addition to the activity highlighted in this review, ScottishPower has now launched its social tariff, named 'Carefree Plus'. The tariff provides eligible customers on our Carefree priority services register a saving of up to £112 annually on their energy bills. In addition, all customers on the register will have access to a free Benefit Health Check and energy efficiency advice/measures.

Mandated Social Tariffs

We support Ofgem's view that measures to address fuel poverty and offer support to vulnerable customers should be on a voluntary basis by suppliers and left to the competitive market. We believe that financial measures like social tariffs may be useful to some of those in fuel poverty, but will not necessarily be the best solution for all vulnerable customers.

To support this view we have confirmed our intention to the Government to maintain substantially the existing package of support, including the work of the ScottishPower Energy People Trust and our new social tariff for the next three years. Our expectation is that overall expenditure across these areas will remain at or above current levels, in real terms.

We believe that the market has created a range of schemes available from suppliers which may be far more effective than a tariff in tackling the root cause of fuel poverty for many households i.e. initiatives like The ScottishPower Energy People Trust. Since its inception in January 2006, we have donated £4.3m to this Trust fund, which has already awarded over £3.2m to 82 projects, assisting over 206,000 individuals throughout Britain. The Trust is a great example of how no one measure is the answer, and supports people in various ways from offering crisis funds to energy efficiency measures and advice in claiming Government benefits. In one of our project's first years, every £1 spent on a benefit entitlement checking scheme realised an additional £20 in unclaimed benefits for the recipients and of the 30% of claimants, around 90% were unaware that they were entitled to a claim.

National Statistics suggest that up to c. £9.4bn of benefits go unclaimed each year by eligible households, with the current average amount being under-claimed being £1,500 per eligible household. We would like to see Ofgem encourage the Government to step up its efforts in this area and aim to ensure that everyone is claiming the amount of benefit they are entitled to.

Requiring suppliers to offer a social tariff to all or certain fuel poor customers, in our belief, would bring a range of new challenges, in particular, the identification of appropriate recipients. This would undoubtedly be something that the Government would have to facilitate through effective data sharing (see below). In addition, we believe that a mandated social tariff could not only fail to address the root causes of many people's high fuel expenditure, but would in fact disadvantage some fuel poor and vulnerable customers. Many would not qualify for the tariff and would then be subject to the necessary price increase to fund the scheme.

Finally, we believe that a universal mandated social tariff could restrict the benefits available to vulnerable households by taking away the advantages of choice that are enjoyed by all other consumers. We fear that a universal requirement for a social tariff could contradict the principles of a free market by removing a group of customers from the market entirely and introducing cross subsidies. We believe that this would fundamentally undermine and has the potential to distort the competitive market.

The Role of Data Sharing in Targeting the Fuel Poor

In addition to the role energy suppliers can play, we believe that cross-departmental activity within Government is vital to tackling fuel poverty, in terms of improving housing standards and increasing income levels. However, it is only possible when Government shares its data on the neediest customers with energy suppliers and works with other departments to identify those in most need. Although we understand the complexities of this and sensitivities around data sharing, we believe that more collaboration like this is necessary for industry to be able to target its significant investment effectively and for Government to direct benefits to those who need them. We would ask Ofgem to work closely with Government to establish if there

is indeed a way to ensure that the help available can be directed at those most in need, within the Data Protection and Human Rights Legislative framework.

The Role of Smart Meters in Alleviating Fuel Poverty

Alongside the opportunity for industry simplification, two-way communication between the supplier and the customer and related carbon savings, smart metering should also provide positive benefits for vulnerable and fuel poor customers in particular. These include:

- Greatly increased accuracy of customer bills, reducing the need for meter reading visits
- The ability to recalibrate the meter without the need for a visit
- Improved communications between suppliers and customers
- Remote change between credit and prepay to assist in debt situations
- Protection against self-disconnection
- Better options for transferring credit payments to meter for prepay

We see the roll-out of smart meters as an important enabling factor in eradicating fuel poverty. They offer an accurate way of measuring customers' total fuel consumption and expenditure, and facilitate better communication between the supplier and customer. This is further reason why we believe that a Government mandate for the roll out of smart meters through the Energy Bill, as referred to in Section 1 is both timely and in line with other Government policy aims.

As mentioned above, if the Government decides to proceed with an accelerated roll-out of smart meters, we believe Ofgem will have a vital role to play in co-ordinating what will be a large and demanding project.

7. BETTER REGULATION

We welcome Ofgem's approach to seek alternatives to conventional regulation as the industry increasingly seeks self regulatory routes to ensure consumers are protected.

We recognise Ofgem's commitment to cost efficiency, now moving into the fourth year of the five year RPI-3 resource control and Ofgem's success in recent years in beating its cost control target. We would urge Ofgem to maintain this discipline and continue this internal cost control arrangement for 2010-11 and beyond.

We also welcome the review of the success of 'Project Paperless' considering options for a second phase to the project and we have observed the reduction in the number of consultation documents requiring responses from participants in the competitive energy markets. Costs incurred by market participants in responding to consultations and assessing proposed changes in regulation and trading arrangements are significant and initiatives reducing these will continue to be welcomed.

25 February 2008