

6 June 2008

Erik Sleutjes
Senior Manager
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

Central Networks
Pegasus Business Park
Castle Donington
Derbyshire
DE74 2TU
central-networks.co.uk

Roger Hey
02476 185927

roger.hey@central-networks.co.uk

Your ref: NET ETP GEN 05

Dear Erik

Long-Term Electricity Network Scenarios (LENS) – interim report and consultation

Thank you for the opportunity to comment on the recently published interim report and the supporting material presented at the third LENS workshop held earlier this week. This letter answers the specific questions raised in your consultation letter and summarises our key comments.

We are generally satisfied with the content of the interim report and pleased with the progress made by your academic partners since the last workshop. We continue to support Ofgem's objective of ensuring the UK has long term direction for this critical infrastructure. We are particularly pleased at the three principal identified drivers, environmental concern, customer participation levels and institutional governance, underlining the increased importance of energy networks and appropriate regulation to facilitate the revolution in the energy sector.



In response to your specific questions we have provided the following comments:

Q1. Do you have any comments on the energy and network scenarios for 2050 set out in the interim report, or on the method used to derive them? In particular:

Q1(a). Do you agree that all of the network scenarios are plausible? If not, please explain *why* you think that one or more of the scenarios are not plausible.

In the timescales of 2050, we feel that all the scenarios appear to be plausible, although some clearly imply more radical change than others. Those requiring more fundamental change in either commercial arrangements (eg: Energy Services Market Facilitation) or in technical design and new equipment (eg: Distribution System Operator) would inevitably take longer for them to become the dominant network type. We believe that all the scenarios indicate a need

Central Networks East plc
2366923

Central Networks West plc
3600574

Central Networks Services Limited
Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

for significant change in the short term (ie: within DPCR5 timescales) in order for network operators to provide a foundation to facilitate this transition.

One concern we raised and discussed at the third LENS workshop was the treatment of “environmental concern” in the scenarios. We believe that demographics would imply significantly increased environmental concern, purely due to the younger generation’s educational grounding on these matters and empathy for green matters. We therefore question the credibility of a 2050 scenario that just maintains today’s level of environmental concern, unless there is a turnaround in scientific opinion on the causes and effect of climate change. This eventuality is probably not plausible given the weight of scientific evidence..

We raised a similar concern in respect of the “Big Transmission and Distribution” scenario, where natural advances and progression of technology would suggest that “smarter” networks will proliferate, regardless of market model. Therefore a “business as usual” approach to network design, construction and materials is highly improbable.

Q1(b). Do you agree that the interim report demonstrates that the network scenarios, between them, span a suitably wide range of plausible outcomes for GB electricity networks in 2050? If not, what essential features do you think are missing and could these potentially be accommodated within the existing scenarios?

We do at present broadly support the span of the scenarios, and note that all entail a significant role for networks in the short, medium and long term. Current volatility in the energy markets and rapidly increasing concern over climate change may suggest that the range of outcomes needs to become more extreme. These aspects should be monitored and the scenarios potentially adjusted prior to publication of the final report.

Q2. What are your initial views on transitional issues and ‘way-markers’ for 2025, in light of the scenarios for 2050 set out in the interim report?

We feel that the definition of “way-markers” for the network scenarios is a useful method to test plausibility and also to identify issues or barriers that may need to be addressed in the medium and short term. Indeed the identification of further “way-markers” at other points could be useful to further assess the quality of the scenarios. For example at 2015, 2020 or 2030 to see how the scenarios contribute to the delivery of UK targets for renewables, energy efficiency and reduction of CO₂ emissions.

In addition to testing the credibility of the scenarios, it would also be useful to use the “Way-markers ” to define a set of leading key performance indicators. These could be used review progress versus the scenarios on an ongoing basis, provide measures of progress and determine actions.

Q3. What are your initial views on the most important issues for networks and for the regulation of networks that arise in light of the scenarios for 2050 set out in the interim report?

The overriding message for all stakeholders is that all the plausible scenarios:

- Involve a significant and active role for networks and their operators
- Require technology and innovation to deliver solutions in timescales that prohibit an “end of life” approach to replacement of networks assets and at costs acceptable to customers
- Imply additional risks for operators of networks, and probability of some stranded assets
- Require additional resources and changing skill sets for network operators
- Call for long term strategy and planning at TSO and DNO levels, aligned to a wider UK networks and government energy policy
- Necessitate strong leadership by industry
- Call for the backing of a supportive and informed regulator, and in particular facilitate the immediate investments required to ensure networks are ready to support the UK energy transformation

These points are helping to position the context for our strategic plans. We have recognised the range in scenario outputs and we therefore emphasise the need for regulatory flexibility to enable us to adapt to changing circumstances.

Q4. Do you see benefit in a fourth (and final) stakeholder event for the LENS project, following publication of the June draft scenarios report?

The second and third workshops appeared to be well supported by industry and created some valuable debate and certainly influenced the content and tone for the final reports. With this in mind, and conscious of the limited time Imperial College were given for the preliminary run of the MARKEL-ED model, and the short slot allowed for presentation of results at Workshop 3, we feel it would be beneficial to have a forth event prior to publication of the final report in September.

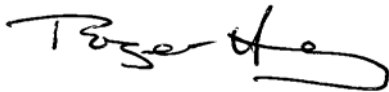
Q5. Do you have any other comments or views about the LENS project that you wish to raise at this stage of the scenario development process?

The next phase of the LENS project, modelling the scenarios, will be important as it will influence and support our own short to medium term strategic planning, indeed it will help support the context for our DPCR5 submission. It is therefore important to ensure the scenarios remain plausible during the final phase, and that account is taken of significant shifts of public attitude in response to national and international environmental events, and large changes in the relative cost of energy sources and fuel types. Some adjustment of scenarios and fine tuning of parameters in the model may be required during this phase of the project, and indeed there may be value in retaining some modelling capability at government / UK level beyond this life of the LENS project.

We are pleased that Ofgem plan to use the outcomes of the LENS project to feed into the RPI@20 review to determine the key issues for networks, and for the regulation of networks, in light of the scenarios.

I hope that you find our response valuable and if you have any questions please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Roger Hey". The signature is fluid and cursive, with a long horizontal stroke at the end.

Roger Hey
Energy Projects Manager
Network Strategy and Development