

Hannah Nixon
Director, Regulatory Review
Ofgem
9 Millbank
London
SW1P 3GE

Monkton Reach
Monkton Hill
Chippenham
Wiltshire SN15 1EE

T. 01249 767480
F. 01249 766091
E. chris.welby@goodenergy.co.uk
W. www.goodenergy.co.uk

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Dear Hannah,

Regulating energy networks for the future: RPI-X@20 Principles, Process and Issues Consultation

Thank you for the opportunity to respond to the above consultation. As you are aware, Good Energy is a small licensed electricity and gas supplier, dedicated to fighting climate change by providing customers with the opportunity to support the move to a low carbon energy environment.

For your ease, we have answered the questions as set out in the above consultation document, although we have expanded our thoughts where appropriate.

Chapter 1

Question 1: Do you have any comments on the rationale for the review?

No. We fully support the idea of stepping back and taking a holistic view of what the network requirements of the future are, and how best to deliver them.

Question 2: Do you agree with the proposed scope of the review?

Yes.

Question 3: Do you think the proposed themes for RPI-X@20 are appropriate?

Yes, although we believe the second theme on sustainability should make specific reference to the 80% reduction in carbon emissions by 2050. The scale of the change required should not be undermined by the use of vague terminology.

Question 4: Do you have any views on our proposed approach for engaging with stakeholders?

Not all network users will have the resources to engage in this process as well as the major supply companies (some of which share parent companies with network operators). Ofgem should make specific attempts to capture the views of smaller network users, especially as they are more likely to have more innovative and be closer to the needs of end users.

Question 5: Do you have any comments on the timetable for the review?

No.

Chapter 2

Question 1: Do you have any views on our aims for RPI-X@20?

We support the aims of the review, but believe that the emphasis in 3.2 is incorrect. Rather than placing “appropriate incentives on companies to facilitate efficient delivery of a sustainable energy sector”, the aim should be to place “appropriate incentives on companies to facilitate delivery of a sustainable energy sector as efficiently as possible”. The decarbonisation of the UK energy sector must be delivered. Efficiently, where possible, but if inefficiencies must be tolerated to deliver, then RPI-X@20 should not preclude them.

Question 2: Do you think the principles for undertaking the review are appropriate and sufficient?

Yes.

Question 3: Do you have any views on our proposed approach to the review?

No.

Question 4: Do you have any comments on the inter-relationships between RPI-X@20, other Ofgem projects and EU and national policy developments?

We agree with the view that it is important not to consider this project in isolation. However the first stage of this review is to look at first principles. Most of the other Ofgem projects are not at this level and this will need to be factored in when considering the impact of these projects.

Chapter 3

Question 1: Are the original principles of RPI-X regulation still valid?

No. RPI-X is really designed to reflect the ability of regulated entities to gain efficiency improvements in an enduring, stable business environment. The next couple of decades will require a significant change in the way networks are used, developed and invested in. Discussions are already highlighting the need to allow networks leeway to pre-empt some of the investment decisions required, with the acceptance that some of those pre-emptive decision may turn out to be wrong.

What is required for the foreseeable future is a mechanism that encourages innovation and speed of implementation, whilst ensuring that investment decisions are reasonable, but do not punish if reasonable decisions are stranded by the pace of change or caused by unforeseeable issues at the time the decisions were made.

Question 2: Do you have any comments on our description of the context of energy regulation since privatisation? Are there any issues or events relevant to the regulation of energy networks that we have not considered?

The description of the context seems to be reasonable. On the regulation of energy networks, we believe the issue of how the network companies stifled supply competition by unreasonable credit cover requirements should be considered. This has since being resolved with DNO's (Although not transmission), but this culture of risk aversion caused by the RPI-X formula could be a hindrance in addressing the challenges ahead.

Question 3: Do you have any comments on our description of the evolution of network regulation since privatisation?

Yes. Their impact of supply competition should also be considered.

Question 4: Do you think our description of the existing regulatory framework in electricity and gas transmission and distribution is the appropriate base case (starting point) for RPI-

X@20? Is it appropriate for us to consider electricity distribution regulation using developing proposals from DPCR5?

No comment.

Question 5: What lessons do you think RPI-X@20 can take from the history of energy regulation?

That RPI-X works in a stable environment to ensure monopolies continue to seek efficiency savings. It is less effective at supporting a competitive market between the users of the regulated business and severely restricts investment to zero risk territory, which is unhelpful in a high change environment.

Question 6: Do you have any comments on our assessment of the performance of the network industries since privatisation?

Yes. The question of their impact on supply and generation competition needs to be addressed. Have they been successful in facilitating it or hindered it?

Question 7: Do you think our description of energy networks and the regulatory framework today (the legacy of RPI-X) is accurate? What do you think the implications of this legacy are for RPI-X@20?

The description is reasonable. RPI-X has created network companies which are risk averse, lacking in both vision and innovation. Like many regulated industries they have a focused on meeting targets to the detriment of non-targeted areas. (e.g. Facilitating supply competition).

The implications of this are that some of the existing companies will struggle to create a culture where risks are taken and decisions are made without long drawn out consideration. Even at a corporate level, these companies are considered by investors as low risk, steady returns and they may not be willing to see their investment risk profile changed.

Question 8: Are the identified challenges the right ones? Are they new challenges not previously addressed? Are they short-term (temporary) or permanent challenges? Are there others that we should consider in RPI-X@20?

Yes, although the need to facilitate competition in supply and generation should be added. The challenges are permanent, but temporary in their intensity for the next three decades.

Chapter 4

Question 1: We present a number of issues that we will consider when assessing the processes that we and networks use to focus on consumers. Have you any views on these issues? Are there others that we should also consider?

We believe consumers should be consulted, but this should include not just end users, but developers of both demand and generation projects, micro-generators and consider the whole quality of service. We believe an overarching principle of responding to users requests is needed, not just targets for specific types of contact.

Suppliers are the customers of the network operators, and will represent the interests of customers in terms of normal network operation. Consumer consultation should be on issues where the end users will have direct contact with the networks.

With regard to regular contact with end users, an annual newsletter to all addressees served by the network operator would seem a good way of keeping customers informed. However, care will need to be taken to ensure customers understand the newsletter is from the network company and not the similarly branded “host” supply company to avoid competition concerns.

Question 2: We present a number of issues that we will consider when assessing how the regulatory framework encourages networks to meet the needs of consumers. Have you any views on these issues? Are there others that we should also consider?

The issues list place great emphasis on value for money. Although this is important we believe customers also expect security of supply and engagement in creating a sustainable energy market.

Question 3: Are the issues different for gas and electricity, and for transmission and distribution?

We do not believe there are significant differences, except that consumers have no connection with transmission networks, and certainly rely on their suppliers to manage this area for them.

Chapter 5

Question 1: Do you have any views on our description of the sustainability challenges facing networks? Are these new challenges? Are the challenges different for electricity and gas, and for transmission and distribution?

The challenge to networks is to facilitate a low carbon energy economy. This includes network companies reducing their own carbon footprint, as well as having a network fit for purpose. These challenges are not necessarily new, but the pace of change coupled with the uncertainty of the final requirements is. The challenges are different for gas and electricity. Gas and electricity transmission are likely to see a reduction in energy using their networks, where as electricity distribution are likely to see an increase in units, and greater intermittency at entry and exit points.

One point not covered in climate adaptation. Even if climate targets are met, there is already a degree of climate change in progress, and networks need to adapt to that in both protecting their networks (sub stations on flood plains for example), and meeting peaks outside the normal winter periods.

Question 2: We present issues that we think we should consider when assessing how decisions about what needs to be done by the networks are incorporated in the regulatory regime. Have you any views on the list of issues? Are there others that we should consider?

The over riding principle of the regulatory regime should be to ensure the network companies develop their networks for the sustainable future. If the network companies present plans that achieve that purpose, then the secondary principle should be that the proposals and subsequent implementation are carried out as efficiently as possible.

We would hope that the networks would come up with innovative proposals, but we feel that the present culture will need specific guidance from Ofgem on what is required of them until they begin to feel comfortable working in a less certain environment.

Question 3: We present issues that we think we should consider when assessing how the regulatory framework can ensure that any capital investment is efficient and is financed. Have you any views on the list of issues? Are there others that we should consider?

We believe that the network companies should present a plan to meet the needs of users and consumers up to 2050 target for the decarbonisation of the energy market. Check point can be built into that to ensure that the next stage of investment is still merited and still the most

efficient solution, but we do not believe staggering from 5 year plan to 5 year plan is the way forward.

Anticipatory investment will be required and should be rewarded, provided it is recognised as been a reasonable decision at the time it was made. They should also be encouraged to stop short if the investment becomes questionable, rather than ploughing on because it has been approved. Flexibility is the key.

Question 4: We present issues that we think we should consider when assessing how the regulatory framework balances risk and rewards. Have you any views on the list of issues? Are there others that we should consider?

The networks face two risks, firstly failing to deliver a network suitable for the needs of future users, and thus preventing delivery of the 2050 targets, secondly the risk that they make investment decisions which although correct at the time based on the evidence, subsequently turn out to be incorrect.

It is society that should bear the risks either as end users, or tax payers. The companies should bear the risk where they fail to deliver against their plan, or they deliver inefficiently.

Question 5: We present issues that we think we should consider when assessing how the regulatory framework can encourage innovation by the networks. Have you any views on the list of issues? Are there others that we should consider?

The regulatory framework currently discourages risk. Innovation cannot take place without an acceptance that some innovative ideas will fail. Some network companies who have non-regulated subsidiaries (e.g. National Grid) will probably be able to deliver, however, other companies where there has not been a need for innovation for 20 years will not have the culture or staff to meet the challenge.

Question 6: Are we addressing the right issues and questions in the 'Delivering a sustainable energy sector' theme? Are there any issues missing from this theme?

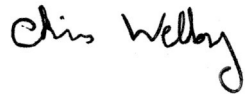
Yes, although the inclusion of social objectives seems to be in the wrong place. The important point is that a sustainable energy sector must be delivered in the required timescales. The regulatory framework must encourage network companies to rise to the substantial challenge ahead, and not allow them to hide behind the regulations.

Question 7: Are there issues that need to be covered in RPI-X@20 that are not adequately captured by our two themes? Please specify what these issues are.

No.

I hope you find these comments useful. Should you require any clarification, please do not hesitate to contact me.

Yours sincerely,



Chris Welby
Commercial Director