

18 September 2008

Dear Andy,

Consumer Focus welcomes the opportunity to contribute to the development of Ofgem's five-year strategy for 2010-15. This letter will comment on what we believe Ofgem's broad strategy and priorities should be over this period. For background and a more detailed position, please refer to our full response to Ofgem's strategy consultation for 2009-14, submitted in February of this year. We intend to comment more fully early in 2010 when there is a full strategy document to discuss.

Competition and the retail market

Consumer Focus thinks that Ofgem needs to remember that competition is a means to an end and that its promotion is not always appropriate. Consumer Focus welcomes Ofgem's more interventionist approach where market failure has occurred as compared to its more hands-off stance in the past. We hope this will be sustained in 2010-15 as there is still a broad swathe of consumers who have not benefitted from liberalisation.

Wholesale markets

Consumer Focus believes that the functioning of wholesale energy markets (not mentioned in your letter) should be a top priority for Ofgem over this period. It has become more apparent to us and others that the retail market cannot be considered in isolation. Furthermore, issues in the wholesale market, such as low liquidity and the total lack of transparency over what price energy suppliers pay for their energy, are equally detrimental to consumers' interests as purely retail-based problems. Ofgem's focus in 2010-15 should reflect this.

Smart metering

Consumer Focus supports the roll out of smart metering to every household in the UK by 2020 and has contributed to the Government's recent consultation regarding the proposed roll-out of smart meters. Running in parallel to this is Ofgem's industry code governance review. Ofgem propose to introduce major policy reviews (MPR) where strategic policy issues are considered and addressed via a single process rather than through the existing piecemeal process. Ofgem suggest that MPRs will require detailed planning and consultation and forthcoming MPR's will be highlighted in Ofgem's corporate strategy. It is evident to us that the roll-out of smart meters will mean significant impact on existing industry codes and arrangements. Therefore we recommend that smart meter governance arrangements be highlighted in the corporate strategy as a forthcoming MPR. It would be useful if Ofgem also highlight topics for other possible MPRs that might be being considered.

We believe that there needs to be a lot of work undertaken to plan for the roll-out of smart meters. It is pleasing that Ofgem acknowledges this in the re-structure announced earlier this month. In summary the work that needs to be carried out is:

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- A comprehensive assessment of the potential consumer risks and opportunities resulting from smart metering
- Outlining steps to protect all consumers from the financial risk and impact of smart meter roll-out, for example self-rationing and self-disconnection, debt and disconnection, tariffs, data protection and barriers to switching
- Consideration of remote demand management

Networks

On networks, there are challenges with regard to investment. The current economic climate will affect the level of investment necessary to ensure climate change targets are met. Increasing costs for consumers to meet these targets is evident in the Government's UK Low Carbon Transition Plan. Consumer Focus is concerned about these costs and thinks that funding for essential climate change prevention measures should come from the taxpayer and industry shareholders, not just through increases to consumer bills. Ofgem should address these concerns as a priority.

Dealing with climate change

There are some significant challenges facing the market, such as meeting climate change targets and security of supply. We note that the government is taking action on these issues, through in some cases with methods which Consumer Focus believes are far from optimal or best for consumers, such as CERT and the like instead of a Pigouvian tax on carbon. However, Ofgem need to be proactive to ensure a sustainable, secure and affordable energy supply within the politically-determined framework in which it operates. Perhaps most of all, the burden must be borne by all actors in the economy, with particular regard to the needs and protection of vulnerable and low-income energy consumers.


Consultation timetables

Consumer Focus also has concerns that Ofgem does not have an agreed standard timeline for the publication of documents for consultation or for company performance statistics. There have been several examples in the last few years when:

- A large number of consultations were released simultaneously or over a short space of time; and/or
- When a very short time period, such as two weeks, was allowed for responses.

Ofgem needs to publish documents for consultation regularly throughout the year, allowing a standard period for responses. This allows for more appropriate stakeholder engagement and allows time to plan workloads.

Yours faithfully,



Robert Hammond
Head of Regulated Industries