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Dear Ian

Re: Project Discovery: Options for delivery secure and sustainable energy supplies

Which? is an independent, not-for-profit consumer organisation with over 700,000 members and is the largest consumer organisation in Europe. Which? is independent of Government and industry, and is funded through the sale of Which? consumer magazines, online services and books.

In order to participate in society consumers need access to a safe, secure and affordable energy supply. To achieve this, there must be a clear and coherent policy that sets out actions (such as investments and regulatory reform), a timeframe for these actions and incentives, where required, and subsidies to ensure that implementation occurs as necessary. We believe this is the responsibility of Government.

We support the objectives of Project Discovery and welcome the opportunity to comment on this phase of it¹, we have a number of points and these are detailed below.

Next steps to ensuring security and clarity of roles

Which?'s primary concern is around the next steps to ensuring secure supplies. In this consultation document Ofgem clearly states:

- > That Ofgem does not believe that leaving the current arrangements unaltered is in the best interest of consumers²

¹ *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

- > There is a need for rapid action, to minimise any insecurity around investment opportunity and to maximise the cost effectiveness of any measure³
- > That Government must make a decision taking this work forward⁴

The Government position on the security of the gas market is expected shortly⁵, and although 46% of electricity generation is gas based⁶, the Government has stated that it believes that the current arrangements are sufficient to provide secure electricity supplies⁷. In light of this, Which? would welcome clarification of Ofgem's proposed next steps for Project Discovery and delivery against their statutory duty to protect consumers now and in the future.

In addition, together with stating that the decision of which package of measures are most appropriate lies with Government, Ofgem also states that there are some steps they can take⁸. We continue to seek clarity as to how the roles and responsibilities of Government and Ofgem function in reality. Will Ofgem now move forward with the actions they are able to take but which may not be inline with the Government's position?

Appraisal of current arrangements

Which? supports many aspects of Ofgem's analysis detailed in Chapter 3, including the recognition that investment signals may not deliver longer term security for consumers⁹.

In addition, Ofgem's analysis of risk management¹⁰ highlights the importance of addressing the question of whether or not a market is the best mechanism for the delivery of energy to consumers.

However Which? does not agree with Ofgem's appraisal that the current arrangements¹¹ have performed well against their objectives¹² particularly against

² Paragraph 3.2, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

³ Chapter 6, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

⁴ Assessment of policy packages, Summary, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

⁵ In the *Energy Market Assessment*, HM Treasury and Department of Energy and Climate Change (DECC) publishes in March 2010 there is a commitment that the Government will shortly be setting out its analysis of gas market security of supply.

⁶ Electricity supplied by fuel type, 1990-2008 chart: Gas 46%, Coal 31%, Nuclear 13%, Hydro and other fuels 4%, Imports 3%, Wind 2%, Oil 1%, pages 42, UK Energy in Brief 2009, DECC

⁷ Paragraph 2.14, *Energy Market Assessment*, HM Treasury and DECC, March 2010

⁸ Paragraph 6.9, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

⁹ Paragraphs 3.23 and 3.24, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

¹⁰ Paragraph 3.34 and 3.35, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

¹¹ Paragraph 3.4, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

the delivery of acceptable supply security, when their own analysis states there are serious concerns with the ability of the current arrangements to delivery secure supplies.

In addition, we do agree not that all the conditions have changed significantly¹³. The need to replace generation plant and declining indigenous gas supplies were predictable. The urgency to address them has undoubtedly grown in urgency, but these issues have always existed.

Policy packages

The packages of policy measures detailed in Chapter 4 provide a substantial range of actions. However it is not clear why some of these measures have been included in the packages while the alternative or additional measure set out in Figure 7 have not, and whether or not Ofgem would consider moving forward with a packages that did contain any of the alternative or additional policy options. This requires clarification.

Criteria for assessment of policy packages and assessment of the policy packages

Ofgem's initial assessment provides a good basis for considering each of the packages against each of the criteria¹⁴ but not against all the criteria.

When set against the objective of a sustainable and affordable secure energy supply the criteria can not have equal weighting. It is not clear what weighting, if any, Ofgem has given to each of the criteria for assessing the policy packages. Figure 8 aims to summarise the key benefits and risks of the five packages. However due to a lack of clarity regarding the weighting of the criteria the resultant table provides no real basis on which to compare the risks and benefits of the different packages.

If you require clarification on any of our comments please feel free to contact me.

Yours sincerely

Dr Fiona Cochrane
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¹² Paragraph 3.3, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

¹³ Paragraph 3.8, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010

¹⁴ Paragraph 5.7, *Project Discovery: Options for delivery secure and sustainable energy supplies*, Ofgem, 3rd February, 2010