



Ofgem's five year strategy 2011 – 2016

Initial comments by E.ON

General remarks

E.ON welcomes Ofgem's continuing commitment to consultation on its five year strategy. The process is important in helping the industry understand how the Authority intends to interpret its statutory duties.

We believe that Ofgem's priorities for the next five years should be:

- The industry is facing a prolonged period of significant investment in infrastructure to meet climate change objectives and to deliver security of supply. It is important that the regulatory regime for the energy industry provides a stable and robust environment to give investors the confidence they need to invest in the UK. This is particularly important in the current economic climate, in which even large, international companies are finding constraints on raising capital and the UK is effectively in competition with other countries for the available funds.
- To continue to support the role of competitive markets in incentivising efficient investment and ensuring energy costs remain affordable for consumers.
- Network regulation continues to be a core function of Ofgem. Ofgem should continue to regulate networks businesses so as to enable strategic investment in transmission, and to allow the timely connection of generation assets. Regulation of distribution businesses must support the investment needed to replace aging assets, but must also enable networks to play an important role in facilitating low carbon investments, including smart grids.
- The introduction of smart metering is key to enabling demand side measures to be fully realised. It is important that timescales do not slip.
- DECC is currently carrying out a review of Ofgem. This gives Ofgem an opportunity to consider its own activities and processes, to ensure that they are effective and provide value for consumers and to the UK economy more widely, given the wider pressures on public expenditure.
- Delivery of energy efficiency measures needs careful consideration. Ofgem should build on the experience it gained with CERT and CESP, and learn from the shortcomings in these schemes. In particular, the existing process could be streamlined and made less bureaucratic, and more could be done to encourage the retrofit of innovative energy efficiency solutions like heat pumps, micro CHP and district heating.



Key industry challenges

Investment to meet low carbon and security of supply goals

1. The UK faces a major investment challenge as we seek to achieve reductions in carbon dioxide emissions whilst ensuring that electricity supplies remain secure and affordable for customers, as well as the challenge of replacing large amounts of existing generation plant that will close as a result of the Large Plant Combustion Directive and the Industrial Emissions Directive. Nuclear, renewables, clean coal and carbon capture and storage (CCS) and gas fired CCGTs may all have a role to play, as will improvements in energy efficiency. The priority for Ofgem must be to provide a stable and coherent regulatory framework, within the scope of the government's energy policy, in order for this to be delivered.
2. There is also the challenge of integrating large volumes of wind generation onto the British system. This will reduce the load factors of other plant on the system, and whilst improved energy efficiency and smarter use of demand side measures will help to some extent, prices may still have to rise to very high levels in order to support the capacity that will be needed to maintain security of supply during periods of low wind generation. It is very important that the regulatory framework is able to take account of these changes to the way demand will be met, and that any interventions are carefully considered.
3. E.ON UK believes that Ofgem should continue to play an active role in this area and we encourage the creation of a more integrated, transparent and competitive energy market. We support the view that the competitive market is the most effective and efficient way of ensuring security of supply, and believe that Ofgem should continue to promote a framework which supports the continued development of competitive markets.
4. The efficient and effective delivery of energy policy through regulation will have a direct impact on customers and the UK economy. Given the industry landscape is rapidly changing, E.ON UK feels that Ofgem's emphasis, and allocation of limited resources, should now shift away from driving shorter-term cost reductions to focus on delivering the stable market framework that will help bring forward investment.
5. In particular, E.ON UK would like to see more stability in market rules; any modifications to trading rules in a market where competition is working should only be introduced where the economic benefits to customers can be clearly demonstrated.

Energy networks

6. We agree with the emphasis placed on the need to provide funding for critical network investments to support the necessary growth in renewable and other low carbon generation, but believe that Ofgem should not place undue emphasis on the need for users to make commitments to signal the need for investment. Rather, the emphasis should be on agreeing



to fund and bring forward 'strategic' investments within an efficient and economic timeframe against expected requirements signalled by the government's energy policy objectives.

7. The regulatory framework for distribution businesses must provide DNOs with the resources and investment to enable them to play a more proactive role in supporting the implementation of lower carbon solutions such as wind farms, CHP schemes, micro-generation etc. The framework should also allow DNOs to recover investment in trialling new and innovative technology to ensure security of supply and to meet the government's low carbon targets, and must recognise that by its nature, not all innovation will be successful.
8. A key challenge for the energy industry as a whole is that of meeting the low carbon objectives. This is likely to have significant impact on distribution networks as the uptake of electric vehicles and heat pumps will increase loading on the network. The increased and widespread connection of distributed generation requires networks to change from being "one-way" systems to cater for more complex and rapidly changing electricity flows. The greater connection of wind generation will add further challenges to networks that will have to cater for their intermittent supplies.
9. The key challenge for electricity distribution networks is therefore the development and implementation of new smart technologies needed to avoid vast levels of reinforcement while at the same time increasing the operational flexibility of networks. Much of the work undertaken under RPI-X@20 / RIIO has been a useful start to create the right regulatory framework to support innovation, encourage whole life cost thinking, recognise the need for investment in skills etc.

Smart metering

10. The introduction of smart metering will lead to significant change in the retail markets, and industry processes, as well as the associated governance arrangements, will need to change as a result. Ofgem should take a leading role in facilitating this change, and will need to ensure that its internal structures are suitable, and that it is appropriately resourced.
11. It is essential that the planned rollout of smart metering is not delayed, and if acceleration is possible, this should be considered as smart meters are a key enabler of demand side management.

Energy efficiency and sustainability

12. We welcome Ofgem's commitment to develop its operational capability to ensure the delivery of government programmes supporting sustainable energy. It is imperative for Ofgem to have an appropriate and robust organisational structure in place to facilitate this, but consideration should also be given to alternative administrative options available for the delivery of these



schemes to ensure that they offer efficiency and value for money, with subcontracting to the private sector if appropriate.

13. Ofgem should strive to develop good working relationships with industry stakeholders as well as the government and the public with regards to the implementation of E-Serve's projects. Interaction and collaboration with energy suppliers is going to be critical to the success of the feed-in-tariff, renewable heat incentive and smart metering projects. Without this commitment, there is a risk of failure in implementing the projects in the most efficient manner and future consumers' interests may be jeopardised.
14. Delivery of energy efficiency measures needs careful consideration. Ofgem should build on the experience it gained with CERT and CESP, and learn from the shortcomings in these schemes. In particular, the existing processes could be streamlined and made less bureaucratic, and more could be done to encourage the retrofit of innovative energy efficiency solutions like heat pumps, micro CHP and district heating.

Protecting vulnerable customers

15. This theme remains highly applicable and is extremely significant given the current economic situation. Competition has led to greater choice for consumers, and we believe that Ofgem continues to have an important role to play in helping to ensure and deliver markets that operate efficiently and competitively. It is important that in the process of regulating markets and in driving for other policy goals, competition in retail markets is not damaged, with adverse consequences for consumers.
16. There is much that the energy industry can do to help customers in fuel poverty, but it is the responsibility of government to tackle the wider issues of poverty and poor housing. Ofgem needs to continue to advise the government on developing robust and effective fuel poverty programmes, within a broader government framework.
17. Ofgem should introduce reforms to retail markets governance and to the customer transfer processes in order to ensure delivery of the benefits that smart meters can offer to consumers.
18. Similarly, last year's plan acknowledged the problems that customers face on independent gas transporter (IGT) networks. The current arrangements mean that over one million gas customers find it more difficult to access to the competitive gas supply market, and Ofgem should have a separate specific objective to resolve the issues that consumers who are connected to IGT networks experience. We believe that there should be a commitment to implementing genuine regulatory change within the timescale of this strategy.

Proportionate, targeted and transparent regulation

19. DECC's review of Ofgem provides an opportunity for Ofgem to consider its own organisation and activities, and to work with DECC to ensure that regulatory activity is proportionate,



transparent and targeted where it is really needed to provide long-term value to consumers and to regulated companies. An onerous and overly complex regulatory regime is damaging, and may prove a barrier to investment and new entrants.

20. We believe that there are areas where the regulatory burden on companies should be reduced. Early dialogue with affected parties and, where relevant, more workshops on major reforms can improve the quality and scope of the interaction between the Authority, market participants and other stakeholders.
21. There are also areas where there is significant overlap of initiatives, which can mean duplication of effort for companies. Energy suppliers currently provide very similar information to Ofgem to fulfil slightly different objectives – for example, ROC submissions, supplier obligations for CERT/CESP, FIT levelisation information, customer switching information and market monitoring all require the submission of very similar information – and efficiency gains could be made for both companies and Ofgem if these requests were better coordinated.

E.ON
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