



Charles Hendry MP

Minister of State

Department of Energy & Climate Change

3 Whitehall Place

London

SW1A 2AW

www.decc.gov.uk

The Lord Mogg KCMG
House of Lords
London
SW1A 0PW

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Dear Johnny

Ofgem Proposed Corporate Strategy and Plan 2011-16

I welcome the opportunity to respond to Ofgem's consultation on its corporate strategy and plan for 2011-2016, building on the useful discussion last week with the Gas and Electricity Markets Authority. I recognise that the strategy has been prepared against a background of some uncertainty, with the Ofgem Review and review of DECC's delivery landscape looking respectively at Ofgem's regulatory and delivery roles, and a forthcoming White Paper on electricity market reform. Given this context, I have kept this letter brief and focussed on the highest level issues.

The Government's ambitious goals for the energy sector over the coming decades, and the central role that Ofgem has in enabling those to be met, provide the context for our response:

- **Security of supply:** Maintaining security means providing homes and businesses with reliable supplies of energy. We need to both ensure that the energy system is resilient to short term shocks and plan ahead for the future challenges to energy security.
- **Decarbonisation:** We have a legally binding target to reduce emissions across the whole economy by at least 80% by 2050, compared to 1990 levels. This can be achieved most cost effectively if the electricity system makes early progress in decarbonising. Our primary objective for the reforms we are making to the electricity system is to ensure the sector is largely decarbonised during the 2030s.
- **Renewables:** A supporting objective is to ensure that the target for 15% renewable energy consumption across the UK economy is achieved by 2020. This is likely to mean some 30% renewable penetration in the electricity market.
- **Consumers:** As we meet our challenging objectives, cost increases for consumers must be minimised. Making the most efficient use of energy is central to this goal. Further, we need to be confident that consumers are being treated fairly by energy

companies and that the interests of vulnerable consumers, in particular, are protected.

We see a strong synergy between the four themes described in your corporate strategy and our goals, which we welcome. Given the implications for investment in networks, we particularly welcome the explicit commitment from Ofgem to do everything you can to promote a cost-effective switch to low carbon energy on a timescale consistent with our legally binding low carbon and renewable energy targets.

Our reform of the electricity markets is a key part of the policy framework that will enable delivery of our goals, and we welcome your commitment to supporting DECC in taking this work forward. Ofgem's own work on liquidity in the electricity wholesale markets, and the health of the electricity markets more generally, is clearly a fundamental part of this picture. Ofgem itself has recognised the scale of the investment challenge, estimating that we need around £200bn investment in generation, electricity networks and gas infrastructure, and the market and regulatory environment will be critical to attracting that investment to the UK.

Ofgem E-serve's role in administering Government programmes is an important part of our delivery landscape. It is helpful that you have placed these functions in a separate theme in your corporate strategy as the nature of Ofgem's role, and the relationship with Government, needs to be different from those areas where Ofgem is acting as independent economic regulator. Pending the outcome the review of DECC's delivery landscape, we will want to work with you explore how we can develop the DECC - E-serve relationship, including by building on the suggestions in your letter to Moira Wallace of 6 July last year.

The NAO, in their recent report on the 'Performance of Ofgem', presented your plans to develop your performance measurement and reporting, including taking steps to provide a stronger focus on outcomes. I will be interested to see how this work is reflected in future strategy documents.

The decades ahead present some huge challenges for the energy sector. As you know, the Ofgem Review is exploring how we can bring greater clarity to the respective roles of DECC and Ofgem but it goes without saying that Ofgem has a hugely important role in delivering the change that we need to see in the gas and electricity sectors over the coming years. In recognition of this, I look forward to engaging in more depth when you revisit your strategy later in the year.

Yours sincerely,

Charles Hendry

CHARLES HENDRY