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Dear Andy

### **Ofgem's Corporate Strategy and Plan 2011-16**

We welcome the opportunity to provide feedback on Ofgem's proposed corporate strategy and plan for 2011-16 and our comments are set out below.

SSE believes that the two utmost priorities for Ofgem are (a) facilitating and sustaining a stable regulatory framework and (b) security of supply. Substantial private investment is required in markets, generation and networks in order to deliver the dual challenges of decarbonisation and security of supply over the next 10 to 15 years. There is presently a great deal of uncertainty in the market, exacerbated by the large number of inquiries into the retail market and the forthcoming implementation of the new RIIO model. The resultant insecurity for all stakeholders undermines the stability of the market and makes it difficult to attract the investment which is required in the UK's energy assets, particularly in the current economic climate. We therefore urge Ofgem to reduce its level of intervention and re-assert its commitment to stability in the regulatory framework. A lesser degree of intervention may also stimulate new entrants and fresh innovation in the market.

We comment on some more detailed issues below.

#### **Question 1 - Are the proposed themes suitable?**

We continue to support the framework of themes that Ofgem has used to group its prospective future activity and welcome the consistency of this approach from year to year. We agree that the themes are valid and that, overall, Ofgem has identified the relevant issues within the themes.

In particular, we agree with the broad scope of Ofgem's plans in relation to energy networks and we believe that Ofgem's priority should be to ensure a stable, consistent access and charging framework across the networks. We would also like to see a greater "pro-investment" focus in relation to RIIO price control work.

## **Question 2 - Have we identified the right priorities within each theme?**

We generally agree that Ofgem has identified the right priorities within each theme. However, we do have a concern that it will be extremely difficult to undertake three proposed significant code reviews (SCRs) in the space of a single year, especially in view of the considerable time, resource and costs involved for both the industry and Ofgem for each SCR. At the very least, these SCRs must run consecutively, not concurrently.

Furthermore, although we acknowledge that Ofgem committed at the time of last review of cash-out arrangements to undertake a post-implementation review, we are concerned that committing to launch a SCR poses the risk of pre-judging the outcome of such a post-implementation review. Our suggestion is that Ofgem perform the post-implementation review in the first instance to establish whether there is in fact any need to have an SCR on electricity cash-out.

Lastly, we do recognise that there may be a need for an SCR in relation to smart metering but believe that it is too early in the process to undertake an SCR effectively. The Smart Metering Implementation Programme (SMIP) is considering all issues concerning the roll-out of smart metering, including the permanent and interim arrangements via existing and the proposed new Smart Energy Code. To run a SCR in parallel with the SMIP would complicate the existing process and lead to duplication of effort. This is particularly the case when we have yet to see Government and Ofgem's conclusions on the Prospectus consultation. We therefore believe that a SCR might be appropriate at some point in the future (possibly 2012) as a means of coordinating code changes expeditiously and managing cross-code issues, but this should be determined by the outcomes of the SMIP.

## **Question 3 – Is Ofgem's approach to the challenges ahead the right one?**

We strongly support Ofgem's simplification agenda and, as mentioned above, consider it essential that Ofgem radically reduces its level of intervention in competitive markets and focuses primarily on facilitating a stable regulatory framework. We consider possible synergies with other regulators to be beneficial, particularly for any future large change projects. We look forward to receiving further detail on these proposals in due course.

It is useful to have sight of Ofgem's proposed performance indicators as these encapsulate Ofgem's approach and key targets for 2011/12. In particular, we have noted Ofgem's proposed target in relation to approval of CESP and CERT schemes and would like to highlight our concerns in relation thereto. To date, SSE has had no CESP schemes approved by Ofgem despite having submitted notifications over eight months ago. To our knowledge, all energy suppliers are experiencing delays due to the high level of detail that Ofgem currently requires before it grants approval. In order to safeguard the successful and timely delivery of these schemes, we believe that Ofgem must re-consider its approach in order to expedite approvals and reduce the widespread uncertainty associated with the CESP programme.



We note that Government is currently reviewing the consumer protection landscape. Whilst we acknowledge that Ofgem has a statutory duty with regard to the interests of existing and future consumers, we urge Ofgem to take account of the outcome of this review. In particular, we believe that Ofgem should continue to seek to co-ordinate its activities with those of Consumer Focus (and its successors) in order to avoid overlap and duplication of effort.

**Question 4 – Are there any areas of regulation that constitute an unnecessary burden that should be removed?**

SSE considers guaranteed/overall standards in energy supply to be burdensome and unnecessary. Arguably, these are no longer necessary given the introduction of the standards of conduct and the continued pressures of competition on suppliers to improve standards of service to their customers. Furthermore, as much of the information sent to customers relates to network performance we question whether it continues to be appropriate for suppliers to provide annual Notice of Rights statements to domestic customers when much of the information provided is not relevant. This information could instead be displayed on our website and our customers notified individually of its existence, in the same way as we do for the Complaint Handling Standards and Customer Statements.

We would welcome the opportunity to discuss this further at a suitable time.

**Question 5 – What performance measures do you believe we should use?**

We consider that Ofgem's performance measures should be considered separately and at a later time following the outcomes of DECC's review of Ofgem.

I hope these comments are helpful and if you would like to discuss any of these further, please contact me on 01738 455104.

Yours sincerely

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