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20 September 2012

Dear Maire,

STRENGTHENING STRATEGIC AND SUSTAINABILITY CONSIDERATIONS IN OFGEM DECISION MAKING

Thank you for the opportunity to respond to Ofgem's discussion paper "Strengthening Strategic and Sustainability Considerations in Ofgem Decision Making". This response is submitted on behalf of ScottishPower.

We would like to offer the following comments on the discussion paper:

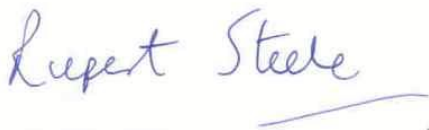
- We welcome Ofgem's review of how consideration is given to strategic and sustainability issues within impact assessments and decision making. We think that structuring the assessment into three modules ('monetised aggregate CBA', 'social and distributional impacts' and 'explicit consideration of strategic and sustainability impacts') is broadly sensible.
- We support the proposed use of 'Social Cost Benefit Analysis' (SCBA) in which non-private costs and benefits and distributional impacts are also included in the assessment. Consideration should be given, in appropriate cases, to factoring in DECC's assessment of the social cost of carbon.
- Ofgem's impact assessments often focus on consumer welfare or consumer prices rather than overall social welfare. The proposed methodology should lead to a more systematic approach in which social welfare is used consistently as the primary benchmark and distributional impacts (including consumer versus producer surplus, and distributional effects between different categories of consumer) are considered in parallel.
- We agree that monetisation of certain aspects of the assessment is likely to be extremely challenging (for example long term environmental and sustainability issues) and that dealing with these issues in a separate module of the assessment may improve overall transparency. However, great care will be needed to ensure that double counting is avoided, eg where environmental considerations are already factored into the CBA via environmental taxes/subsidies. We understand that the iteration referred to in paragraph 1.24 is intended to deal with this, but we think this

is an area in which Ofgem's academic advisors could usefully provide explicit guidance.

- It would be helpful for Ofgem to provide more clarity as to how the three different modules of the assessment will be used in ranking alternative options. For example, will the aggregate CBA measure be used as the primary measure for ranking, with the two others used as 'tie-breakers'? Or will it be possible for distributional or long term sustainability issues to 'trump' the aggregate CBA measure in certain circumstances? The final assessment methodology is most likely to be fit for purpose if it is known in advance how it is to be used. It may also reduce the risk that decisions are held up by debate around the impact assessment.
- The proposed framework includes reference to 'mid term' strategic effects and 'long run' sustainability effects. We think this terminology could be misleading as it suggests that environmental considerations such as climate change are confined to the long run sustainability heading. As we understand it, this is not the intention, and the delivery of Government targets (and legally binding climate commitments such as carbon budgets) is included in the analysis of mid term effects. It may also be helpful to set out which legally binding targets Ofgem refer to – eg climate, renewables, pollution prevention, security of supply, etc. We would also note that some long run sustainability effects can have measureable impact in the mid term – eg supply chain considerations, waste and GHG impacts.
- We would appreciate some worked examples as to how decision making in regulatory decisions and code modifications would be affected by the proposed new methodology, for example where there are significant environmental or ecological impacts.

If you wish to discuss any of these points further, please do not hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation