

Andrew Venn  
Project Management Group  
Ofgem  
9 Millbank  
London  
SW1P 3GE

19 February 2015

Dear Andrew,

### **Ofgem Draft Forward Work Programme 2015-16**

I am pleased to provide ScottishPower's comments on Ofgem's draft Forward Work Programme for 2015-16.

This year's forward work programme is published alongside Ofgem's new strategy document, which provides a helpful context for the proposed work priorities. In particular, the six themes of Regulation, Competition, Standards, Partnership, Confidence and Efficiency for a sound and coherent platform on which to build. Inevitably, there are potential tensions between some of these – for example on the optimum dividing line between competition and regulated monopoly, or how to balance competition on service with setting standards in that area. But we agree that the six themes provide a good framework in which those balances and tensions can be explored.

We also welcome the stress on independent economic regulation and (outside areas of natural monopoly) the focus on competition as a means to drive down costs, promote innovation and increase service quality. This twin approach is likely to achieve optimum consumer outcomes while promoting the stable and predictable environment needed for efficient investment. Whether in competitive or monopoly areas, independent regulation provides a framework in which potential interventions can be carefully assessed on the basis of sound economics and analysis, and the risk of hasty or counter-productive moves mitigated.

We also recognise that the specifics of what might need to be done to enhance competition is a subject of the current CMA investigation. We therefore agree that it is appropriate that Ofgem awaits the CMA's conclusions – which may of course include conclusions on regulatory rules – before formulating specific policies within this theme.

We offer below a few comments on specific aspects of the work programme. We would be happy to meet and discuss any of these points in more detail if appropriate.

#### Future interconnectors

Ofgem will be assessing the need for, and efficiency of, major projects in electricity transmission, including new interconnector projects under the cap and floor regime. This is an important focus area, both in terms of facilitating the growth of cost effective

interconnection and in ensuring that any assistance provided via the cap and floor support regime is rigorously assessed for efficiency and cost benefit.

It is also important that the generators at either end of the interconnector are able to compete with each other on a level playing field. There are a number of cost burdens and taxes currently borne by GB generators which may distort such competition and we would encourage Ofgem to look explicitly at these issues within the scope of this activity. This might usefully be linked to the work being carried out by ACER to assess the need for a network code on electricity transmission tariff structures.

### EU network codes

We welcome Ofgem's commitment to working with DECC and industry to ensure that EU network codes and guidelines are developed and implemented in a proportionate and timely manner. It is important that the final EU Regulations help realise Europe's energy policy goals without imposing unnecessary obligations or costs on industry within individual Member States. Smooth implementation of the codes in GB will be a significant task, requiring a large number of changes to existing industry commercial arrangements and potentially impacting a range of market participants.

We therefore hope that the proposed review of the existing framework for stakeholder engagement in the network codes development, merging the current JESG, ECCAF and DECC-Ofgem stakeholder group, will ensure continued effective stakeholder engagement in this process. In addition, Ofgem's support in ensuring appropriate participation of stakeholders at a European level would be welcome. We have some concerns that the initial proposals for stakeholder engagement from ENTSO-E and ACER do not provide sufficient clarity on how such engagement will be managed, particularly when it comes to any future amendments of the codes.

### Smart Metering

It would be helpful to note in the section on smart meter rollout that Ofgem will also need to keep in touch with network operators during the process. This is important as networks will be involved as users of some smart data and may have to address particular installation issues where these affect their assets.

### Network performance

One of the unsung achievements of regulation over the years has been the improvement in network efficiency that has been achieved through the use of incentive regulation. It would be useful for Ofgem to monitor some simple network cost effectiveness metrics and set them in a European context.

### Principles based regulation

We welcome Ofgem's intention to give more detailed consideration to moving to a more principles-based regulation regime, building on experience gained through the RMR Standards of Conduct licence condition. A move to principles-based regulation has the potential to free up companies to innovate and compete in delivering a service that best meets consumers' needs, and to help reduce the volume and complexity of current licence conditions. It will be important to have these goals in mind from the outset and avoid simply adding further layers of regulation. It will also be important to develop a clear understanding as to the kinds of circumstances that are best suited to each form of regulation, prescriptive and principles-based. We look forward to contributing to work in this area.

Retail market review

We understand that it is difficult for Ofgem to develop a detailed work programme in areas that are likely to be affected by the conclusions of the CMA market investigation. We look forward to working with Ofgem to ensure effective implementation of any regulatory changes that may be recommended by the CMA.

Please do not hesitate to contact me if you would like to discuss any of the points raised in this response.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is underlined with a single horizontal stroke.

**Rupert Steele**  
Director of Regulation