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**From** Roger Urwin  
**Date**  
**No of pages** (3 including this page)  
**Subject** Ofgem's Three Year Strategy 2004-7

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10 October 2003

Dear Sir John,

## Ofgem's Three Year Strategy 2004-7

Thank you for your letter of 1 September 2003. We welcome the opportunity to contribute to the development of Ofgem's strategic plan.

As you note in your letter, the Government's Energy White Paper, developments to European and international policy set important agenda items for the gas and electricity industries. The key challenges we would like to highlight are:

- **Ensuring markets deliver security of supply.** In particular, we believe that the market signals that result from our actions in both gas and electricity markets need to be sharpened so that there are effective incentives on market participants to meet energy demands reliably and to bring forward new capacity in a timely way. Ofgem's monitoring of market performance in the context of the introduction of new generation technologies, increased international trade in gas and electricity, and increased linkage between the gas and electricity markets is sure to be an increasingly demanding role.
- **Delivering required network investment.** Ofgem's developments to the RPI-X regime through successive reviews have significantly strengthened incentives to economise on capital investment. However there is now an increasing need to undertake capital investment, in both transmission and distribution networks for electricity and gas, in order to:
  - Replace network assets at risk.
  - Accommodate new renewable generation, particularly in areas remote from demand centres.
  - Facilitate distributed generation, be it renewables or CHP.
  - Enhance interconnections with Europe and LNG import facilities.

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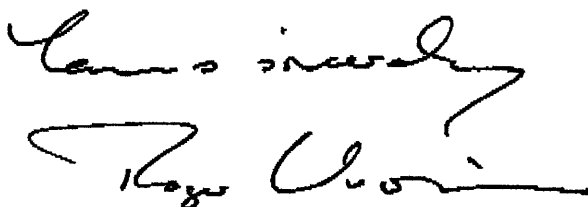
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Sir John Mogg  
Chairman  
Ofgem

While it may be practical to drive certain investments from market signals (for example, interconnections and LNG imports), we believe there will be a continuing need to fund capital investment under price controls to ensure robust, flexible networks. Consequently, there is a need to enhance the mechanisms that address the uncertainty in requirements that may exist at the time that price controls are set.

In addition to these two strategic areas we would also like to highlight one area of regulatory process that is particularly important to us, namely the potential sale of gas distribution businesses. It remains our view that there are substantial customer benefits that arise from this project and we would welcome Ofgem's continuing co-operation in order to deliver the industry changes required.

We look forward to seeing the next stage in the strategic plan development process. In the mean time, if you wish to discuss the above points in more detail, please contact Tim Tutton.



c.c. Tim Tutton