

Chris Chapman
Head of Planning
Ofgem
9 Millbank
London
SW1P 3GE

Tim Tutton
UK Director of Regulation

tim.tutton@ngtuk.com
Direct tel +44 (0)1926 653140
Direct fax +44 (0)1926 656520

3 February 2004

Dear Chris

OFGEM'S CORPORATE STRATEGY FOR 2004 - 2007

We welcome the opportunity to provide Ofgem with comments on its proposed Corporate Strategy for 2004-2007. The document provides a useful summary of Ofgem's intended work areas for the next three years.

NGT agrees that the broad themes Ofgem has selected for its corporate strategy are appropriate. We welcome Ofgem's recognition of issues arising from Government policy and we think that the process of developing the strategy is an opportunity to align the approaches taken on various regulatory issues with the requirements of these policies.

Network investment incentives

Recognising the need for new and ongoing network investment, Ofgem's proposed Corporate Strategy stresses the importance of developing network investment incentives. While we believe that network companies should be appropriately incentivised to invest in an efficient manner, we think it is equally important that the regulatory framework enables network companies to efficiently raise capital and progress necessary investments.

In the case of investment by distribution companies to connect distributed generation, we note Ofgem is taking a pragmatic approach to addressing the uncertainties faced by companies by combining cost pass through with revenue drivers. Such an approach is helpful, not least because it helps facilitate this section of the industry's response to the Government's environmental targets. NGT believes that there may be merits in adopting a similar pragmatic approach to facilitate required electricity transmission investment, particularly as the more market orientated approaches to resolving these issues proposed by Ofgem do not adequately address:

- the absence of suitable tradable products in electricity;
- the absence of support from electricity market participants; and
- the particular issues and transaction costs that would arise for intermittent generators.

Security of supply

NGT welcomes the increased prominence Ofgem has given to this area and we look forward to seeing Ofgem's more detailed work plan. As well as continued market surveillance and continuing to decide on proposed market rule changes, we believe that there should be an active promotion of measures that will provide confidence that security of supply will be maintained in the longer term and not subject to short-term crisis.

Engagement in Europe

NGT welcomes the provision of additional resource to European matters. It is inevitable that developments in Europe will increasingly impact upon the UK energy sector, and we support Ofgem's engagement, together with the DTI, in this area.

Finally, we welcome Ofgem's continuing commitment to develop the regulatory, commercial and operational frameworks that are necessary to support NGT's proposed sale of gas distribution networks.

Yours sincerely

Tim Tutton