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Dear Andy

## OFGEM'S THREE YEAR STRATEGY 2005-08

We value the opportunity to contribute to the development of Ofgem's corporate strategy for 2005 to 2008 and our suggested key issues are as follows:

- **Delivering network investment.** Increasing levels of capital investment will be required by gas and electricity network companies due to:
  - the need for transmission and distribution networks to be developed to meet new requirements, including accommodating new renewable generation;
  - the need to replace assets prior to the onset of significant unreliability; and
  - the need to enhance interconnections with Europe and develop LNG importation facilities.

It is important that the regulatory framework enables network companies to raise capital efficiently and progress investments in a timely manner. In this context, it may be appropriate for certain investments, LNG importation facilities for example, to be identified and funded directly by energy markets. However, there will also be an ongoing requirement for network infrastructure investment programmes to be funded through price controls. While there is scope to use market signals to inform the price control setting process, such signals are unlikely to provide an adequate basis, by themselves, for deciding, let alone remunerating, investment.

- **Delivering security of supply.** As well as ensuring an adequate network, for energy markets to deliver security of supply, it is essential that efficient signals exist and therefore the review of cash-out prices in terms of their effects on both the supply and demand side must remain a priority. A necessary accompaniment of such a market-driven approach to energy security of supply is that market

participants understand the circumstances in which Ofgem would intervene in the operation of the market.

- **Engagement with Europe.** Given the likelihood that Europe will continue to become increasingly important in shaping the regulatory agenda, and potential to impact on security of supplies issues, we support Ofgem's continued constructive engagement and influence.

We look forward to seeing Ofgem's draft corporate strategy in due course. In the mean time, if you have any comments about this response, you might contact Lewis Dale (on 01926 655837) or myself.

Yours sincerely

Tim Tutton