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Our Reference NG/LAD

Dear Andrew,

Ofgem's Five Year Strategy 2006-2011

Further to Sir John Mogg's letter of 12 August 2005, we are pleased to have this opportunity to contribute to the development of Ofgem's next five year strategy. The areas we wish to identify as key priorities are consistent with those we identified last year and are issues you have already included in the previous corporate strategy. However, developments mean that these issues have become more important, and associated actions more urgent, and so we suggest the priorities given to these areas should be reviewed in the new strategy.

Delivering network investment

Ofgem's work to review the transmission price controls has now commenced and will stretch over the first year of the strategy period. While our views on the key issues for these reviews have been sought elsewhere, the strategy issues can be summarised as:

- The need to achieve a timely renewal of (particularly electricity) transmission assets before the onset of significant unreliability and to ensure they are ready to meet future needs.
- The need for electricity transmission capacity to be developed to accommodate and facilitate the generation developments that will set us on the path to a low carbon future.
- The need to establish interconnections and gas importation facilities to secure energy supplies.

While we support approaches that demonstrate market commitment for investments and establish incentives on network investors that align with the true costs and benefits of the investments, the next price control period will be crucial for establishing the network infrastructure that will be needed to

meet the country's requirements well into the next half century. We suggest that strategic consideration is therefore given to the long-term as well as short-term implications for customers of different network investment approaches.

Delivering security of supply

The challenges arising from reduction in output from the UKCS gas production and from a larger proportion of intermittent renewable generation mean that the importance of ensuring efficient price signals on market participants has never been greater. Achieving urgent progress on the review of cashout prices must, therefore, remain a key priority.

Engagement with Europe

We support Ofgem's strong engagement in European energy market and policy issues, as identified in the previous strategy. Nevertheless, the increasing importance of Europe on Britain's security of supply warrants a continuous assessment of the priority given to this strategic area.

I hope these comments are helpful and look forward to seeing the next stage in the strategy development.

Yours sincerely,

Lewis Dale

Cc: Tim Tutton