

Ref: AW/DM/018

28th February 2006

Andrew MacFaul
Head of Better Regulation and Co-ordination
Office of Gas and Electricity Markets
9 Millbank, London
SW1P 3GE

Dear Andrew

NGN welcomes the opportunity to provide comments on Ofgem's corporate strategy and Plan 2006-11. NGN agrees that all the themes identified remain valid, and we comment on some of these below. What is important is the balance between the themes and the emphasis that Ofgem gives to different aspects of its workload during the plan period.

1. Creating and sustaining competition

We agree that where competition is working effectively, regulation should be minimised. However, the gas supply market is increasingly reliant on Europe and consequently achieving a fully competitive UK supply market will be dependent on achieving full competition and deregulation within Europe.

Ofgem's question 4 asks "are there any licence conditions that impose an unnecessary administrative burden". The metering of last resort obligation falls into this category. Ofgem recognises that there should be scope for a significant reduction in the regulation of metering as competition develops we would hope that this will be an opportunity to remove the metering of last resort obligation on GDNs.

2. Regulating network monopolies

We welcome the challenge that Ofgem identifies to ensure that increased investment is allowed for and appropriately incentivised. It is also important to ensure that the returns on investment are sufficient to attract investors to network utilities and to encourage companies to invest. Investors also require a stable and predictable regulatory environment

Ofgem's intention to develop a clear, predictable approach to the price reviews and hence ensure a stable framework for long-term decision making is appropriate and we look forward to the current GDN price review clarifying the framework through to 2013 and beyond.

We would question the emphasis that Ofgem is putting on exit reform at a time of high workload during the price reviews for both transmission and gas distribution. Ofgem has recognised that there is a significant amount of work to do during the first review for separated gas networks and there is a danger that resources, both at Ofgem and within gas networks, are diverted from developing the most appropriate solutions during this review. We would suggest that customers would benefit more from delaying consideration of exit reform until after final proposals for DN networks in December 2007.

Contd...

3. Security of supply

Security of supply is of paramount importance, particularly in the gas industry where any requirement to cut off domestic supply will have significant consequences for customers. Furthermore, the past few months have seen a significant increase in both the level and volatility of gas prices which has caused considerable customer concern. This has been caused not only by rising energy prices but also by some significant worries over the security of supply in the UK.

The concerns seen in the UK during winter 2005/06 suggests that there is a real danger of supply failures. It is unclear that a competitive market alone is sufficient to ensure security of supply and thus regulatory intervention is required to ensure security. For example the amount of gas storage in the UK should be increased towards continental levels and existing capacity (eg the interconnector and LNG terminals) need to be fully utilised in times of high demand. Networks need to be allowed sufficient capex at an appropriate allowed return to ensure that they achieve their 1 in 20 requirements. We recognise that there are plans for a significant increase in gas storage and import capacity. However, Ofgem proposes a light touch regulatory regime to infrastructure developments for import and storage of gas and we believe that there should be a more proactive encouragement of these schemes.

4. A leading voice in Europe

NGN agrees that it is important that Ofgem continues to work closely with its European colleagues and European Governments. It has become clear this winter that, whilst the UK may be competitive, the European markets are far from competitive. Consequently, when both the UK and continental Europe have high demand there is a danger that the UK, at the end of the supply chain, suffers from shortage of supply. The markets perception of this real risk saw gas prices peak at over 160p per therm this winter.

We recognise the high profile that Ofgem has in Europe. Ofgem needs to continue to work actively in Europe to promote competition, encourage enforcement of legislation on deregulation and hence ensure that gas is transmitted across Europe on a fair and non-discriminatory basis.

6. Fuel Poverty

Reducing the number of vulnerable customers remains a valid theme. We would welcome the opportunity to work with Ofgem to explore the barriers to extending gas networks so that low income families in communities not currently connected to gas mains can have access to alternative fuel supplies. The price review should consider an appropriate way of incentivising GDNs to continue to improve the service provided to vulnerable customers.

Yours sincerely



Alex Wiseman
Regulation Director