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Dear Andy

Ofgem's Five Year Strategy 2010-2015

Thank you for giving us the opportunity to comment on the development of Ofgem's five year strategy. Our response is focused on the matters that are most relevant to electricity distribution network operators (DNOs) although we do recognise that Ofgem's priorities must balance the range of activities for which it is responsible.

The significant challenges that the industry faces in the short to medium term are:

- The need to ramp up technical and commercial innovation in order to develop the networks of the future and support greater volumes of low-carbon generation;
- Maintaining pressure on reducing customers' bills due to the price sensitivity accompanying the economic recessionary backdrop;
- Minimise uncertainty in the capital markets to avoid driving up financing costs; and
- Determine and then implement any changes to the regulatory framework following conclusion of the RPI-X@20 project.

The key challenge is consistent with that of the current 2009-2014 strategy document – i.e. the need to deliver on the low-carbon agenda without driving customer bills up significantly. The economic outlook is unlikely to improve significantly for some time therefore customers understandably remain very sensitive to price increases.

As we discussed in our response to the proposed 2009-2014 strategy document, the definition of roles and responsibilities affects every current low-carbon debate from smart meters to transmission access. Ofgem will need to be closely involved in the debate on roles and responsibilities with market participants in order for these details to be clarified. This requires a review of market design, and therefore requires Ofgem's leadership, rather than a detailed issue of code modifications or of network design, that would fall to the industry. This debate must be holistic, which is why only Ofgem can lead it. In an evolving energy market, actions by any one player will affect all others. For example, despatching load or generation will affect end-users, distributors, suppliers (including energy service companies (ESCOs) where appropriate), GB system operator (GBSO) and generators.

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Uncertainty and lack of confidence in the capital markets are causing increased financing costs. In order to minimise these costs to companies, and therefore customers, Ofgem must act to minimise uncertainty. Regulatory risk is a significant issue for the networks. Ofgem can minimise this risk by ensuring that any changes resulting from the RPI-X@20 review are well managed in order to provide a clear signal to the markets and avoid creating unnecessary uncertainty that would increase financing costs to the companies, and thereby increase customers' bills,

The extent to which the RPI-X@20 project will change the regulatory framework is as yet unknown. We uphold our views stated previously however, that the regulatory framework must recognise and encourage appropriate behaviours such as good stewardship, cost-risk management and effective business planning and performance, particularly in times of volatility and uncertainty. Ofgem will clearly need to subsume the outcomes of this review into its other workstreams.

We continue to be engaged with the relevant Ofgem staff to clarify and work towards solutions in each of the areas identified. However, if you have any questions arising from this consultation response, please do not hesitate to make contact.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jim Cardwell', written in a cursive style.

Jim Cardwell
DPCR5 Programme Manager