



Our Ref: MJH/mms

3 February 2011

Stuart Cook  
Senior Partner - Smarter Grids & Governance Ofgem  
9 Millbank  
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Dear Stuart

### **CONSULTATION ON STRATEGY FOR THE NEXT GAS DISTRIBUTION PRICE CONTROL**

Thank you for the opportunity to comment on your proposed strategy. Your team has received responses to all of the 170 questions relevant to gas distribution and I hope that you and your team will find this input positive and helpful.

As I outlined at the Authority meeting, NGN is supportive of what Ofgem is seeking to achieve under the new RIIO framework. Focus on the delivery of measurable outputs in the most efficient manner informed by stakeholder engagement, is one I recognise within NGN and will form the basis on which I will take the business forward in the coming years.

The areas of the strategy where I believe we need to do further work together are:

- Broadening the incentives within the proposed price control to allow frontier performers to deliver equity returns in line with expectations for such companies. Our detailed response contains a number of suggestions as to how this can be achieved.
- Ensuring the stability of cash flow following the proposed change in treatment of repex costs, as the current proposals would see a very significant reduction from GDPCR1 to RIIO-GD1.
- Setting the overall cost of capital at a level that continues to be attractive to global investors. You will no doubt be aware of significant concerns within the investor community that need to be addressed.

NGN has been a frontier performer during the current price control and will continue to be so throughout the next price control. We are therefore keen to be considered for the fast tracking process and will endeavour to meet the proposed criteria. I should be grateful for further guidance that you can provide to assist us in meeting the Authority's expectations in this area.

The joint work with the HSE on the review of the repex programme appears to be progressing on target and NGN will work to ensure that the proposed timeline for delivery of the final report is not delayed. If there is anything more you would like us to do in this area please let me know.

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The scale of work to complete in a short time frame is challenging and NGN will assist in providing whatever information or input Ofgem requires. I look forward to discussing these issues further.

Yours sincerely

A handwritten signature in black ink that reads "Mark".

**Mark Horsley**  
**Chief Executive Officer**



