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Dear Andy

Ofgem's Five-Year Strategy 2011-2016

Thank you for giving us the opportunity to comment at this stage on the development of Ofgem's five-year strategy. Notwithstanding that our response may tend to focus not surprisingly on matters that are most relevant to electricity distribution network operators (DNOs), we nevertheless recognise that Ofgem's assessment of priorities must achieve a requisite balance across the whole range of activities for which it is responsible.

In our view three of the four significant challenges facing the industry in the short to medium term that we referenced in our corresponding response twelve months ago remain very much in play, namely 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;
- maintain pressure on reducing customers' bills due to the price sensitivity accompanying the economic recessionary backdrop; and
- implement requisite changes to the regulatory framework in the wake of the RPI-X@20 project.

In the context of these we feel it appropriate to highlight again how absolutely vital we believe it is that Ofgem should take a major lead by involving itself very closely in the ongoing debates on the roles and responsibilities of the various market participants who are or will be involved in delivery of the low-carbon agenda. As we emphasised a year ago, Ofgem is uniquely positioned to ensure due consideration of all relevant issues on an appropriately holistic basis.

The need to deliver on the low-carbon agenda without driving customer bills up significantly at a time of such continuing economic uncertainty yields, of necessity, something of a "lean and green" theme for the immediate future. Notwithstanding this, however, we believe that, in addressing what we perceive to be an issue with recruitment and retention of key staff, Ofgem should consider whether continuing to impose "RPI-X" cost controls on itself is ultimately in the best interests of customers.

As we move now towards implementation of the outputs from the RPI-X@20 review, we would reiterate our firm belief 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 such as those in which we currently

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find ourselves.

I hope that you will find these comments helpful: should you have any questions arising from them, please do not hesitate to make contact. In the meantime, we remain committed to engaging with the relevant Ofgem staff to clarify and work towards solutions in each of the areas referenced above.

Yours sincerely

T H Sharp

Tony Sharp
Regulation Manager