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Our Reference NG/LAD
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Dear Andy,

Ofgem's Five Year Strategy 2011-2015

Further to Lord Mogg's open letter on the above, National Grid is pleased to have this opportunity to provide views on what should be Ofgem's future strategy and priorities.

We understand from the 2010-2015 corporate strategy that Ofgem's priorities are currently:

- contribute to the achievement of a low carbon energy sector,
- help to maintain the security of Britain's energy supplies,
- promoting consumer choice and value and protecting vulnerable consumers, and
- via Ofgem E-Serve, ensure the timely and efficient delivery of Government programmes for a sustainable energy sector.

These high level priorities would appear to mesh well with the four key areas identified by DECC in their Annual Statement of energy policy:

- I. Saving energy through the Green Deal and supporting vulnerable consumers
- II. Delivering secure energy on the way to a low carbon energy future
- III. Managing our energy legacy responsibly and cost-effectively
- IV. Driving ambitious action on climate change at home and abroad

As Lord Mogg's letter notes, the actions identified in the annual statement are very material to the development of Ofgem's strategy and it will be particularly important that Ofgem gives priority to how it helps deliver the policy goals and positively contribute to policy delivery actions government chooses.

In terms of key challenges and responses to them, we note that activities which will achieve the transition to low carbon, maintain security of supply and improve energy efficiency all require investment within the industry (by production, network and supply companies). Given ongoing uncertainties and challenges associated with obtaining capital from the financial markets, a key priority for Ofgem must be ensuring the markets and network regulatory arrangements not only protect the

immediate and future interests of consumers but also enhance their attractiveness for investors now and on an ongoing basis. In particular, this is likely to mean giving priority to -

- implementing energy market reforms in a way that will best deliver energy policy goals;
- monitoring and analysing market performance in a manner that enhances transparency and provides factual evidence for determining ongoing market development;
- translating the high level RIIO framework into workable and investment-supportive transmission and gas distribution price controls, having particular regard to financeability;
- engaging in how regulatory arrangements work with revised planning/consenting procedures.

More generally on RPI-X@20 conclusions, there is a need to identify how stated principles and objectives will be achieved in practice. For example, we agree that network companies should take the lead in setting out and engaging their customers with longer-term richer business plans but Ofgem will have a key role. Identifying for network companies and Ofgem staff how this and other conclusions of the RPI-X@20 should be implemented in practice is a priority.

Given the increasing importance of developing GB markets and networks such that they integrate with the European systems, and the likelihood that European regulations will increasingly place demands on the form and development of GB regulatory arrangements, Ofgem must adequately resource and dispatch its duties as an NRA and ACER member. We think the valuable work that Ofgem is doing to facilitate electricity market integration and interconnection should continue. The role of gas in supporting the transition to 2050 is critical in terms of maintaining diversity and security of supply as well as affordability and sustainability, so Ofgem should continue to support adequate investment in gas networks to maintain options towards a low carbon future.

I hope these few high level comments are helpful and we look forward to seeing your detailed plans.

Yours sincerely,

Lewis Dale

Cc Paul Whittaker UK Director of Regulation