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Dear Andy,

PROPOSED CORPORATE STRATEGY AND PLAN 2011-16

I write in response to the above consultation. We welcome the opportunity to contribute to the development of Ofgem's thinking based on a set of themes that are consistent from one year to the next and that allows for greater consistency of approach.

Inevitably, we comment in the context of DECC's review of Ofgem, and it is difficult to comment with any certainty on the future strategy of Ofgem for the next 5 years if we do not know the future objectives for independent regulation, the boundary of responsibility between Government and Ofgem and potential changes in Ofgem's statutory duties. We agree Ofgem will need to revisit their strategy later in the year. It is therefore in that context that we make the following comments:

We have the following comments to make:

1 Contributing to the achievement of a low carbon energy sector and Helping to maintain the security of Britain's energy supplies

The Government's review of Ofgem and the forthcoming White Paper and subsequent Energy Bill will have a significant impact on DNOs in terms of the regulatory framework. The general economic downturn and the slow recovery has impacted on customers and the industry alike and this background therefore for new legislation will be difficult in securing the support of the industry and consumers.

In the short term, the key tasks for the industry must be to work through this uncertain period and for Ofgem to clarify any areas of uncertainty that may arise. It must be recognised that whatever the future regulatory structure is, the DPCR5 settlement means that DNOs will need regulatory support if they are to have the capability of achieving Government goals.

A significant element of uncertainty has been caused by the review of Ofgem, the forthcoming White Paper and how the RIIO principles will be implemented in the context of the Gas and Transmission reviews. We have recently commented on the proposed implementation of RIIO and whilst we support the overall intentions, we

have expressed a number of concerns on the financeability proposals. It is imperative that decisions are finalised on these issues as soon as possible.

There remain some gaps in the DPCR5 settlement that still need to be resolved such as the final shape of the new Broad Customer Satisfaction incentive and we welcome progress on planning for pilot surveys during 2011. The implementation of the new Guaranteed Standards for Connections on 1 October 2010 should improve the service to customers but Ofgem should monitor their implementation constructively with a view to making further improvements to the standards in due course and recognise that there may be some teething problems in the initial months.

2 Promoting quality and value for all consumers

Ofgem's key role is to ensure that markets are working effectively to deliver outcomes that meet both consumer requirements and broader Government policy objectives. Most of Ofgem's proposals for 2011/12 apart from RIIO relate to suppliers though the important role for DNOs in the roll-out of small meters and the delayed introduction of the new Distribution charging methodology should not be under-emphasised.

3 Ensuring the timely and efficient delivery of Government programmes for a sustainable energy sector

The facilitation of a low carbon economy is an important driver of key issues for distribution companies such as losses, distributed generation and smart meter Implementation. We hope that the success of the Low Carbon Network Fund will prove an early indication of the importance Ofgem places on finding solutions that facilitate a transition to a low carbon economy. There will be a need for Ofgem to be flexible in its policy implementation to ensure artificial barriers do not emerge as new technologies and initiatives develop.

4 Other Issues

Ofgem's self imposed RPI-X cost control has shown that there is a real lack of resources to do accurate and thorough analysis - leading to potentially damaging proposals for customers. Ofgem need to ensure that they are adequately resourced with the right people and simple cost cutting is not the answer particularly when those results impact on customers and companies alike.

I hope you find these comments helpful. I would be pleased to join in further discussion on the issues raised.

Yours sincerely

Sarah Siddall
Head of Economic Regulation