

18 July 2003

24 Hour gas escape

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Dear Ms Sheldon

Gas Retail Governance – Further Consultation

Transco welcomes the opportunity to comment on this latest consultation document on the area of Retail Governance. This process has been going for some time and there are a number of areas that still need progressing beyond those contained in the consultation document. Transco will continue to support the development of these arrangements with Ofgem and the industry.

Transco supports the principle that Suppliers should be at the heart of the processes that their customers hold them accountable for. The development of Metering competition through RGMA is aimed at supporting this principle by providing Suppliers with contestable arrangements that provide opportunity for choice and influence over the metering services they require. Whilst Suppliers can now obtain competitive metering services, it is vital that the industry achieves an orderly migration to a regime that efficiently supports competition. Transco is keen to see the industry resolve outstanding issues and ‘cut-over’ to the new metering arrangements at the earliest opportunity.

Governance of Metering

Transco supports the establishment of a clearly defined SPAA and the intention that this framework will provide effective governance and change management of the RGMA baseline. It would be preferable for governance to be in place before the industry cut-over to the new arrangements to assist the orderly development of competition. Transco does not consider that the SPAA governance arrangements require an influence or control over Transco’s Metering services.

Competition in Metering

Transco welcomes Ofgem’s intent to ensure that assets in-situ can be transferred at a reasonable price. As the current owner of the majority of in-situ assets Transco wishes to see that the industry develops fair means to value the assets and efficient mechanisms for transfer.

GT involvement in SPAA and further issues to be resolved

Transco is committed to working constructively with the industry in developing the future operating principles and change proposals that will improve retail processes around the concept of a Supplier Hub model. There is also a requirement to ensure the continued efficient and reliable operation of the wholesale transportation market, and that these are not mutually exclusive given the integrated nature under which they were developed.

Transco fully supports the principle of migration of retail activities to SPAA, however this consultation does not explore the subject of obligations, incentives to invest and the assignment of roles and responsibilities. These are key areas in addressing the recognised tensions, arising from the GT providing retail activities for mainly non-contracted parties.

GT Accession

It is unclear how the creation of the SPAA would be accommodated within the current licencing framework. Transco agrees with the Ofgem view expressed within the consultation that Transco's Metering business will not be party to the SPAA.

Transco, will continue to contribute to the discussions on the requirement for GT accession to the SPAA and recognises that this will largely depend on the arrangements to support migration of SPA activities and the interaction with Network Code. However, in principle, Transco does not consider it should be a signatory to the SPAA as the purpose of the proposed arrangement is to manage inter supplier relationships.

Transco welcomes the opportunity to work with Ofgem and the industry in developing a cogent programme, which demonstrates an orderly and controlled migration from today's operating and contractual arrangements, and brings clarity to the relationships and accountabilities for future operating.

Whilst considerable ground has been covered in reaching a position where a Supplier - Supplier governance framework can be established, there is clearly a significant amount of work still required to deliver an SPAA with the range of clarity described above. Within the appendix to this response Transco identifies those activities that it considers part of the programme of work in operating retail processes under SPAA

I would be pleased to expand on any of the points raised in the letter and attachment should you wish.

Yours faithfully



Chris Train
Director

Gas Retail Governance – Consultation Response Appendix

Transco response to specific Questions and points raised

Section 5 Principles of Governance

Q. Does SPAA conform to the principles of good governance?

There is insufficient definition in the consultation document to fully evaluate whether SPAA conforms to the principles of good governance. Transco would be pleased to comment on detailed proposals as they develop. In particular there is a lack of clarity at this stage as to how the SPAA governance regime will link with GT Network Codes, and how overlap or gaps will be avoided.

Q. Is a 10 day consultation period sufficient?

Given our experience a reduced consultation period (15 working days in Network Code) could limit the robustness and accuracy of response and may encourage inconclusive statements on which decisions would be difficult to make.

Q. Should criteria be developed for granting of urgent status to a change proposal

For the purpose of consistency of governance, urgent processes should be developed to provide a ‘fit’ with existing arrangements and enable the industry to manage fast track requirements. It is important that the criteria under which urgent status is afforded provides for a robust assessment of the requirement.

Q. The preferred method of introduction of Schedules into SPAA?

Transco agrees with the Ofgem view that the migration of SPA activities to SPAA should be undertaken as a single consultation, avoiding gaps or overlaps in governance, and that this would provide for efficient and consistent governance as detailed in Section 5.

Q. The appropriate degree of consumer representative participation in the SPAA?

Appropriate obligations should be placed on SPAA in terms of recognising third parties and allowing changes to be raised, and that these should be consistent with existing Network Code obligations to support the migration of activities to SPAA.

Section 6 SPAA Licence condition

Q Whether such a Licence Condition should be placed on both domestic and I&C Suppliers?

Transco would have concern over the creation of the SPAA where only Domestic or only I&C suppliers were signatories, particularly where migration of SPA activities are involved. The development of Supply Point switching arrangements under separate governance frameworks, whilst remaining part of an integrated GT system, may lead to tensions in approving and managing change.

A further complication may arise through the inconsistency in the classification of these groups under Licence, GT Network Code and SPAA. Therefore, a Licence Condition should apply across the market.

Q The proposed drafting of the condition as outlined in appendix 1?

From a GT's perspective SPA services arise as a consequence of the transportation arrangements that it is required to establish pursuant to its licence. Transco does not consider it necessary to, expand further within the GT Licence, on the definition of the services that it provides under such arrangements

Section 8 GT involvement in SPAA

Transco has identified a number of activities it considers essential in operating SPAA. These are: (not in priority order).

- The SPAA Licence Condition is effective for both Domestic and I&C Suppliers
- The RGMA Baseline is agreed as a schedule
- Metering Contract Governance agreed
- RGMA Implemented
- Arrangements to support the interaction between SPAA and GT Network Codes agreed
- Harmonisation of Governance arrangements across all GT Network Codes to support the interaction with SPAA
- Consultation and outcome on the principles for migration of SPA activities to SPAA
- Utilities Act and/or Licence Condition considerations in creation of a GT to Supplier contract.

8.2 Transco recognises the current restriction (as noted within the consultation) that Suppliers do not have a direct opportunity to raise modifications to GT Network Code. The provisions under the Utilities Act to identify other interested parties within GT Network Code could be explored as a means through which interaction with SPAA and therefore Suppliers could be achieved.

8.4 Transco considers that it exercises a duty of care over data it holds, but does not consider that its role in receiving and holding data provided by Suppliers (via their Shipper) extends to actively maintaining or assuring accuracy. Therefore, Transco does not consider that there is a need for GT incentives in this area.

8.6 Whilst supporting discussion on the migration of SPA activities to SPAA, and that of Suppliers having an influence over the services they receive, the opportunity to address the roles and responsibilities along with the positioning of obligations would in Transco's view form an essential part of developing the future model for delivery of retail processes.

8.6 Whilst Transco supports the concept of provision of services through an Industry Data Manager, it is important that the required interfaces to support the core GT wholesale activities are provided for in any new arrangements.

Ofgem expresses a view that the provision of current retail services by the GT could be provided as an unbundled service to Suppliers. Issues such as the investment in change, clarity of associated costs in integrated service provision, and the potential for stranded costs where Suppliers opt-out of GT provided services, are not addressed.

9.6 In addition to the identified need for establishing operating principles under which the SPAA and GT Network Codes will operate, it is appropriate to consider how consistency and ease of process can be achieved in managing change across the various GT Network Codes. Further consideration is required if interactions between the governance arrangements are to be managed efficiently and meet with the principles set out in section 5 of the consultation.

Q Whether becoming a party should be a Licence Condition?

As the process of developing the arrangements progress, if benefits are identified in the GT playing a role in the SPAA then this should provide the incentive to sign. Given the obligation on GT's to provide a Network Code through which its activities are contractualised, Transco does not consider that a Licence Condition to sign the SPAA is appropriate or necessary.

Q How the funding of change should be apportioned?

Transco considers the subject of funding of change and apportionment of cost to be dependent on the future operating model and principles, but fully supports Ofgem's view that the appropriate incentives for investment and innovation are required.

Section 9 Governance of Metering

9.6 Transco is developing rules to define the governance of changes to the Transco Metering Contracts. Transco supports the introduction of a 'reasonableness' provision within the special conditions of its licence to provide a transitional facility for Ofgem to contribute to the governance of Transco's regulated metering contract. Transco would support the development of some clearer guidelines on how 'reasonableness' might be judged. Transco would view the inclusion of such a clause to be a transitional measure, to be removed at the earliest opportunity recognising competition in metering and the need for parties to manage their own commercial arrangements.

9.17-9.18 It is Transco's opinion that the transfer of assets between suppliers or their agents should not be subject to collective governance under the SPAA. Transco welcomes Ofgem's intent to ensure that assets in-situ can be transferred at a reasonable price. As the current owner of the majority of in-situ assets Transco wishes to see that the industry develops fair means to value the assets and efficient mechanisms for transfer. Transco has initiated discussion in the Metering Contract Group on the terms and mechanisms for transfer of meter installation equipment (excluding the meter) in the circumstances where a Transco meter is removed. There are a number of complex issues to be resolved including technical and safety concerns as well as the commercial and process requirements.

While Transco remains dominant with legacy assets in-situ Transco's own valuation of those assets may vary from the value that the 'market' would define for a distressed sale. Ofgem must establish a fair means of valuation to avoid creating a situation where asset value stranding inhibits competition.

The issue of bailment must be resolved by suppliers to remove a potentially significant impediment to the smooth transfer of assets. Suppliers have a primary contract with consumers and are therefore best placed to secure from consumers the necessary release to effect an efficient transfer.

9.38 It is unclear how the process outlined by Ofgem would include consideration of Transco's situation.

Q Whether the transfer of assets should be subject to collective governance?

See 9.17 above

Q Whether SPAA should have a role or influence over the Transco Metering contract and to what extent?

See 9.6 above.

