

BOC's RESPONSE TO OFGEM THREE YEAR STRATEGY, 2004-2007

BOC welcomes the opportunity to set out its views on Ofgem's strategy and these are set out below.

A. General Points

1. Independent economic regulation

BOC values Ofgem's role as an independent economic regulator with a primary duty to protect the interests of customers. BOC supports Ofgem's actions in remaining steadfast in the role and wishes to see this continue.

2. Support for NETA

BOC is a supporter of NETA which has introduced fairer and more sensible set of market based trading arrangements when compared to the previous system based upon the Pooling and Settlement Agreement. NETA has been to the benefit of customers who have seen prices falling as NETA, revealing the amount of over capacity in generation has allowed the normal laws of supply and demand to operate. Ofgem and the Department of Trade and Industry (DTI) are to be congratulated in implementing NETA. BOC is pleased to see Ofgem's robust defence of NETA in the face of criticism, much of it unwarranted and BOC hopes that Ofgem will continue to do so. BOC believes that it is important to bear in mind that electricity prices in England & Wales for large users are not the cheapest in Europe as could be implied by some comments. This is especially so following the 40% rise in wholesale prices since April 2002. Forward prices are indicating a very worrying increase.

3. Support for BETTA

BOC supports the extension of electricity wholesale competition to Scotland as foreseen in the BETTA process. BOC believes that BETTA will be good for customers not only in Scotland but also in England & Wales. BOC feels that it is important to implement BETTA as soon as possible and certainly in line with the DTI's latest thinking. BOC urges Ofgem to consider taking a somewhat pragmatic approach to some aspects of BETTA design, for example transmission access, if doing so would allow a timely implementation.

4. Regulation of natural monopolies

BOC believes that Ofgem has a responsibility to regulate those natural monopoly parts of the energy supply businesses such as gas and electricity transmission and distribution networks. BOC does not support the approach incentive regulation in conjunction with introducing pseudo market rules where not proper market exists; this may be considered an abrogation of responsibility. BOC believes that when the regulated companies and the customers are united in their opposition to Ofgem proposals Ofgem should consider whether they should continue with it. BOC is pleased to see Ofgem taking the time to think further on some of these matters.

B. BOC views by the Ofgem strategy document 2003/06 by subject heading

2 Making competitive markets work successfully

BOC agrees with Ofgem that it has a very important role in this area and agrees with proposed actions as set out. BOC is particularly concerned about the consolidation and vertical integration of energy companies, which has occurred and is likely to continue this reduces customer choice and reduces competitive pressure on prices.

1.1 Wholesale markets – electricity

BOC supports the BETTA approach.

2.1 Wholesale markets – gas

BOC notes, not for the first time that Ofgem has no regulatory power offshore. BOC believes this a weakness and that DTI should devolve power to Ofgem for this as there is a clear conflict of interest in the DTI being responsible for both the sponsoring and regulatory roles. BOC understands that this is a matter for Government and wishes to make its views clear.

2.1 Wholesale market surveillance

Ofgem has an extremely important role here in ensuring the customers' interests are protected, especially as the rules are complex and customers may not easily be able to detect any abuse. This is very important at a time of supply industry consolidation and rising prices.

2.1 Gas and electricity markets across Europe

BOC supports the creation open and competitive markets across Europe and believes Ofgem should use its influence to support this.

2.1 Industry structures

As noted above BOC is particularly concerned about the consolidation and vertical integration of energy companies which has occurred and is likely to continue this reduces customer choice. So Ofgem's work on mergers and acquisitions is vital.

2 Regulating Monopoly Businesses effectively

2.1 Electricity – national transmission

BOC does not agree with Ofgem's approach to introducing new transmission access arrangements for the following reasons:

2.1.1 BOC is not in favour of changes to the SO incentive scheme, which introduce a greater degree of complexity unless it was clear that this would be to the benefit of the final customer. No obvious benefits appear in the most recent Ofgem consultation document on this subject.

2.1.2 BOC views with some scepticism the introduction of a) the trading of secondary trading of access rights and b) the introduction of overrun charges.

- 2.1.2 BOC believes that an increase in complexity will increase transaction costs and is likely to allow the supply side of the electricity industry, who's resources greatly exceed that of customers, a opportunity to obfuscate to customers' disbenefit.
- 2.1.2 BOC would prefer that the SO incentive remained a shallow one as would provide lower barriers to entry and thus favour competition in generation. BOC would be interested in having details of the perverse incentives a deep SO incentive scheme would avoid and how.
- 2.1.5 BOC would like to retain the "Triad" system. BOC believes the present Triad system works well in providing financial encouragement for customers' flexible plant which makes an electrical demand to leave the system at the time of expected system peaks. Indeed this is the most active demand response in the present arrangements, also in order to attempt to achieve the 3 system peaks customers will expect to respond on about 20 occasions. Customers are able to respond directly to simple economic messages indicated with manageable notice period.

2.2 Electricity – Local Distribution

BOC is following the 2005 price control process with interest and is concerned that customers may have to pay large amounts to connect distributed generation.



Hugh Mortimer, 2 October 2003