

9 October 2003

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Office of Gas and Electricity
Markets
9 Millbank
London

Dear Chris

Ofgem's three year strategy 2004-7

John Spellman has asked that I respond to Sir John Mogg's request for views on Ofgem's strategy into the future. We welcome the opportunity to comment and contribute as Ofgem formulates its plans. Our interest lies in the areas impacting gas shippers and suppliers and our response represents the views of the Quantum Energy Group, Vector Gas and Fortum Energy Plus.

We have a general concern that the gas and electricity, domestic and I & C markets all be treated separately and individually and ask that Ofgem identify and separate the markets affected by proposed work. Ideally this needs to be communicated either on the title page in the early sections of consultations and documents.

We are pleased that all future policies will be subject to a Regulatory Impact Assessment (RIA) and would like to see all of them published. We would also be interested to see how you plan to approach these and the criteria you will use to make judgements and your views on assessing the relative importance of issues.

New Areas of Work

We would like to see Ofgem place a much greater focus on the Independent Gas Transporters and their ultimate impact on consumers. We would like the incentive regime in which they operate to be reviewed to understand where their motivations lie and the consequent impact to the gas consumers on their networks.

We are finding that it is the developer of a site who chooses who will provide the gas network to their site. Developers are motivated by the cost of the installation of the network pipework and not by the price of transporting gas subsequently to these

sites. Once a transporter and a site are associated that is a lifetime relationship, which cannot be altered by the consumer. Whatever the transportation costs are, they will be passed through to the consumer. Those gas consumers that are aware of this are now including identification of the gas transporter to a site in advance of finally selecting a site to purchase or rent. However our experience tells us that these gas consumers are in the minority.

In terms of serving these customers the marginal costs are greatly increased when dealing with an IGT and this is largely due to the different working practices they have adopted. They are not incentivised to improve these or move towards some sort of standardisation. Whilst this continues we will continue to manage these difficulties and the costs will be passed to the consumer. Also the service level to these consumers is inhibited by the constraints of the IGT's systems, consequently some customers may never enjoy parity in the service they receive, compared with consumers receiving gas from another network

Challenges

We are aware that Ofgem is increasingly relying on the Industry to develop projects and implement solutions We ask that Ofgem plan to resource to provide a greater level of participation and interest in how these discussions progress, to ensure that requirements of all parties, not individuals or minorities, are being addressed. We would also like Ofgem to communicate all the developments to participants in the industry or at least to take responsibility for ensuring that someone is doing it.

An example where the Industry has been unable to progress a project effectively is RGMA and the Metering Separation Project. In our view, the project has taken far longer than the project reasonably deserved. Costs for the project have escalated and seemingly there is no one to 'blame'. Negotiations have been prolonged and unsuccessful. We would have expected Ofgem to intervene at an earlier stage. Repetitions of these problems within a project are unacceptable and we ask that Ofgem plan for greater involvement in projects in general until there is effective governance to resolve disputes between all parties. A number of suppliers have planned to use other service providers with effect from the implementation of the metering system solution, so the delay has clearly benefited some participants in the market. In our view doing nothing can at times be as anti-competitive as more deliberate actions. As an aside, we expect this particular project to be one of Ofgem's priorities in 2004.

Effective governance needs to be in place before Ofgem steps away and leaves the Industry to operate without its influence.

We believe that the plan timetable Ofgem sets for projects is sometimes a little too challenging. A particular example of this is the sale of Transco's local distribution zones. To meet the timetable published we feel that activities in the project that might be expected will not be done or neglected. In general we would like to see timetables which are more realistic, that give all participants in the industry the reassurance of a prudent and proper approach leading to outcomes which are measured and well researched. We would be particularly concerned if short cuts resulted in a poor understanding of issues and inadequate consultation. Certainly consultation periods should be in proportion to the magnitude and quantity of the issues being reviewed.

We would also like to see indications in the plan that Ofgem were mindful and considerate of synergies between projects. An example of this is the Customer Transfer project, which may recommend a major overhaul of the gas SPA system. Transco are planning a major overhaul of the SPA system as part of their plans to sell the LDZ's and it would be sensible if these system changes were combined to reduce costs. These sorts of synergies that result in cost saving will impact consumer charges and Ofgem has responsibilities of its own in this respect, if consumer benefits are paramount.

If you have any queries or wish to discuss any of these points further, please contact me via email (anne.jackson@v-is-on.com) or by phone (0208 632 8012).

Yours sincerely

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