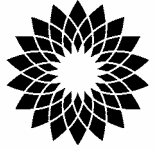




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10 October 2003

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Dear Chris,

### **Ofgem's Three-Year Strategy 2004-7**

Thank you for the opportunity to present our views on Ofgem's three-year strategy for 2004-7. This letter is not confidential and may be placed in Ofgem's library and on the website.

BP believes that the major challenge facing the gas industry over the coming years is Security of Supply in the UK. As the UK moves to greater import dependence, there is a need to create an appropriate environment to encourage more diverse supplies of gas. Along with this will come the challenge of accepting a wider range of gas quality in a timely fashion and with minimum disruption to consumers.

We now address the four specific questions posed in Sir John Mogg's letter;

#### **1. The key challenges you consider the industry faces in the short to medium term (for example, structural, social, environmental or technological)**

There are three main challenges that the gas industry faces in the short to medium term;

- The UK's transition to a net importer of natural gas
- Transposition of the 2nd Gas Directive into UK legislation
- The pace of liberalisation across Europe

Long-term security of supply has been assumed as a given by consumers over past years, and Ofgem's focus has been on minimising prices. Whilst it remains sensible to further improve value for money for consumers, it is also, we suggest, particularly important to consider how the regulatory regime needs to evolve in order to assure security of supply, e.g.

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- Are the incentives appropriate to encourage incremental investment and new sources of supply landing in the UK?
- Is gas quality variation manageable, and how is it best managed?
- As the 2nd Directive is transposed into law in member states, does a level playing field exist across Europe (and at a consistent pace in all member states)?

Ofgem have clearly recognised that UK regulation can no longer be undertaken in isolation from mainland Europe. It is important that UK consumers are not disadvantaged by variances in the degree of de-regulation between member states.

A more current concern surrounds the introduction of Metering Separation and Retail Governance. This project has consumed significant costs in both financial and resource terms over several years and has yet to set a realistic date for delivery.

**2. What action do you consider the Authority should take to respond to these challenges?**

BP considers that Ofgem should focus resources on the challenges highlighted above. This may mean that other projects will need to take a lower priority in the medium term.

Ofgem should seek to learn lessons from projects such as Metering Separation, in order that such expense and delays can be avoided in future. Even when Metering Separation is introduced, there will still not be true competition in the metering market until Transco are prepared to offer for sale their meter assets.

It would help if Ofgem could better recognise issues of commerciality and appreciate the impact of regime changes on industry participants and consumers. We would expect that increased application of Regulatory Impact Assessments (RIAs) would assist with this. We welcome the positive step of the introduction of RIAs and urge Ofgem to continue the ongoing refinement of the RIA process.

We also recognise the positive way in which Ofgem have progressed the LNG import debate, managing the uncertainty in the period before UK legislation is in place with the objective of responding positively to industry's requests for guidance.

**3. Are there new areas of work that, you believe, should be set in train and what degree of priority should they be given?**

We believe that most areas are now underway, but there is a need to update priorities and allocation of resources.

**4. Is there existing work that could be given greater or lesser priority or even stopped?**

As detailed in our response to the consultation on potential Distribution Network separation/sale, BP remains to be convinced that net benefits will accrue to consumers. In addition, we understand that this issue would require an extremely high percentage of Ofgem's available resource. Unless significant benefits can be demonstrated, then we suggest that Ofgem resources could be more effectively utilised elsewhere, and that the proposal should at this stage be deferred. This is not to say that the proposal could not be reconsidered at some point in the future if a further review identifies benefits that outweigh costs.

In conclusion, we re-iterate our view that Security of Supply is the major challenge the UK is facing. We welcome Ofgem's focus on this area in particular, and we note the following statement in Ofgem's 2003-6 Corporate Plan and Strategy;

**Influencing**

*Beyond the operation of the gas and electricity industries, Ofgem will also continue its work with Government and the European Commission to influence factors which can also have a bearing on security of supply priorities. For example, improvements to the planning process to enable gas storage capacity to be developed, and open access to Europe's gas and electricity networks.*

Please do not hesitate to contact me if you would like to discuss any of the points raised.

Yours sincerely,

**Beverly Ord**  
**Regulatory Affairs**