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Dear Chris Chapman

Ofgem's three year strategy 2004-7

I write in response to Sir John Mogg's note requesting views on Ofgem's three year strategy for 2004-7. Shell Gas Direct (SGD) welcomed the introduction of three year plans as we consider it should provide an element of predictability regarding regulatory initiatives and their timing over the coming years.

We consider the key challenges facing Ofgem over the coming years are:

- to move to a "light touch" regulatory regime
- to develop rigorous regulatory impact assessments
- to ensure that "security of supply" concerns do not lead to unnecessary interventions in the workings of the competitive market.

When producing the draft corporate plan, the Authority should consider a holistic approach to ensure that the work of Ofgem is better integrated. We suggest that instead of a department-by-department look at projects, the projects are grouped by constituencies affected (eg gas shippers, domestic suppliers (gas/electricity/both), IGTs etc). Although this could mean some cross-referencing, it would allow for a better view of the changes for each sector that Ofgem intends to introduce and how they fit together. At present, it can appear that a rather piecemeal approach is taken without any clear view of how the varying initiatives will fit together. While we understand that Ofgem does not want to dictate the development of the market, it would help to have an overall vision of how Ofgem sees various projects will integrate.

Ofgem should also take more time at the beginning of projects to scope out the extent of change required before establishing a timetable for completion. Ofgem has encouraged the industry to take on projects which require considerable resource input (ie improving the customer transfer project). It will be necessary for Ofgem to take into account this project and its likely outputs when developing other areas to ensure that there are not too many overlapping projects. We are also concerned that Ofgem has decided on outcomes with the expectation that the industry will develop the details. We consider a better approach is to clearly identify problems/issues, then develop solutions with licence changes and code modifications being the final stage of the project.

We would also welcome a greater understanding of how Ofgem's work is being prioritised. It will always be the case that events and restructuring proposals (ie mergers, acquisitions etc) will arise over the course of a year requiring Ofgem's input. It is not always clear how Ofgem will resource this work or what other planned work will now take a lower priority and perhaps be delayed.

In previous responses, some issues have been raised about the development of metering competition. While we realise that this project is scheduled to be completed in 2004, we consider that there would be value in a review being carried out of this development of this projected (perhaps starting with the Modification 0042 review process in 1996). It is clear that this project has taken longer than expected and its scope appears to have widened considerably.

We welcome the efforts Ofgem has made efforts to improve communications. The quarterly meetings between Ofgem and shippers have significantly improved our understanding of Ofgem's approach. However, we are concerned that attendance at various workstream meetings or project meetings can be read by Ofgem staff to mean that we have agreed to commit resources to a project or that a market sector's viewpoint is being represented. Ofgem needs to ensure that it is not allowing parties able to commit resources is in the position of making decisions on behalf of others. This may require short publications or letters to test assumptions as projects develop. We would also encourage Ofgem to make greater efforts to address points raised in response to consultation documents. While we do not expect Ofgem to always agree to issues raised, it can be frustrating to find it necessary to raise the issues, concerns and statistics again as work is developed.

Ofgem's staffing levels have increased from the original levels inherited from Ofgas and OFFER (absent the regional offices and NETA). We welcome the decrease in staff from the peak but consider that efforts should be made to return to previous staffing levels. While Ofgem has since taken on new responsibilities in respect of the environment and social obligations, it has also removed price controls on suppliers and there should still be scope for staff reductions. There is, and always will be, pressure on Ofgem to become involved in the market to effect desired outcomes. With competitive markets, Ofgem should attempt to restrict itself to no greater a role in regulation than is expected in other commodity markets or retail markets. The industrial and commercial market in gas has been open to gas for over 10 years now and Ofgem should be seeking to minimise regulatory initiatives in this area.

Security of supply has become a key area of concern and comment recently. Shell Gas Direct is conscious of the need to ensure on-going security of supply to consumers. However, just because the UK will become a net importer of gas does not necessarily mean that there is a concern with security of supply. Considerable work by the industry has been put into developing plans to deal with an emergency situation. Ofgem has undertaken various projects which, by improving market operation were said to improve security of supply. We consider that further work in this area should focus only on areas where problems have been first been clearly identified.

We welcome Ofgem's commitment to carry out regulatory impact assessments. We have commented already on the RIA for the potential sale of one or more of Transco's distribution networks. We believe that a good start has been made and assume that the RIAs will develop in their approach with experience. We consider it to be essential that Ofgem carries out an RIA for any significant change which arises from the

improving the customer transfer (ICT) project currently underway. We also would welcome further work on a best practice on consultation. While a document on this subject was published earlier, it does not always appear to be followed and there have been examples of significant change being introduced following scant consultation (eg publishing market shares) and new approaches being adopted (eg “mini consultations”) not covered in the original publication.

Shell Gas Direct welcomes this consultation on Ofgem’s future corporate strategy. We look forward to the draft corporate plan and hope that this will provide a clear way forward for the industry in respect of regulatory approach.

Yours sincerely

[This letter has been sent electronically and is therefore not signed.]

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