



The Gas Forum Response to Ofgem Consultation

Ofgem Proposed Corporate Strategy 2004-2007

- 1.1. The Gas Forum welcomes this opportunity to comment on Ofgem's proposed Corporate Strategy for 2004 –2007.
- 1.2. The Gas Forum supports the key principles of better regulation: proportionality, accountability, consistency, transparency and targeting.
- 1.3. The Gas Forum has always supported the use of thorough Regulatory Impact Assessments for significant industry changes. The Forum would highlight the December 2003 "National Grid Transco – Potential sale of network distribution businesses: Next steps" document, as containing an example of the standard of RIA that we would expect Ofgem to produce for major industry change.
- 1.4. Good regulation is facilitated by good appeal mechanisms; the Forum is interested to follow the debate regarding potential changes to Ofgem's appeal mechanisms that may be implemented through the Energy Bill. The availability of an accessible appeals mechanism could incentivise Ofgem to follow a procedure with clear and transparent decision-making, following full consultation, as this would reduce the incidence of potential appeals. The right of appeal should, however, be weighed against the cost of the reduction in regulatory certainty. In general, we support the right to appeal authority decisions, but we would like to see defined rules on who can appeal, on what basis the appeal would be judged, and what the timescale for the judgement would be.
- 1.5. The challenge of co-ordinating industry change across different but interacting areas will be an important consideration for Ofgem in the coming months and years. We believe that there may be a problem of multiple work streams interacting (BETTA, RGMA, CTP and DN Disposal), and creating a succession of costly system changes. A move towards regular bundled implementation of non-urgent system upgrades may represent progress in this area.

Creating and sustaining competition

- 1.6. Forum members welcome Ofgem's acknowledgement that wholesale gas market prices have been influenced by continental European markets where competition is less developed. The Forum is keen to ensure that progress on European energy market liberalisation is pursued.

- 1.7. As markets continue to evolve, the Forum expects that companies will be given more scope not simply to propose changes to industry agreements, but to have a greater democratic input into the decision making mechanisms, through effective consultation procedures leading to multi-party agreements, and industry self-regulation, where possible.
- 1.8. While supporting Ofgem's desire for all customers to benefit from competition, and have the right to switch supplier, the Forum would suggest that improving governance arrangements may provide a way forward. It is also important to take into account those customers on iGT networks, who could potentially be excluded from the benefits of competition, if these arrangements do not apply.
- 1.9. Ofgem's desire to improve customer confidence in the competitive market is laudable, and could perhaps be achieved through supporting any industry initiatives in this area.
- 1.10. As Ofgem continues to keep market structures under review, The Forum would suggest that lower prices are only one of several benefits of effective competition. Ofgem could also consider the improved service, performance, risk management and energy efficiency brought about by competition.

Regulating network monopolies

- 1.11. Ofgem's consideration of incentives for network operators to improve their service to customers is of interest to Forum members, as customers of the network operators. We would therefore expect to provide input to future proposals.

Helping protect security of Britain's energy supplies

- 1.12. Changes to balancing arrangements arising from the potential sale of one or more of NGT's Distribution Networks may have security of supply implications. We trust that these considerations will be addressed by the Commercial Interfaces workgroup.
- 1.13. Market liberalisation and true competition across Europe may help to assuage concerns over security of supply.

Helping protect the environment

- 1.14. The measurement of 'value-for-money' in the context of environmental improvements may need to be carefully defined. Environmental improvements may represent a cost, and conflict with the principles of free competition in the short-term, before the long-term benefits arise.

Improving Ofgem's efficiency and effectiveness

- 1.15. While Ofgem's desire to curb its direct costs is sensible, the indirect cost of dealing with Ofgem's output is a more significant concern for the Forum.
- 1.16. In the spirit of comparative regulation, the Forum suggests that Ofgem could publish its costs and benefits in comparison with other British regulators, and with the other European energy regulators, in order to assure the British public that they are getting the best value for money. Ofgem's improving efficiency and effectiveness would be proven by its position at the top of a league table of regulators.

1.17. The Gas Forum anticipates that its members will make their own views known directly to Ofgem and recognises that the context of individual responses may differ in some respects from this response. Where any conflict exists on specific points, the individual responses will take precedence for that individual company.

1.18. The Forum would be happy to discuss any part of this consultation. Please contact us at:

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or telephone 020 7090 1030.

Addendum

British Gas Trading Ltd. and Scottish and Southern Energy Plc. are not able to support this response, and their views will be sent in separate corporate responses.