



Sonia Brown
Director of Transportation
Ofgem
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17th May 2004

Dear Sonia,

"Agency and Governance Arrangements Regulatory Impact Assessment"

energywatch's central concern is that the benefits from the sale are actually realised and passed on to consumers and that the savings go to different classes of customers on an equitable basis. The agency arrangement must at least preserve NGT's existing service levels to consumers and avoid ultimately passing on extra costs on to consumers.

energywatch supports the development of industry structures, conduct and performance which will enhance consumer welfare. Equally, energywatch will oppose changes which damage consumer welfare. It is also the case that **energywatch** is not pre-disposed to any particular solution to the supply point administration function of the network.

Governance arrangements reflecting all stakeholders and balancing their commercial interests

Flexibility of the codes and administration costs

The new codes have to balance increased costs of administering codes with the benefits of flexibility. This should be acknowledged in the RIA as flexibility may confer system wide advantages that outstrip the incremental cost of running the code.

Balancing different commercial interests

The proposed governance arrangements will also have to balance the different commercial interests of each type of industry stakeholder. For example a timely meter read has a different value for a supplier (who will value their brand, commercial agreement with the reader, cash flow, etc); Transporter (for the calculation of Transportation costs and network planning (only in the aggregate)) and Agency (the incentive to provide accurate information). These different commercial drivers will inform each of the signatories commitment for responding to any proposed change to the code. The codes will also have to balance the interests of small and large, vertically and non vertically integrated players. Equally the value to the consumer

Consumer input into the codes

We note that whilst consumers are not signatories to the code they are never the less affected by its outcomes particularly by SPA modifications. We would expect to have some form of representation equivalent to the input we have in the electricity codes.

Benefits in Service delivery and the agency proposals

Where the agency delivers service to consumers

Consumers need to be protected against the achievement of efficiency savings through cuts in the standard of service delivery. Whatever Ofgem supports as the preferred agency option we would want to make it clear that there are a number of factors outside of the RIA we think important from the end consumer's perspective.

Changes in service delivery as a result of the sales

The new operators must be closely monitored during the balance of the price control period so that Ofgem can address and remedy any degradation in service delivery. We believe that this can be facilitated by developing greater clarity and accessibility of service delivery through the publication of customer satisfaction surveys that are already undertaken by NGT. However, of itself publication of surveys is insufficient. Also needed is an open and transparent process by which these standards are set ex ante. This would include the consumers and other stakeholders in setting targets. Recent enforcement action by Ofgem in connection with NGT's customer service failure amply demonstrates the need for such a measure.

Revising existing standards where necessary

Ofgem should revise the existing incentives under the guaranteed service standards provisions. This could be in the form of new standards (e.g. concerned with data capture of the DN's); tighten existing standards or increased compensation payments as an incentive to improve performance. We are prepared to work with Ofgem to develop the most effective mechanism regarding service standards. We feel that challenging targets will focus management time on making improvements in DN operations that are of real value to gas consumers.

Data Access

Data access has been important for industrial and commercial consumers as has the access to information about the wholesale gas market. Ofgem should require network owners to maintain at least the current service delivery standards.

Contact

If the network sales go ahead the existing channels of communication between NGT and consumers will have to be realigned as a result of the new industry structure. There will undoubtedly be a period of costly confusion whilst consumers find new contacts and a new understanding of the DN's roles (as happened after separation in the electricity industry).

We therefore believe that the proposed agency should be the single source of contact for consumers enquiring about DN services.

Agency options

We support also calls for broad ownership and management of the proposed Agency. Ofgem have chosen two alternative options (B1 and E). We would

agree the benefits of creating a Governance Entity and so would support option B1.

energywatch is willing to elaborate on these points. Please do not hesitate to contact me if you would like to discuss.

Yours sincerely

Lesley Davies
Director Policy and Research
energywatch