



BP Energy  
Witan Gate House  
500-600 Witan Gate  
Milton Keynes  
MK9 1ES

Andy MacFaul  
Head of Government Affairs  
Ofgem  
9 Millbank  
London SW1 3GE

Direct: 01206 752019  
Main: 01908 854103  
Mobile: 07799 740739  
Email: [ordba@bp.com](mailto:ordba@bp.com)

Dear Andy,

**Ofgem's Three-Year Strategy 2005-8**

Thank you for the opportunity to present our views on Ofgem's three-year strategy for 2005-8. This letter is not confidential and may be placed in Ofgem's library and on the website.

BP believes that one of the major challenges facing the UK gas industry over the coming years is security of supply and we therefore welcome Ofgem's focus on this issue in particular, and we note the following statement from Ofgem's Corporate Strategy 2004-7:

*Influencing and shaping the debate (5.7)*

*We shall work to influence key Member States' implementation of European legislation and regulation to ensure there is effective access to continental gas and electricity networks, and that, for Great Britain, markets are recognised as delivering security of supply more effectively than centralised arrangements.*

BP agrees with Ofgem's view that markets are the most effective way to deliver security of supply for the UK. Furthermore, we continue to support a light touch, non-interventionist, regulatory approach and believe that any enhancements to the regime that may be required to respond to the UK's transition to become a net importer of natural gas, should be delivered using this approach, with confidence that the market will deliver through a continuance of light touch regulatory practices.

We now address the three 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)**

In BP's view there are two main challenges that the gas industry faces in the short to medium term;

- The UK's transition to a net importer of natural gas, and
- The pace of liberalisation across Europe.

BP Energy is a trading name of  
BP Gas Marketing Ltd  
Registered in England and Wales No. 908982  
Registered Office:  
Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP

BP Energy is a trading name of  
BP Oil UK Ltd  
Registered in England and Wales No. 446915  
Registered Office:  
Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP

**Deleted:**

**Deleted:**

**Deleted:** challenge

**Deleted:** in the UK.

**Deleted:** 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.¶

**Formatted:** Font: 10 pt, Not Bold

**Deleted:** ,

**Formatted:** Font: 10 pt, English (U.S.)

### The UK's transition to a net importer of natural gas

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 the impact that any proposed changes to the regulatory regime may have on security of supply by, for example, impacting the market's ability in the medium- to long-term to deliver new supplies in a timely manner, or by impacting the short-term day-to-day workings of the market.

### The pace of liberalisation across Europe

As the 2nd Directive is transposed into law in member states, we need to ask whether a level playing field exists across Europe and whether implementation is being undertaken 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. We therefore look to Ofgem to take a lead role in the Madrid Forum process and CEER to promote the importance of liberalised markets to deliver security of supply and improved customer choice.

## 2. The action you consider the Authority should take to respond to these challenges

As indicated above, BP continues to support a light touch regulatory approach. That said, BP considers that Ofgem should focus resources on the challenges highlighted above, and as such we support a regular review of the priorities in Ofgem's (and the industry's) considerable workload.

BP welcomed the increased application of Regulatory Impact Assessments (RIAs) and expected that this would assist with Ofgem's understanding of costs and other impacts, but have so far been disappointed with the quality of the RIAs published, in particular in relation to the DN Sales programme. We urge Ofgem to continue the ongoing refinement of the RIA process to ensure that sufficient attention is given to transactional implementation issues which may otherwise lead to greater complexity and cost for market participants.

In our view detailed RIAs will play a key role in helping Ofgem understand in detail the impact of regime changes on industry participants and consumers.

## 3. The priority of areas of work that you think we should tackle, in response to the challenges you identify.

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

BP has previously raised concerns over the high level of industry workload that is required both from Ofgem and from industry participants: this concern has increased since the introduction of the DN Sales programme. There is a relationship between the volume of documentation presented for industry review and comment, and the quality of response that can be provided with finite resources. In our view the current situation is such that we believe the current volume of documentation may well be adversely impacting the ability of the industry to respond effectively, and hence producing a detrimental impact on the quality of the final solution. We would therefore urge Ofgem to carefully consider the situation and reassess priorities and workload with a view to ensuring that resources are not spread too thinly.

The DN Sales programme has absorbed significant industry resources, and continues to do so. We had expected Ofgem to better recognise the huge resource impact this programme is having, and to take action to re-assess other projects of lower significance and to adjust priorities to allow participants to effectively cover the DN Sales activities. We are disappointed that this is clearly not happening.

## Conclusion

**Formatted:** No bullets or numbering

**Deleted:** how the

**Deleted:** the

**Deleted:** needs to evolve in order to assure

**Deleted:** e.g.

**Deleted:** ¶  
¶

**Deleted:** Are the incentives appropriate to encourage incremental investment and new sources of gas supply landing in the UK?

**Inserted:** Are the incentives appropriate to encourage incremental investment and new sources of gas supply landing in the UK?

**Deleted:** Is gas quality variation manageable, and how is it best managed?¶

**Deleted:** (

**Deleted:** )

**Deleted:** ¶  
¶

**Deleted:** . This may mean that other projects will need to take a lower priority in the medium term.

**Deleted:** It would also help if Ofgem could better recognise issues of commerciality and appreciate the impact of regime changes on industry participants and consumers. We had

**Deleted:** .

**Deleted:** We 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.¶  
¶

**Deleted:** . This

BP believes that one of the major challenges facing the gas industry over the coming years is security of supply in the UK, and we welcome Ofgem's focus on this issue, but [would urge that](#) any enhancements to the regime [are](#) delivered through a continuance of light touch regulatory practices [along with full and rigorous use of the RIA process.](#)

**Deleted:** the

**Deleted:** with

**Deleted:** being

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

Yours sincerely,

**Beverly Ord**  
Regulatory Affairs

**Deleted:** In conclusion, we re-iterate our view that security of supply remains the major challenge the UK is facing. We welcome Ofgem's focus on this area in particular, and we note the following statement from Ofgem's Corporate Strategy 2004-7:<sup>¶</sup>

¶

**Influencing and shaping the debate (5.7)**<sup>¶</sup>  
*We shall work to influence key Member States' implementation of European legislation and regulation to ensure there is effective access to continental gas and electricity networks, and that, for Great Britain, markets are recognised as delivering security of supply more effectively than centralised arrangements.*<sup>¶</sup>