

Supply Licence Review (SLR) Steering Group minutes Meeting 1, 28 September 2005

| Attendee | Organisation |
|-------------------------|--|
| Mike Gibbons (MG) | Better Regulation Task Force |
| John Lang (JL) | Centrica (alternate) |
| Stefan Leedham (SL) | Chemical Industries Association |
| Nigel Cornwall (NC) | Cornwall Energy Services |
| Roger Barnard (RB) | EDF Energy |
| Carole Pitkeathley (CP) | Energywatch |
| Graham Kirby (GK) | E.on |
| Duncan Sedgwick (DS) | ERA |
| Julie Voce-Pascoe (JVP) | HSE |
| Laurence Poel (LP) | npower |
| Philip Davies (PD) | Ofgem (Chair) |
| Nigel Nash (NN) | Ofgem |
| Andrew Wallace (AW) | Ofgem (Secretariat) |
| Michael Knowles (MK) | Ofgem |
| Stephanie Tobyn (ST) | Scottish Power |
| Rachel Chalmers (RC) | SSE |
| Lisa Waters (LW) | Waters Wye Associates (representing Corona Energy Ltd) |
| Mark Watson (MW) | ERA |

Apologies were received from Elaine Delamer-House (SSE), Tony Herbert (Citizens Advice), Nick Ansbro (Corona Energy), Tahir Majid (Centrica), Helen Bray (Chemical Industries Association)

Better regulation (see attached slides)

Mike Gibbons (MG) provided an overview of the work of the Better Regulation Task Force (BRTF), the government's drive towards better regulation and its relevance to the regulation of gas and electricity markets. Removing unnecessary regulation was becoming a major programme of work across all government departments and would be promoted on a wider scale through the UK's presidency of the EU. Targets for reduction in regulation had already been set in Belgium and the Netherlands.

The BRTF has provided independent scrutiny of organisation's simplification plans. It was suggested that there was a potential to increase GDP by 1% through such measures.

MG noted the tendency of government departments to add more rules rather than review and reduce existing ones. He said that there was a significant role for business to identify and put forward simplification proposals. It was anticipated that once simplification plans had been identified, deregulation Bills could be drawn up to achieve results within the desired timescales. The better regulation agenda would also mean a higher test for new legislation.

PWC has been engaged to measure the burden of regulation across government departments. The approach identified was to measure the time spent by business on regulatory administration such as form filling.

Turning his attention to the energy industry, MG noted that those regulatory managers who dealt with legislation on a frequent basis were often used to the rules, were employed to understand and comply with the rules and may at a personal level have incentives to keep the rules in place.

LW said that poor drafting and lack of consolidation in energy legislation meant that it was difficult for industry to get a clear understanding of the intent of regulation in this area. She said that it was vital for business to be able to identify their regulatory commitments.

CP said that better regulation should also have a positive impact on customers and for customer representative groups who use the legislation. She said that it was important to first identify the intent of the rules and that in some instances better regulation may require extra provisions to correctly deliver the policy intent.

MG said that the BRTF had been delivering views on alternative delivery mechanisms for regulation such as self-regulation and that a report on this would be forthcoming.

PD thanked MG for his views, noted the cost to industry and customers of bad regulation and Ofgem's commitment to conduct a comprehensive review of the standard conditions of suppliers' licences.

SLR introduction

PD introduced the SLR noting the principles of better regulation and the principles that had been established in the SLR Way Forward document which would shape the review.

RB said that good regulation will also have costs and that it was important to establish what these were relative to their benefits. He said that those who in relation to any particular licence obligation considered that this was needed to protect consumer interests should be required to provide a compelling case.

NC noted that the scope of regulation was in general increasing, for example with additional environmental measures. RB noted that some areas, such as environmental legislation, may be required by EU legislation. Ofgem noted that the regulatory burden considered by the scope of the SLR would generally be bounded by the scope of the existing licence conditions.

Steering group

NN explained that the Steering Group was not a decision making body. It was there to govern a number of workgroups and provide a recommendations report to Ofgem. Ofgem would then consider proposals in the recommendations report to amend the licences using the collective licence modification process. It was anticipated that the main policy questions should have been resolved so that they can be consulted upon by Ofgem in July 2006. In November 2006 it is hoped to be in a position to consult on legal drafting.

Membership of the Steering Group was likely to be self-selecting. It was stressed that, whilst alternates would be allowed, there should be a high degree of consistency in

membership. LW said that consideration should be given to the limited resources of I&C only suppliers. There was concern that some parties would not want to attend all workgroups. Ofgem agreed to take this into account when planning meetings and their content. It will be the role of the workgroup chair to clearly set out and communicate a plan of action so that I&C suppliers would be able to judge when to provide contributions. Agendas for workgroups were expected to clearly set out the day's business.

Ofgem noted that information on the SLR would be published on an Information Site on the Ofgem web-site. Ofgem also agreed that project documentation would also be issued by email.

In response to a question from RB, PD confirmed he would seek to share quarterly reports to the Authority with the Steering Group where possible.

The terms of reference for the Steering group were accepted subject to a number of amendments:

- Inclusion of Ofgem's five principles for the SLR as set out in the August 2005 SLR Way Forward document
- Amendment to the legal references to the licence modification process set out in the second paragraph of the Objective section.

Action: Ofgem to amend terms of reference

Working groups (see attached slides)

AW presented a summary of the generic terms of reference for the workgroups and set out the broad questions and issues that Ofgem anticipated each workgroup would need to tackle. The Steering Group agreed that, as they covered similar issues, the proposed "Duty to Supply" and "Contracts and Information" groups would be brought together into a single workgroup. The Steering Group agreed that the following workgroups should be formed:

- Vulnerable Customers and Codes of Practice
- Duty to Supply, Contracts and Information
- Section B Issues including SoLR
- Metering
- Industry Codes
- Section D issues, and
- Legal Issues.

The Steering Group recommended a proposed order of commencement for the workgroups. Vulnerable customer and Code of Practice, Duty to Supply, Contracts and Information, Metering and Industry Codes workgroups to commence in October subject to Ofgem resource constraints. It was anticipated that the Industry Codes group may meet initially in October and then decide to review the potential for code modifications before meeting again. Section B issues (inc. SoLR) to follow metering workgroup and to commence in Jan 06. Section D issues also to commence in Jan. Legal issues workgroup to meet when called upon by Steering group.

Ofgem agreed to revise and circulate a timetable for the workgroup meetings. Ofgem agreed to propose dates for the first meeting of each workgroup. Ofgem were asked to avoid clashes with other standing industry meetings where possible.

Action: Ofgem

The Steering Group were asked to inform Ofgem of nominations to attend each of the workgroups by 7 October 2005.

Action: Steering Group

It was agreed that Steering Group members should be entitled to attend any workgroup meeting. In doing so they would be able to provide clarification on the views of the Steering Group but would not be able to represent the Steering Group in a decision making capacity.

When questioned on whether the gas and electricity provisions should be reviewed separately, Ofgem commented that this was unlikely to be efficient as significant parts of the gas and electricity licences were similar or the same.

The group debated whether specific objectives or amendments to the scope should be made to the terms of reference for each specific workgroup. It was agreed that the scope for the Industry Codes group should be restricted so that, while the compliance arrangements for the relevant industry code or agreement would be within the scope of the group, the actual role of the document would not be.

The terms of reference for each workgroup were agreed subject to the following amendments:

- Inclusion of Ofgem's five principles for the SLR (as set out in the August 2005 SLR Way Forward document) as the over-arching context for the group's work.
- An additional objective to be added to consider consequential amendments to other legislation and in particular other licences.
- An additional objective for each workgroup to raise potential impacts on other workgroups to the Steering group for their consideration.
- Amendment to the legal references to the licence modification process set out in the second paragraph of the Objective section

Action: Ofgem to amend terms of reference

CP suggested a further general amendment to include an additional objective to identify what protection was required for customers and then to consider how best to deliver this protection. There was broad agreement with the sentiment of this view, however it was considered to be implicit in Ofgem's five principles for the SLR.

A list of SLCs for consideration by each workgroup were agreed and will be appended to the terms of reference for each workgroup.

Action: Ofgem

Further, Ofgem was asked to ensure that where possible, papers for the Steering Group and workgroups were issued at least 48 hours prior to meetings. Ofgem was also asked to circulate up-to-date and accurate contact lists for Steering Groups and workgroups.

Action: Ofgem

It was agreed that each workgroup would consider the frequency with which they would need to meet at their first meeting. They would be asked to provide a draft report to the Steering Group by April 2006 and a final report by May 2006. The Steering Group may consider refining these dates in the future.

Action: Workgroup Chair

SLR timetable (see attached slides)

A schedule of meeting dates was proposed for future Steering Group meetings. These were typically the last Wednesday in the month. The next meeting was agreed to be held at Ofgem on 26 October 2005.

Issues register

Ofgem introduced the issues register. This had been included as an appendix to the SLR Way Forward document and was to be used as an ongoing project discipline. The intention was to document issues raised for future reference and discussion. The issues register will be included on the Ofgem SLR Information Site.

The Steering Group requested that an issue be added to the register to reflect RB's concern that the proposed 12-week public consultation period for policy proposals coming out of the SLR (as suggested in the Ofgem Way Forward document) may be excessive given the high level of debate that would have already have taken place in the industry.

Action: Ofgem

Any other business

Ofgem thanked the ERA for the provision of a report on relevant general customer protection legislation. The aim of this report was to help inform workgroups about the implications of removing sector specific legislation and what alternative customer protections measures were in place. Ofgem agreed to circulate the report.

Action: Ofgem