

The Gas Forum



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30th September 2005

Dear Sir,

Ofgem's Five Year Strategy 2006-2011

The Gas Forum welcomes the opportunity to contribute towards the development of Ofgem's next five year strategy and offers the following views in the structure you requested. Naturally, the comments provided relate to the shipper and supplier view of the gas industry.

The Gas Forum has welcomed the use of impact assessments for significant industry changes and supports their continuing development. The introduction of a cost control for Ofgem is also supported as it should reinforce a cost control discipline on the regulator. Many Gas Forum members consider that Ofgem could be creating resource and financial constraints for the industry with many initiatives and consultations overlapping with each other. It will be important in the coming years to ensure that projects are better prioritised.

1. Key challenges facing the industry in the short to medium term

1.1 In our response to you last year, the Gas Forum noted that the most significant challenge faced by the industry is the degree of "churn" and uncertainty arising from the continuing extent and scope of proposed and actual change. We noted that while Gas Forum members were not resistant to change per se, they were very concerned that industry changes should not act to increase the complexity and operational costs of the regime.

The Gas Forum notes that the gas industry has been significantly restructured in the last 18 months with the introduction of the Reform of Gas Metering Arrangements (RGMA) and then the implementation of a new regime to accommodate National Grid's sale of four of its distribution networks.

Gas Forum members are concerned that increased complexity and uncertainty act to reduce effective competition. We are not convinced that Ofgem has fully understood these issues nor addressed them. As an example, much of the work for shippers and suppliers, in implementing costly and complex changes for internal and external processes occurs after Ofgem has made its final decision. However, Ofgem staff appear to consider that there is "breathing space" at these times to launch further projects and consultations.

1.2 Ofgem seeks views on whether there should be further evolution of metering policy. Gas Forum members do not support any new initiatives in the area in relation to gas metering. Our key recommendation is that Ofgem allows a period for the industry to settle and to focus resources on addressing the issues, which have inevitably arisen following this period of major

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upheaval. We note that the post DN Sale regime has not been completely implemented with metering processes for the new independent DNs being developed now. It is important to recognise that now competitive metering arrangements have been introduced, time is required to ensure that they are allowed to develop unhampered for the benefit of the consumer.

2. Action the Authority should take

2.1 Gas Forum members continue to believe that a key task for the Authority is to ensure that the principles of Better Regulation are adopted. We are aware of statements that Ofgem is following these principles but we consider more needs to be done to demonstrate that this is the case. Ofgem should make more effort to understand reasons why industry participants may not always consider that Ofgem has adhered to these principles. We continue to advocate an approach where Ofgem challenges itself by asking “is it beneficial to the customer?”, “is this work necessary?” and, if yes, “is it necessary now?”.

In a competitive market, Ofgem should allow the industry to take the lead in initiating change and become more reactive allowing energy markets to be more similar to other competitive markets. The Gas Forum is concerned that the large number of workgroups, workstreams, seminars etc make it difficult for any party to have a sufficiently robust overview of the extent of industry change. This disproportionately impacts smaller market participants who are unlikely to be able to justify the amount of regulatory resource required to respond to all developments that may materially impact their organisation.

Given the extensive number of meetings, workstreams etc, the Gas Forum recommends that Ofgem creates a calendar of meetings on its website. This should include all public meetings it holds and chairs with links to the agenda, terms of reference etc. The calendar will contribute to ensuring that all industry participants are aware of upcoming events. It would be helpful for the calendar to also link to other listings of regular meetings, such as those hosted by the Joint Office.

In relation to this, we are concerned that Ofgem staff often do not have a good understanding of the broad range of initiatives being undertaken in the gas and electricity industries. Many appear to only have knowledge of their own work area. Ofgem should take steps to ensure better understanding across its departments of all the initiatives underway. Often staff at meetings are often unable to participate in discussions. We find this unfortunate and it may be that more senior staff need to attend.

2.2 The Gas Forum has supported the introduction of impact assessments. However, we consider that more needs to be done to improve the quality of those done by Ofgem. We note that Ofgem carried out an internal review by one of its paid advisors but consider an independent external review should also be considered. The Forum considers that objective impact assessments based on sufficient detail and considering impact on all market players would remove the requirement for the industry to commission their own independent assessments. Otherwise unnecessary costs are borne by the industry.

2.3 We consider that a stable investment climate is key to ensuring on-going security of supply through diverse sources of gas. We continue to believe that we had a regime that was sufficiently robust for dealing with any potential difficulties. It is important for the Authority to demonstrate its confidence in the market by allowing it to work. Further, in areas such as the Winter Outlook reports, Ofgem needs to find a more inclusive approach ensuring that shippers, suppliers, consumers and transporters are involved before policy decisions are made.

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3. Priority Areas of work for the Authority

3.1 The priority for the Authority should continue to be to transform Ofgem into a reactive regulator concentrating on areas where ongoing work is necessary (such as price controls), investigating where complaints have been made and deciding on whether to approve (or not) changes proposed by the industry in line with its Gas Act responsibilities. The successful introduction of competition in supply and shipping of gas should result in Ofgem being able to withdraw more from intervention in the market and its development and allow for the reduction in staffing levels.

Ofgem appears to have a view on how it would like areas of the industry to develop but it remains the case that there is no clear overall picture available to the industry. We would welcome a clearer vision with the publication of the Proposed Corporate Strategy and Plan 2006-11.

The Gas Forum would welcome the opportunity to discuss any part of this consultation and looks forward to continuing to work with Ofgem over the coming years. We understand that there will be open access to Authority meetings and Forum members would welcome the opportunity to attend these discussions.

Yours sincerely,

Angela Love
Chair, Gas Forum