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Dear Ms Whittington

Initial Consultation: Gas Distribution Price Control Review

energywatch welcomes the opportunity to consider the issues raised by the initial consultation and to participating in the process going forward.

Process and timetable

We note Ofgem's intention to extend the current gas distribution price control by one year to 31 March 2008 with the application of the main five-year price control until 31 March 2013. We support this approach on two grounds. First, as a matter of process, we agree that it spreads out the workload for the various price control reviews covering gas transmission and distribution networks to allow the industry and Ofgem not to feel overburdened when considering the various proposals. Second, extending the price control allows a further year of actual data to be used in assessing the appropriate allowed revenues to be set under the main price control applying from 1 April 2008. Our only concern is that interactions, between networks as well as with other areas where reform is under consideration, such as revised offtake and interruptions regimes, should be given proper consideration in line with Ofgem's wider statutory duties, despite the different timescales for the various reviews and the progress of work under separate workstreams. Ofgem should seek to assess the impacts on costs holistically and ensure these are kept low in the interests of consumers.

We believe that the proposed process and timetable for the price control review is appropriate, allowing interested parties to make representations through consultation responses, seminars and other means such as meetings with Ofgem. We agree that the use of impact assessments as outlined would be appropriate, with specific impact assessments where necessary to deal with significant changes to the current control. Early sight of cost data would help to inform both the proposed one-year extension of the current control and the main five-year control.

RPI-X

We agree that the RPI-X form of price control remains relevant, given its impact to date in producing cost efficiencies. We also agree that a five-year main price control is an appropriate period of time over which the investment requirements of the distribution networks and cost reductions can be assessed and progressed. We note and agree with Ofgem that this review can be used to develop new forms of incentivisation for gas distribution networks (GDNs), particularly in seeking greater transparency of information from all owners of the GDNs. We look forward to working with Ofgem to put relevant incentives in place. The availability of improved information flows should be forthcoming now that there is a more competitive environment amongst GDNs.

Sharing of benefits with consumers

energywatch agrees that the price control is taking place at a time of increasing concern over rising gas prices and that it will be necessary to ensure that the control supports the work being done within Ofgem, energywatch and elsewhere to address the issue of fuel poverty. The review should consider what more can be done, for example, to extend gas networks so that low income families in communities that are not currently connected to gas mains are able to take advantage of cheaper heating and cooking options.

Equally, we consider the sharing of benefits with consumers to be an essential outcome of the recent sale of the GDNs by National Grid Gas (NGG). Consumers must be able to see the fruits of cost efficiencies provided by the separate ownership of networks over time, and this must be reflected in price control allowed revenues. Ofgem has estimated a net benefit to consumers of £225 million from the sales. We will scrutinise the detailed proposals for the extended and main price controls with care to assess whether Ofgem's estimates are reasonable and achievable and if not, why not. Greater competition between networks should have two effects – provision of meaningful comparative information about the operation of the various networks and the cost efficiencies achievable, and the development of a baseline for costs attributable to best practice which all networks should strive to achieve and which should be reflected in their allowed revenues.

Information provision

Information asymmetry should be less of an issue under a more competitive set of arrangements and we will examine whether a more transparent approach is being adopted by the GDNs going forward. We believe that GDNs must be more proactive in providing as much information as possible to consumers, whether this is through timely and accurate connection charging information and billing, keeping the most vulnerable customers adequately updated on supply interruptions, and generally ensuring that consumers understand their businesses and the role they play in providing gas supplies. An appropriate information incentive would be helpful in this regard.

General principles underpinning the review

We note and share Ofgem's concerns regarding safety, social, environmental and sustainable development considerations as part of the review. We would support appropriate emphasis on ensuring that consumers are provided with the highest level of safe delivery of gas at a reasonable cost. The price control should reflect safety as a key priority but in the context of an efficiently run network. Of greater immediate concern is the recent substantial increase in energy prices and the impact on consumers which reverses the trend in reducing fuel poverty, especially amongst the most vulnerable consumers. While we support provision of increased gas connections to consumers who currently lack access as a long-term priority, we are concerned that further short-term price rises may make this an uneconomic option. We would generally support any Ofgem investigation into the underlying causes for the increases in gas prices with a view to taking requisite measures where necessary to limit the impact on consumers. Access to gas provides many 'fuel poor' households with a real choice in meeting their heating needs. However, the choice must be one which reflects the true value of the commodity and is not inflated by anti-competitive market structures or uneconomic pricing.

Cost identification

We agree that Ofgem should use the cost reporting framework to assess, on a comparative basis, how the networks can achieve cost efficient operation, while also establishing clear output measures for quality of service to improve incentives on the gas DN's to minimise costs and meet the identified needs of consumers. While reducing regulatory risk for gas DN's should help them to focus on improving performance over the longer term, a proper balance will need to be struck to ensure that cost savings are passed back to consumers, and safe, high quality networks are delivered.

We agree that use of historical and forecast data on capex and opex will provide the best basis for considering how to set the one-year extension of the current price control, as well as helping to develop the main price control. Transparency of information should be a key aspect of the development of these controls, and allow the identification of new cost drivers requiring new incentives.

Standards of service

We support Ofgem's intent to gather the relevant data from the GDNs whether on costs or outputs, and allow adequate feedback from consumers on interruption of gas supplies as well as on connection charging and alterations to supply. It is important given the level of complaints and enquiries which energywatch observes has occurred around connection charging in particular, the lack of information provided by GDNs when supplies are interrupted, and the frequency of reinstatement works where consumers are not informed about the reasons for the works, that full cognisance is taken of consumers' views and their experience regarding standards of performance. We believe that this approach will help to develop more rigorous standards, incorporated into the price controls, against which to judge GDNs' performance in the future.

We also believe that GDNs should be much more responsive to consumers when they fail to meet the relevant standards, including prompt and appropriate compensation. We look forward to seeing the new owners of GDNs in particular taking a lead in effective application of guaranteed standards and working to ensure rapid and appropriate redress for consumers when things go wrong.

Going forward, we will continue to follow the progress of the price control review, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs