



taking care of the essentials

Ofgem's Corporate Strategy and Plan 2006 - 2011
January 2006 Consultation

A Centrica response

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Version No : 1.0
Status : Final
Issuing Authority : Centrica Industry & Regulatory
Date Issued : 27 February 2006

1 INTRODUCTION

Centrica welcomes the opportunity to contribute further to Ofgem's proposed strategy for the next five years ahead. We consider the Ofgem strategy document to be clear and coherent; moreover, we broadly support Ofgem's proposed approach to most of the key subject areas identified in its consultation.

Our response follows the seven key components into which Ofgem's consultation is divided: market competition, networks, security of supply, European affairs, environmental matters, fuel poverty, and better regulation. We have endeavoured to comment only on those issues which we feel warrant further consideration by Ofgem.

2. CREATING AND SUSTAINING COMPETITION

2.1 Does this theme remain valid

We believe that this theme remains valid. We fully support competition across the industry's value chain. As noted in the discussions at the Authority's open meeting on February 23, the retail market is now served by a range of suppliers, including six large well capitalised suppliers. Competition among those suppliers is vigorous and has yielded considerable product innovation.

2.2. Have Ofgem identified all the relevant issues with this theme

There are other areas where Ofgem can play a more active role in shaping industry processes and rules that would support the better operation of the competitive market. For instance, we anticipate that Ofgem will need to review the approach to access to exempted storage infrastructure, which (if present policies continue) is likely to be a much larger proportion of the total storage capacity by the end of the current strategic planning period.

2.3 Is Ofgem's approach to the challenges ahead the right one

We endorse Ofgem's objective of "*applying simple solutions where they are effective*". Given that objective, we would urge Ofgem to refrain from imposing overly complex arrangements unless they yield demonstrable and material economic benefit. For example, our view is that Ofgem should not pursue further consideration of an auction system for long term NTS exit capacity. That system is an unduly complex solution which has little industry support. In our view, scarce Ofgem and industry resources could be used more effectively in other areas.

We fully support metering competition, and welcome the review of policy options on which Ofgem is currently consulting. Any policy initiatives in this area must be rigorously analysed. It is particularly important that such analysis be applied to any policy options that retreat from market driven solutions and pre-empt consumer choice. We would therefore encourage the use of thorough regulatory impact assessments with respect to the range of policy options under consideration in respect of metering.

3. REGULATING NETWORK MONOPOLIES (AND STORAGE)

3.1 Does this theme remain valid

We believe that this theme remains valid.

3.2. Have Ofgem identified all the relevant issues with this theme

As mentioned above in section 2, we believe that the role of gas storage warrants greater attention in the Ofgem strategy document. Great Britain will likely become more dependent on storage facilities as the geographic sources of gas are located further from our shores. From a regulatory point of view, the key issues include sufficiently open access to new mid range storage and the application of effective UIOLI rules to all gas storage, whether subject to regulated TPA or not.

3.3 Is Ofgem's approach to the challenges ahead the right one

Last year saw a major structural change to the gas distribution sector with the sale of four regional companies. This is expected to deliver benefits through comparative regulation opportunities. We would strongly encourage Ofgem to take all reasonable steps, in the context of the GDPCR, to ensure that the expected benefits to customers and industry alike are realised on a timely basis.

The recent Capex projections made by transmission network operators for the period 2007-12 have increased dramatically vis-à-vis the current price control period. This increase should be reflected in the regulator's medium term strategy, since the allowance of such Capex would considerably affect end user prices. In particular, we suggest that Ofgem's strategy should reflect the wide-ranging consideration of possible regulatory approaches in the recent "Financing Networks" discussion paper issued jointly by Ofwat and Ofgem. Providing that important efficiency incentives are not thereby impaired, we believe that Ofgem should look at alternative approaches which could bring down the regulatory cost of capital needed to financing a major upturn in networks investment. In the pending price review processes (TPCR, GDPCR), however, the presumption appears to be that existing approaches will be largely "rolled over" into the next set of controls. We encourage Ofgem to reconsider this approach.

4. HELPING PROTECT THE SECURITY OF BRITAIN'S ENERGY SUPPLIES

4.1 Does this theme remain valid

We believe that this theme remains valid. We support the role that Ofgem plays in the security of supply arena.

4.2. Have Ofgem identified all the relevant issues with this theme

We suggest that the Ofgem strategy should take account of two additional considerations. First, Ofgem should ensure that its 'light touch regulation' of gas import infrastructure (both pipelines and LNG terminals) does not compromise the application of anti-hoarding measures such as UIOLI and secondary trading in gas capacity. Evidence from this winter suggests that the new regime is not yet fully effective and we would stress the importance of making further progress ahead of next winter (2006/7).

Second, security of supply issues increasingly have a cross-border dimension. In our view, this dimension is not adequately reflected in the strategy. For instance, the approach to energy emergency arrangements, where again there are important cross Member State impacts, is currently written from the GB perspective only. As noted in Part 5 below, we fully support Ofgem's increased engagement in European regulatory issues. In terms of the strategy, we would welcome more explicit recognition of the need for Ofgem to be proactive in monitoring the European aspects of security of supply, similar to what Ofgem already does regarding environmental policy issues.

4.3 Is Ofgem's approach to the challenges ahead the right one

We believe that Ofgem's approach should be tailored to reflect the inclusion of the additional issues referenced in 4.2

5. A LEADING VOICE IN EUROPE

5.1 Does this theme remain valid

We believe that this theme remains valid. We strongly welcome the high and increased level of engagement by Ofgem in respect of the continued development of European market liberalisation, especially in relation to DG Comp, DG Tren and ERGEG/CEER.

5.2. Have Ofgem identified all the relevant issues with this theme

We believe that Ofgem have identified all the relevant issues within the theme but there is a need for greater urgency in their resolution.

5.3 Is Ofgem's approach to the challenges ahead the right one

In our view, the approach set out within the strategy document does not fully reflect the full extent of the increased engagement which is necessary for Ofgem. For instance, we believe there should be more explicit reference to the important ERGEG roadmap process in the body of Ofgem's strategy document. That process will be of critical importance to the gas sector in the medium term. Moreover, Ofgem's timetable for European activity at Appendix 3 could be enhanced by reflecting more precisely the requirements of ERGEG's work plan. First, Q3 2006 is, in our view, too late as a target date for gaining commitment from other national regulators for the regional gas initiatives. Work on the regional gas initiatives is scheduled to start very shortly and a more appropriate target date would be end Q1 2006. Second, the review of hubs relevant to the G B gas market should be undertaken now (Q1 2006) and should not wait until Q4 2006 as stated in the action plan.

6. HELPING PROTECT THE ENVIRONMENT

6.1 Does this theme remain valid

We believe that this theme remains valid.

We recognise the level of involvement in Ofgem regarding environmental programmes, such as the Renewables Obligation and the Energy Efficiency Commitment.

6.2. Have Ofgem identified all the relevant issues with this theme

Environmental issues will undoubtedly be highlighted in the output from the current Energy Review. Accordingly, we anticipate that, following the Energy Review, there will be a need and an opportunity for Ofgem to consider further its role vis-à-vis environmental issues. Those issues could include the regulatory implications of both: a) carbon capture and storage, and b) the potential wide-scale deployment of new technologies such as micro-generation.

6.3 Is Ofgem's approach to the challenges ahead the right one

There will be a need to revisit this issue following the completion of the energy review

7. HELPING TO TACKLE FUEL POVERTY

7.1 Does this theme remain valid

We believe that this theme remains valid.

7.2 Have Ofgem identified all the relevant issues with this theme

We believe Ofgem has identified all the relevant issues with this theme

7.3 Is Ofgem's approach to the challenges ahead the right one

Energy suppliers are doing much, on a voluntary basis, to address the need of vulnerable customers. Whilst Government continues to rely heavily on energy suppliers to address fuel poverty, there is a hazard that efforts to enhance fuel poverty protection through further prescriptive regulation may dampen innovation. Accordingly, we would encourage Ofgem to continue to 'work with' suppliers, and to ensure that any formal measures adopted are proportionate.

Furthermore, Ofgem should mirror its central role in Europe's debate on energy and the environment into the social arena, to espouse best practice in supporting vulnerable customers in a manner which does not compromise effective market mechanisms. With full market opening in 2007, the protection of customers will become a more important issue for regulators and governments across Europe, but must not create obstacles for the operation of effective competitive markets.

8. BETTER REGULATION

8.1 Does this theme remain valid

We believe that this theme remains valid. We support Ofgem's work on better regulation, A clear example of that work is the Supply Licence Review. In this we urge Ofgem to manage a radical and comprehensive review of regulation, and to bring about a material reduction in the burden to companies and with it a lowering of the cost to customers.

8.2 Have Ofgem identified all the relevant issues with this theme

Please see Part 8.4 below.

8.3 Is Ofgem's approach to the challenges ahead the right one

We support Ofgem's commitment in Project Paperless and in particular the improvements to document clarity. In this context, we would applaud the strategy document itself as a model of clarity.

However, a move towards document simplification should not in itself be a means to an end, i.e. should not compromise transparency. For example, additional use of workshops and seminars will assist in preparing for upcoming consultations. That said, we have experienced an increase in stakeholder involvement, via Ofgem workshops and seminars, and we would therefore encourage this to continue and be expanded upon. However, it is not always the case that sufficient time is allowed to respond to either consultations or information requests, and we would like to see an increased commitment from Ofgem towards a standard consultation period where ever this was practicable. Setting appropriate performance targets would help in this respect.

With regard to Ofgem's website, we would agree that further redesign and enhancement would be very helpful, particularly with regard to navigation around subject matters and document finding.

8.4 Are there any licence conditions or obligations that pose an unnecessary administrative burden

Ofgem need to ensure the right balance between burden and protection. In many cases we cannot say that obligations should be removed without considering the broader picture. There are though areas such as must inspect and must read obligations which in our view should be removed.

Additionally though Ofgem should ensure that existing processes and governance arrangements provide sufficient assurance. Areas of specific concern include theft, RBD and AQ review processes. Whilst these may not generate headline grabbing stories, they can all be improved to enable significant reductions overall costs to the industry and its customers

Centrica/Industry & Regulation/CRh&SB/27Feb2006