

The Gas Forum



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Dear Sir,

RE: Gas Forum reponse to Ofgem's Corporate Strategy and Plan 2006-2011

The Gas Forum welcomes the opportunity to contribute towards the continuing development of Ofgem's 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 and the introduction of a cost control for Ofgem as a useful discipline on the regulator. Many Gas Forum members continue to believe that Ofgem can create resource and financial constraints for the industry with multiple, overlapping initiatives and consultations and the importance of ensuring that projects are better prioritised is paramount. To this end, it is of concern that the currently centralised Strategy function is to be reallocated across policy divisions.

1. Do the themes remain valid?

The Gas Forum agrees the themes identified within the consultation document remain valid. However, the Forum would urge that Ofgem prioritise these themes and issues in order of importance. 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. In 2005, Ofgem published 295 documents, more than one per working day. This issue is underlined by the present consultation (Appendix 3) indicating major change for the coming year with twelve consultation and proposal documents planned to be published, many of which appear to be overlapping, e.g. six consultations are to be issued in Q2. Last year 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 effects from the significant restructuring of the gas industry with the introduction of the Reform of Gas Metering Arrangements (RGMA) and the new regime to accommodate National Grid's sale of four of its distribution networks are not fully assimilated and continue to affect Gas Forum members. We are concerned that increased complexity and uncertainty can act to reduce effective competition and remain unconvinced that Ofgem has fully understood these issues. As we have previously pointed out, much of the work for shippers and suppliers, in implementing costly and complex changes in the gas and electricity industries occurs only after Ofgem has made its final decision. However, Ofgem appears to

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consider that there is “breathing space” at these times in which it can launch further projects and consultations.

We are concerned that some Ofgem staff may not have a good understanding of the broad range of initiatives being undertaken or of how changes in gas and electricity industries impact upon market participants. The Forum is of the belief that many Ofgem staff appear to only have knowledge of their own work area and it would be beneficial for Ofgem to promote greater interaction and exchange of views in order to understand the effect and relationships between each consultation and between the fuels.

2. Have we identified all the relevant issues within each theme?

The consultation illustrates a number of relevant issues but they are continually changing, therefore the document is merely a snapshot of current relevant issues, which Ofgem needs to be aware of. In a recent meeting between the Gas Forum and Ofgem, it was indicated that a consultation to review Reconciliation by Difference (RbD) would be published this month. The Forum would question why Ofgem is to carry out the review. Should any party have wanted to review RbD, this could have been done via a modification proposal. It is the Forum's view that any review of RbD would be better steered by the industry rather than Ofgem

An issue of importance to Gas Forum members not identified in the consultation document is that of governance. For example there has been a raft of modification proposals connected with emergency arrangements for winter 2005/06. Fourteen modification proposals were raised, with eleven being granted Urgent status in the space of six months. Many of these successive proposals were aimed at addressing shortcomings introduced by earlier modifications and all were subject to curtailed consultation. The Gas Forum believes that urgent treatment of a modification proposal is no substitute for careful planning and thorough consultation and is further concerned at Ofgem's use of its powers to disallow the right of appeal in respect of two of these proposals.

Ofgem is proposing further evolution of metering policy. We note Ofgem's consultation on smart metering and support the introduction of this in principle. If this is a priority area in Ofgem's view, then other projects should be put on the back burner. Furthermore, any outcome of such a review should not complicate an already complex area.

3. Is Ofgem's approach to the challenges ahead the right one?

Gas Forum members continue to believe that a key task for Ofgem is to ensure that it takes care to review where and when it can adopt a light touch regulatory approach in withdrawing from active participation in development of the markets. We continue to advocate an approach where Ofgem challenges itself before embarking on any initiative 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 facilitate discussion, allowing 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.

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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 have a regime that is sufficiently robust for dealing with any potential difficulties. It is important for Ofgem 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.

4. Are there any licence conditions or other obligations that impose an unnecessary administrative burden?

The Supply Licence Review presents an opportunity for significant deregulation of the domestic supply market. The Forum is of the belief that the review is necessary and many members are individually engaged in discussions on this matter. For the non-domestic supply market, most members consider that the Efficient Use of Gas condition is redundant as these activities are carried out by the Carbon Trust.

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. This is clearly recognised by Ofgem in terms of its strategy to increasingly look to rely on self-regulation. However, our members continue to see little evidence of this in practice.

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 still no clear overall picture available to the industry.

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.

Yours sincerely,

Angela Love
Chair, Gas Forum