

GDPCR Industry Seminar Q&A session - 23 January 2006

This document provides a brief summary of the Q&A Panel session which took place at the end of the seminar. The Panel consisted of David Gray, Joanna Whittington and Chris Watts from Ofgem, Alex Wiseman (Northern Gas Networks) and Alison Russell (Centrica).

Ofgem were asked whether they had done any customer willingness to pay research in considering the developments to the Guaranteed Standards of Performance (GSOP). Chris Watts (CW) replied that Ofgem had not and Joanna Whittington (JW) stated that although Ofgem had used this research in electricity distribution it had not been clear that there was value in such an approach for gas distribution. She noted that it was more important to improve the robustness of the data on performance across quality of service measures before considering this further.

David Gray (DG) noted that the customer research that had been undertaken had indicated that in broad terms customers were content with GDNs performance but where this tended to fall down was in cases where things had gone wrong. In these cases GDNs had not responded well and customers had received poor experiences. One attendee supported this view and said that customer research needs to take a different approach, i.e. focus on companies' attitudes when responding to customer requests. CW stated that ex-post event surveys are good as they give more informed responses. He also said that Ofgem is moving towards ongoing ex-post event surveys.

The panel was asked if GDNs do any of their own customer research. Alex Wiseman (AW) said that his company is starting to look at ways to do surveys. He also said that NGN has started to post customer questionnaires through their doors immediately after an event to get rapid feedback.

Ofgem were asked if constructive engagement (similar to that undertaken by the CAA) has a role in the regulatory process within gas distribution. JW replied that Ofgem were using this approach explicitly in considering the funding of xoserve through the 'industry dialogue' but had no plans to use this approach elsewhere. She noted that such an approach although valuable put a large burden on the industry. However, JW told the group that Ofgem will be using alternative ways of engaging the industry such as holding a workshop on GDN costs and quality of service after publication of the fourth consultation document.

DG said that in general when Ofgem begins a review it will decide what aspects of the review can be covered by using constructive engagement. DG said that there are various aspects of what Ofgem does that it is not best placed to do however sometimes it is convenient for Ofgem to do rather than the industry. He said that this needs to be challenged and that Ofgem will seek ways to get more industry involvement and agreement.

An attendee involved in the xoserve industry dialogue noted that this approach is resource intensive and that engagement needs to be done at the right level in organisations to ensure the dialogue generated results. He noted that although views have come together on xoserve and a draft report is waiting to be agreed by the group, the views may not be what Ofgem envisaged and asked how this would be taken forward. JW said that if the view of the group was not consistent with Ofgem's principal objective to protect the interests of customers then the proposals will not be taken forward. She said that the next step is for Ofgem to consider the draft report and provide feedback on what it would be willing to take

forward. She reiterated that Ofgem's legal framework sits above constructive engagement.

An attendee said that prior to DN sales, a major concern was quality of service, and that with new owners there was concern that costs would be cut leading to a smaller workforce meaning worse performance in terms of quality of service. He also expressed concern over the robustness of the performance data and statistics before and after DN sales. JW said that since 2002, things have improved regarding performance data with the new reporting arrangements. JW also stated that it is complicated to audit this information (partly due to legacy issues) and there is an opportunity to make it better. DG stated that he did not share the concern that a low cost company meant that it has low quality of service. DG said further that as there are more owners, there will be more evidence to improve the balance of incentives and that Ofgem sends clear messages that letting quality of service suffer is not a way to regulate going forward.

An attendee asked the panel whether the proposed options to facilitate network extensions will benefit customers and whether Ofgem has done any surveys targeted at non-gas customers. JW replied that Ofgem is not considering promoting network extensions on a wide-scale basis and that any changes (whether charging or incentives) to facilitate network extensions would be restricted to fuel poor communities who are relatively close to the existing network. She said that there are three main options – two of which are related to the charging options proposed by GDNs and the third an incentive arrangement. JW finally said that more analysis including a full cost benefit analysis will be undertaken and included in the May initial proposals document.

Ofgem was asked whether there is any scope for including a mechanism to incentivise the sharing of best practices across GDNs. JW replied by saying that Ofgem prefers using comparative competition to set cost allowances as it provides incentives for GDNs to compete against each other. In this way they are not limited to only benchmarking against each other but should be seeking to identify best practice from a broader range of companies and industries. AW said that if a GDN is doing better than his company in an area then NGN would adopt their approach or modify their own. He also said that he expects efficiency improvements to develop faster under separate ownership.

One attendee asked Ofgem how it intends to set the capacity output incentives and exit arrangements. DG said that this is the most difficult issue in GDPCR and that Ofgem has ideas on how to make them work but they require development with the industry. JW said that a big concern is their interaction with areas of GDPCR and that Ofgem will be publishing an open letter setting out the timetable to manage this interaction shortly.

One attendee stated support for Alison Russell's presentation: in particular, he agreed that there should be more transparency from the GDNs. He noted that the large increases in allowed revenue have increased variability in charges, which could further increase in the future. He stated that Ofgem needs to be aware of this variability because predictability is important to shippers/suppliers. JW stated that Ofgem is conscious of this and that it is not wedded to all of the incentive schemes discussed at today's seminar and seeks views from parties on these issues.