

Joanna Whittington
Director – Gas Distribution
Ofgem
9 Millbank
London
SW1P 3GE
GDPCR@ofgem.gov.uk

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Dear Joanna

Gas Distribution Price Control Review (GDPCR) updated proposals document: consultation

energywatch welcomes the opportunity to respond to the issues raised in this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem website.

Gas consumers expect the delivery of safe, secure and reliable supplies in an efficient and economic manner. The gas distribution networks (DNs) are licensed to meet consumer expectations and Ofgem, through the price control review, should ensure that consumers' interests are protected. We continue to welcome progress in improving customer service as reflected through the use of firm licence obligations, incentives, customer satisfaction surveys and benchmarking of performance against which DN's will be judged over the next price control period.

Quality of service issues

We are strongly supportive of Ofgem's approach in developing a more formal regulatory framework (through guaranteed standards and licence conditions) for quality of service, ensuring that consumer detriment is effectively addressed by the DN's through appropriate standards of performance. We believe that there is a real benefit to the DN's themselves of pursuing a more effective and proactive customer service strategy. The argument of DN's that a tightening of standards through the current proposals unnecessarily penalises them fails to recognise that consumer detriment will remain until the cause is effectively resolved by the DN.

Relaxing the proposed standards will invite a poor response, ongoing detriment, which may have safety implications in the worst cases, and a failure to incentivise. Conversely, by dealing effectively with consumers' complaints and enquiries first time and every time (the standard to which the best performing DN's should always aspire out with any cases of genuinely exceptional circumstances), there is both a reputational and cost reduction benefit for DN's.

The clear reputational benefit is that consumers will rate those DNs who deal most effectively and on a timely basis with their complaint or enquiry much more highly through the customer satisfaction surveys. This in itself creates a competitive advantage which the DNs can point to so long as they continue to keep their service standards high. The cost reduction benefit is that the cost to serve consumers falls through the deployment of more efficient systems and processes for addressing complaint handling. Consumers must also share in the benefit of those cost savings over time through the reduction in opex costs that ought to result.

In respect of providing a substantive response to consumers' written and verbal complaints, we believe that the DNs ought to be able to make an adequate assessment immediately after the initial customer contact of how the detriment ought to be remedied and, at the very least, inform the consumer of the action to be taken thereafter. The main purpose of the initial DN contact should be to provide assurance and comfort to consumers, particularly the most vulnerable, that they are valued and being listened to. The matter should then be rectified (the substantive response) within the 10 or 20 working day period after the initial contact, verifiable exceptional circumstances permitting. If the issue can be resolved on the initial contact with the consumer, that ought to represent the substantive response.

We note the concerns expressed regarding failures on the DN networks which may have wider effects, for example, loss of supply or interruptions on IGT networks. We believe that consumers on IGT networks should not suffer any detriment simply because they are connected to those networks, as there are potential safety implications involved, not just issues around the performance of the DN concerned, who the failure is recorded against, and who pays compensation and within what timescale. With the gradual increase in the number of IGT networks over time, there is real urgency required in ensuring that IGTs and the DNs work together effectively towards establishing a minimum high threshold in both the quality and consistency of data which these parties hold about consumers connected to their networks and how they practically address interruptions and other detriment issues.

Consumers connected to IGT networks tell us of the problems they face in locating the correct contacts when issues arise with their supply or in an emergency situation. Progress should be made to implement timely solutions which reduce the potential for consumer detriment either voluntarily through industry codes, or, if necessary, by Ofgem intervening through the use of formal licence obligations on the relevant parties. We have noted that various IGT UNC and UNC modifications and review proposals are looking at how data flows between parties. However, this is limited to addressing the reconciliation of supply point records so as to resolve billing disputes between IGTs and suppliers/shippers. We expect the various industry parties to recognise the importance of developing more effective communication links and data quality and consistency between themselves. Otherwise there is a substantive and real adverse effect on consumers and the service they receive.

We note the various comments of the DNs on the need to keep accurate pipeline records. It seems obvious that this activity should be part of the normal business of a DN, not least as it relates to effective and efficient asset management and has a real impact on a DN's ability to undertake new and replacement work on its network.

The failure of DNs to keep accurate records will create considerable safety implications for consumers. The DNs should be mindful of their responsibilities to consumers' safety and the quality of service arrangements must reflect the requirement of the DNs to act appropriately in this respect.

We agree that there should be no further financial provision for the quality of service arrangements. DNs must make adequate provision through their current resources for effective consumer complaint handling. We have already noted that the DNs can systematically improve their performance and make savings through a substantively more customer-focused approach.

We believe that consumers, particularly domestic consumers, require adequate protection whether they are connected to the DN networks, private networks or sub-deduct networks. Ofgem must ensure that protection, especially where safety issues may arise, is maintained. While we note Ofgem's view that any decisions on the adoption of non-DN networks ought to be considered only after full information is available, we believe that this should be gathered in an efficient manner. If it possible to avoid increasing costs to all consumers further, this ought to be assessed.

Cost issues

We note that since the last set of proposals, and with the availability of revised data from the DNs, Ofgem has sought to identify operating, capital and replacement costs which DNs may efficiently incur and recover over 2008-13, through the use of various benchmarking techniques. However, we believe that even the use of this approach fails to fully reflect where efficiency savings are already being made and where these could be made in the future. If the approaches adopted by some DNs to deliver services, such as outsourcing, provide incremental savings, those savings will be kept by the DNs until the next price control review rather than more immediately shared with consumers. Consumers should obtain a greater share of the savings that were expected after the sale of four of the gas networks in May 2005.

The overall effect of the updated proposals remains that consumers still must pay more. This is despite two years in which the DNs have been operating in an actual competitive environment and there has been scope for identifying ways of reducing costs. The new owners who acquired networks in 2005 would have done so with a view to making effective cost savings and some are already implementing strategies to realise benefits. A share in those savings remains undelivered to consumers with the current proposals. Ofgem must recognise that the 2007/08 allowances were significantly higher than those in the previous price control period and are not being offset by any reductions in allowances over 2008-13. Instead, even a modest increase of £1 per annum in the next price control period adds to, and does not reduce, the average domestic consumer's bill.

The updated proposals are not yet finalised and we note that some of the DNs are to provide further evidence that they believe should allow them to recover additional costs or offset some costs against others, e.g. NGG's view that lower capex allowances may be offset by higher opex allowances and uncertainties around the costs of riser replacement. Ofgem must vigorously scrutinise additional evidence

presented before the updated proposals are finalised and ensure that further putative increases relate to efficiently incurred expenditure only. We note that Ofgem has already taken a view on a number of capex and repex projects which can be deferred without adversely affecting the efficient and economic operation of the networks. We expect Ofgem to disallow expenditure without clear evidence that it would create inefficient operation and result in consumer detriment.

Sustainable development issues

We support the use of incentives on DNs to both reduce leakage of gas and the environmental impact of gas emissions which will provide benefits to consumers through lower costs and sustainable gas supplies. This is particularly important at a time when uncertainty remains around the reliability and security of future gas supplies. It is in the interests of all consumers for the DNs to maximise the use of existing supplies, while ensuring that consumers have access to gas which is not causing environmental harm.

Changes to the shrinkage arrangements and the need to gather reliable data through adequate reporting of actual shrinkage ought to be subject to Ofgem oversight. We support effective governance through the licence of future changes which result from the reporting of actual shrinkage levels and the potential for adjustments to individual DNs' shrinkage factors. Ofgem should have the ability to veto changes proposed by the DNs to their shrinkage models.

We noted a number of concerns in relation to Ofgem's initial proposals on the incentivisation of network extensions, e.g. the potential problems with using the Index of Multiple Deprivation (IMD), the need to involve consumer input in the oversight of discretionary rewards. We continue to hold these concerns. We believe that the rural fuel poor, who would benefit most from network extensions, may miss out on the benefits that Ofgem is seeking to incentivise if the IMD remains the basis for assessing fuel poverty. The need for effective scrutiny of projects and robust criteria against which the DNs should seek to deliver the social and environmental benefits of network extensions is critical to the success implementation of any reward scheme on behalf of consumers.

We support the use of discretionary rewards for DNs who innovate either alone or in collaboration with each other. However, Ofgem must ensure that the criteria applied to rewards are transparent, consistent with sustainable development objectives, can be monitored and reviewed to ensure funds are used efficiently, and do not create an overlap with other incentives so as to prevent DNs being rewarded twice over. The best practice which results from the development of innovative techniques ought to have wider application for the benefit of all consumers without removing incentives on DNs to continue to innovate further in order to attain a competitive advantage.

Other issues

We have responded to BERR's consultation on independent gas systems. We believe that consumers connected to these systems should continue to enjoy the same benefits of competition that all consumers connected to the main networks do.

We await Ofgem's final proposals on the price control review in December with interest, taking into consideration the possible impact on consumers particularly of the financial settlement. We will comment on the licensing changes required to implement the price control separately.

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