

The Gas Forum



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Dear Andrew

Gas Forum Response to Ofgem's Letter - Five Year Strategy 2008-2013

Thank you for the opportunity to comment on Ofgem's strategy for the next five years. Our response seeks to address the various questions raised in your letter dated 6th August. We have listed the key challenges that face the Gas Industry and how we feel these should be addressed.

The Gas Forum welcomes Ofgem's achievements so far in 2007; in particular the engagement with industry through the Distribution Price Control Review. However we believe that there are still several issues that Ofgem need to address to further facilitate their objectives of promoting competition and regulating the monopoly companies which run the gas and electricity networks.

Creating and Sustaining Competition

We feel that Ofgem should focus its activities upon regulating monopolies as opposed to seeking further refinements to well established competitive markets. We believe Ofgem should respond to industry driven change rather than driving its own reform agenda.

As we have stated previously, the UNC is a contract between Gas Shippers and Network Operators, introduced to ensure fair and non-discriminatory third party access to networks, and therefore facilitate competition. Ofgem's role in the UNC should be to decide whether or not to approve changes proposed by UNC signatories in line with the "Relevant Objectives", as opposed to promoting reform to the UNC arrangements themselves.

Currently the Gas Forum Shipper Group has regular meetings with the relevant Ofgem staff to discuss existing issues and areas of the industry where change is needed. We feel that this approach of working with the regulator to discuss and develop proposals prior to Industry change being proposed would better facilitate both the role of Ofgem to promote effective competition and the role of the Gas Forum to serve the interests of its members.

An example of this is the recent review of gas offtake arrangements where we believe that had Ofgem listened to the concerns of Shippers, Suppliers and customer organisations earlier, a lengthy Competition Commission investigation could have been avoided.

Regulating Networks Effectively

Although the Competition Commission quashed GEMA's decisions to implement Mod 0116V, the issue of Exit Regime Reform remains as they did not order that 0116A (or the other variants) should be implemented. The Gas Forum feels that a great deal of thought needs to be given to the enduring Exit Regime, with consideration being given to Shippers, Suppliers,

customer organisations as well as Transporters and National Grid in their role as System Operator.

The Gas Forum welcomes Ofgem's re-consultation of the Entry Capacity Baselines. Again however, we feel that had the significant changes in baselines at a number of terminals in the Final Proposals (after the point at which Shippers could comment) had been reissued for full consultation; this further work would not be required. The Gas Forum hopes that the current review will take in to account all relevant industry participants and ensure that no changes to the proposals are made after the final period of consultation.

We would like to see more rigorous and visible scrutiny of the of Network Owners charges, especially within the various price controls. A more transparent view of how values are set and monitored would offer a great deal of reassurance to the wider industry.

Furthermore, we feel there should be more assertive regulation of the Independent Gas Transporters as this sector of the industry grows. This should include a review of compliance to the iGT UNC and enforcement action where necessary.

Finally in terms of networks, the UK Link system is at the centre of the GB competitive gas industry. The Gas Forum would like Ofgem to ensure that there is full engagement by both the Transporters and xoserve with regard to the shaping of the proposed replacement for this system by 2012.

A Leading Voice in Europe

As you are aware the Gas Forum represents companies with a wide range of views on European issues, however we fully support the continuing work to push for a transparent and stable regulatory framework across the European Union.

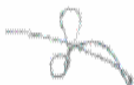
Enduring Security of Supply

National Grid's Winter Outlook Report for 2007– 2008 highlights that the Supply/Demand position for this forthcoming winter is significantly more comfortable than in previous years. Proposed new infrastructure has either been delivered when expected or is in line with expectations. However, as Steve Smith highlighted in his presentation at the TBE Seminar in July, there still remain significant challenges surrounding network capacity and European developments that Ofgem and our members need to remain focused on in order to ensure security of supply for the longer term.

In summary, the Gas Forum supports Ofgem's commitment to better regulation and the regulatory achievements highlighted in your letter. However, we do believe that there remains room for improvement, specifically with regards to proportionality and engagement with all industry participants. We feel that as the regulator, Ofgem should be more active working with industry to develop solutions rather than favouring its preferred solution. Further more we feel that Ofgem should take a less activist approach in areas such as markets, exit and entry reform.

We hope you will take these comments in the constructive manner in which they are meant, and look forward to continue to work with Ofgem in the future.

Yours sincerely



Steve Briggs

Chairman
The Gas Forum