

Ref: AW/PW/087

Andrew MacFaul
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Dear Andy

NGN welcomes the opportunity to provide comments on Ofgem's Corporate Strategy and Plan 2008-13.

Question 1: Are the proposed themes suitable?

All the seven themes identified remain valid.

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

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

These questions are considered below focussing on gas related issues for each theme.

Creating and sustaining competition

There has been much concern in recent months that competition may not be working effectively in UK energy supply to keep prices at an appropriate level. We welcome yesterday's announcement of an investigation into the energy markets. Ofgem must continue to monitor both wholesale and retail markets to ensure that they are fully competitive.

Regulating networks effectively

Monopoly networks require regulation and this appears to be working effectively to improve customer service and to reduce costs.

NGN is committed to benchmark regulation and consequently supports the cost reporting project to ensure that robust comparative information is available.

However NGN is less supportive of Ofgem's proposal to consider indexing the allowance for the cost of debt to measures of the market cost of debt. Infrastructure businesses with long-life assets need to take a long term view of debt markets. Indexing would result in a radical change in how companies finance themselves. Companies can, and do, protect themselves against movements in the debt market. Customers are strongly protected by the ring-fencing arrangements and it would be inappropriate for regulators to influence more strongly how companies finance their functions.

We welcome the incentive based approach to implementing Ofgem and Government objectives, for example to improve customer service, encourage innovation, incentivise network extensions to fuel poor communities and reduce methane emissions.

Protecting security of supply

As the UK becomes more reliant on imports, ensuring the security of gas supply becomes more important. Consequently we welcome Ofgem's approach in seeking to remove market barriers, and using incentive-based regulation as a means of delivering appropriate outcomes.

Leading voice in Europe

NGN welcomes Ofgem's contribution to developing competitive European energy supply markets. We recognise the high profile that Ofgem has in Europe. Ofgem needs to continue to work actively in Europe to promote competition, encourage enforcement of legislation on deregulation and hence ensure that gas is transmitted across Europe on a fair and non-discriminatory basis. NGN also supports Ofgem's stance on full unbundling of transmission networks.

A potential danger over the next few years is a growth in EU regulation of UK networks and Ofgem needs to ensure that conflicting requirements aren't placed on UK companies by regulatory requirements at both a UK and European level.

Sustainable development

Ofgem is effectively executing its duties relating to the environment and sustainable development, for example in developing an environmental emissions incentive on GDNs.

Tackling fuel poverty

NGN welcomes Ofgem's measures in GDPCR to tackle fuel poverty by incentivising networks to extend networks to the fuel poor and to implement a reward scheme that can contribute to GDN measures to address fuel poverty.

Better Regulation

The improvements proposed in Impact Assessments are welcome and in particular the commitment to undertake post-implementation reviews.

Although now may be an appropriate time to review industry code governance, NGN believes that code governance is working well in gas; Ofgem must be careful to avoid imposing additional requirements on networks unless it can clearly demonstrate that customer benefits will result.

NGN notes the reviews recently completed of gas and electricity supply licences and would urge Ofgem to undertake a similar review of GDN licences. There are obligations on networks discussed more fully in answering question 4 below where it is unclear that there is any material customer benefit.

Question 4: Are there any other activities that we should include in the Simplification Plan?

NGN wholeheartedly endorses the simplification plan. Clear and concise regulation should be part of the principles of better regulation and should lead to lower costs for Ofgem and licence holders and hence for customers.

As noted above, the simplification plan should include a review of the gas distribution licence in 2008. The licence was developed from the previous Transco licence to ensure that the sale of

gas distribution businesses was as smooth and as rapid as possible but without full review of the appropriateness of the conditions to a distribution business. This was the correct decision at the time but it has led to a number of conditions within the gas distribution licences that provide little or no customer benefits but increase the obligations on GDNs. Examples include metering obligations (A10, A43, A46, E5) and system management services (D5). A full review is required to ensure that obligations are appropriate and efficient.

Ofgem should also consider reducing the information burden on networks as part of its simplification plan. NGN recognises that good regulation requires detailed data from networks and welcomes the gas cost reporting project that should ensure consistency across networks. Nevertheless, we feel that some of the information submitted is never utilised by Ofgem and that less onerous data requests would prove beneficial to Ofgem and to GDNs without comprising Ofgem's ability to regulate effectively.

Question 5: Are there any areas of regulation that we should review to ensure that our approach is proportionate to the risk? Question 6: Are there any areas of regulation that you consider to be an unnecessary burden that should be removed?

Onerous regulatory requirements are discussed above in the answer to question 4.

A further obligation on gas networks that seems to us completely unnecessary is the requirement to purchase shrinkage gas. This results in NGN daily tracking gas prices to manage risk against the allowance and against our budget – an activity that seems inappropriate for a low risk network utility. It is noteworthy that the electricity DNOs are incentivised to reduce losses without having to make physical purchases of electricity. Now that GDNs have an environmental emissions incentive to reduce leakage, this could easily be increased to cover the cost of purchasing gas and extended to cover theft of gas and own use gas. The incentive on GDNs to reduce shrinkage would be unchanged and the result would be a reduction in complexity, costs and risks for GDNs which would result in lower costs for customers.

I would be happy to discuss the contents of this letter further with you if that would be helpful.

Yours sincerely

A handwritten signature in black ink that reads "Alex Wiseman". The signature is written in a cursive style with a long, sweeping underline.

Alex Wiseman
Regulation Director