



British Gas

Looking after your world

18th February 2015

Mr Dermot Nolan
Chief Executive
Ofgem
9 Millbank
London
SW1P 3GE

Ian Peters
Managing Director, British Gas
Lakeside West
30 The Causeway
Staines
Middlesex
TW18 3BY
T 01784 874195
ian.peters@britishgas.co.uk
britishgas.co.uk

Dear *Dermot*,

Ofgem's Forward Work Programme 2015-16: draft for consultation

Thank you for the opportunity to provide views on Ofgem's draft Forward Work Programme for 2015-16. This response is submitted on behalf of the Centrica group, is non-confidential and may be placed in the public domain.

Centrica welcomes the visibility of Ofgem's priorities and activities that the Forward Work Programme (FWP) provides, and the contribution it makes to a predictable regulatory regime. As well as allowing the energy industry to plan resources and raise any concerns, it enables stakeholders to identify opportunities to work with Ofgem and others to improve outcomes for customers. We have highlighted some examples below. More generally, Centrica is keen to have an open and constructive dialogue with Ofgem on all matters, and believes that the outcomes of this engagement will play a part in improving trust in the industry as a whole.

The main part of this document draws out some key themes from Ofgem's FWP that Centrica would like to comment on, and the appendix provides more detail on some specific areas.

- **Working together to improve customer outcomes.** Whilst there are many opportunities for collaborative working outlined in the FWP, we would like to highlight the potential shift towards Principles-Based Regulation (PBR) and Change of Supplier Reform. With respect to the former, we appreciate Ofgem's recognition that some prescriptive standards, while well-intentioned, may constrain the ability of suppliers to innovate and meet changing consumer needs and expectations. We would like to work with Ofgem to map out and attain the right conditions for a more principles-based approach, and identify the areas where more flexibility would be beneficial in the immediate and longer term. On Change of Supplier Reform, we are excited about the potential that faster switching has to promote consumer engagement and enhance competition. This is a significant programme that will require buy in from stakeholders across the industry. Centrica is ready to play its part in helping to ensure that changes are delivered in a timely way, whilst minimising costs to consumers and not compromising on reliability.
- **Ofgem's activity during the CMA Market Investigation (MI).** Centrica welcomes the fact that Ofgem has recognised the need to ensure the integrity of the MI by withdrawing from the areas encompassed by the MI reference. This is required in order to avoid the risk of dual or conflicting regulation, thus enhancing certainty. The MI also means that it will be more difficult to know the effect of a proposed change in the areas that the CMA

is looking at, and therefore the expectation is that we will see fewer interventions of any size during the period of the MI and the immediate period thereafter. Centrica also welcomes Ofgem's confirmation that it will not "pursue policies that involve significant imposition or redistribution of costs among consumers"; these are decisions for democratically elected representatives.

- **The content, timing and presentation of any "annual report on state of retail energy markets"**. The joint Ofgem/OFT/CMA State of the Market Report of 2014 led to a consultation on the MI Reference, and was a unique exercise. For similar reasons as outlined in the paragraph immediately above, Ofgem should ensure that any 2015 report is not confused with the MI in content, timing and presentation. To help achieve this, any 2015 report should be descriptive and present the facts rather than be evaluative, and focus on the impact of RMR information remedies.
- **Market data that is published should be accurate and fairly represented.** Ofgem has said that it would like to build trust "through increasing transparency of prices, costs, profits and customer service in the energy market". Centrica agrees that publication of data may help to achieve this aim, but only if the information is accurate, statistically robust and correctly represented to consumers by third parties as well as Ofgem. Where these criteria are not fulfilled, Centrica believes that publication should be reconsidered. In every case, the potential effects on competition should also be closely scrutinised.
- **The importance of good regulatory processes.** Centrica warmly welcomes Ofgem's aim to foster "trust and confidence across the energy market through transparency, accountability and good regulatory processes". Centrica will continue to expect Ofgem to ensure that any policy decisions are preceded by formal consultation, serious consideration of alternatives and quantitative impact assessment. If Ofgem wishes to establish a view or decision on a matter of policy, then the normal consultation process should be followed rather than by issuing "Open Letters", the status of which is uncertain. On the importance of transparency in decision-making, this should also apply to the setting of any financial penalties and consumer redress so they can be properly assessed for proportionality and consistency.

We hope that you find Centrica's views on Ofgem's FWP useful, and that you will take our views into account prior to publication of the final version. Following this, we would encourage Ofgem to further enhance visibility of its activities with regular updates on the upcoming work of each directorate.

If you have any questions about our response, please contact Alun Rees in the first instance, on 07557 619674.

Yours sincerely



Ian Peters

Appendix 1

- **Security of Supply.** Ofgem should consult industry at the earliest opportunity on any warning signs that it believes it has identified with respect to Security of Supply risks, as well as at the solution stage. As Ofgem is aware, reforms in this area could have serious implications for wholesale and retail markets, and could seriously change industry fundamentals.
- **Ensuring compliant behaviour.** Ofgem has stated that it will “assess whether we have the right suite of tools and powers to deliver credible deterrence and engender compliant behaviour”. Centrica recognises that Ofgem needs to take action where serious non-compliance leads to consumer detriment; Ofgem already has strong tools to do so including the ability to levy fines up to 10% of turnover and issue consumer redress orders. Ofgem should also consider more subtle and creative measures to ensure compliance, such as incentivising self-reporting and resolving issues collaboratively, particularly where breaches are clearly accidental and there is a genuine will on the part of the company to put things right.
- **Ofgem’s Consumer Vulnerability Strategy.** Centrica is committed to ensuring that suppliers provide services to customers that are adapted to their needs, producing good outcomes. By its very nature, dynamic vulnerability is transient and varies in ease of identification, meaning that it is best approached as a guiding principle rather than via a rigid set of rules. We are already taking steps to help our people recognise different forms of customer vulnerability, including rolling out a vulnerability training programme for thousands of agents over the coming months.
- **Ofgem’s review of the Priority Services Register (PSR).** In deciding whether to make changes to the PSR, Ofgem first needs to be clear on what their objectives are; doing so will allow Ofgem and stakeholders to provide a better informed view on whether the PSR is the best vehicle for achieving those objectives.
- **Derogation requests.** Centrica welcomes Ofgem’s KPI to make decisions on RMR derogation requests within 60 working days of receiving a request (unless formal consultation is needed). We would encourage Ofgem to examine whether the time could be reduced further.
- **The Action Plan to support small and independent suppliers.** Centrica supports steps to lower barriers to entry, for example by facilitating understanding of regulation via dedicated fora. Given the changes in the supply market and the emergence of medium-sized suppliers, it is worth considering the extent to which these solutions are future-proof. We would also encourage Ofgem to be alive to the risk of creating a two-tier regulatory regime or information asymmetry, given the detrimental effect that they could have on regulatory certainty.
- **Non-domestic regulation.** Ofgem should continue to focus and prioritise the completion and implementation of the non-domestic TPI reform work in 2015, in particular the implementation of a robust and enforceable Code of Practice.
- **E-Serve’s objective to increase efficiency and reduce costs.** Centrica welcomes Ofgem’s proposal to reduce its costs; we are keen to ensure that this is achieved in a way that does not reduce its capacity or capabilities.

- **E-Serve's KPIs.** Centrica believes Ofgem should also target the timely processing of measures notified under ECO, in order to minimise the disruption and uncertainty caused to the supply chain by delayed approvals, rejections and withdrawals. We would expect a KPI to focus on Ofgem taking actions that are within its own control within 10 working days – as was targeted on CERT and CESP.
- **Requests for exemptions to the Liquefied Natural Gas 'Third Party Access' requirements and gas storage Minor Facilities Exemption requests.** Ofgem's analysis phase must include a public consultation on any applications for exemptions.
- **EU internal market harmonisation.** Centrica encourages Ofgem to ensure that it that it scrutinises the effects that options for integrating European electricity and gas wholesale markets may have downstream, and that costs of such reforms to consumers are kept to a minimum.