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Dear Nick,

Gas Retail Governance – Final Proposals

Thank you for providing the opportunity to respond to Ofgem's proposals on the future shape of the SPAA.

Please find attached a response to this consultation from British Gas Trading. Should you have any questions on this response, or wish to discuss any aspect of it in more detail, please don't hesitate to give me a ring on 0208 734 9356 or email me at chris.wright@centrica.co.uk.

Yours sincerely

Chris Wright
Regulatory Issues Manager

Gas Retail Governance – Final Proposals

A Response by Centrica

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1. Executive Summary

- British Gas is an advocate of the SPAA, and views these final proposals as an important step to delivering the SPAA.
- In order to fully succeed, participation in SPAA by all suppliers and transporters is essential. British Gas believes that the necessary level of confidence can only be achieved through accession being mandated in Licence Conditions.
- That said, British Gas does not believe that full participation is required from the outset, and would propose that an approach is developed to require accession of other stakeholders at appropriate stages of the SPAA's development.
- In the event that I&C suppliers and GTs are not mandated to join the SPAA at the outset, British Gas would have no objection to those parties attending SPAA meetings as observers prior to their accession; indeed we believe there could be significant merit in this approach. However, these non-paying parties should not have voting rights.
- British Gas is concerned about the limited active supplier support in these latter stages of the development of the SPAA, and potentially corresponding lack of a mandate for participating suppliers to speak and make decisions on behalf of non-participants. This issue is typified by the small number of suppliers volunteering to provide resource to support the Constitution and Procurement Working Groups.
- British Gas believes that the timing of the SPAA commencement will need to be reviewed given the absence of any permanent, robust administration arrangement. It would be damaging for the credibility of the SPAA if it was implemented, but changes could not be progressed and effectively managed.
- British Gas recognises sensitivities around the proposal to permit energywatch to put forward changes to the SPAA, but believes that ways can be found of overcoming those sensitivities.

2. Background and Introduction

British Gas is an advocate of the Supply Point Administration Agreement (SPAA), and is pleased to have had the opportunity to contribute to its development. British Gas welcomes these proposals as helpful progress towards the final implementation of SPAA, but also recognises that there are a number of issues still needing resolution before the SPAA can be satisfactorily implemented.

Some of these issues fall outside of the relatively narrow scope of this consultation exercise, but we have nevertheless taken the opportunity of this response to discuss the most important of these issues.

3. I&C Supplier Accession to the SPAA

British Gas believes that, especially in the longer term, the success of SPAA is dependent upon having full participation by both domestic and I&C suppliers, especially since a number of the SPAA requirements, e.g. RGMA, will ultimately cut across both market sectors. As an underlying principle, therefore, a Supply Licence condition requiring the accession of all suppliers is needed.

However, recognising that, at least initially, the focus will be primarily upon the domestic sector, and in order to ensure that progress towards the SPAA's implementation is not frustrated, British Gas is open minded to the proposal that I&C suppliers are not initially subject to a licence condition mandating accession to SPAA. If this option is taken, however, a clearly identifiable and measurable set of circumstances should be agreed in advance as being the trigger point for the accession of I&C suppliers to the SPAA. This work would need to be taken forward by the SPAA Working Groups.

In advance of I&C supplier accession, British Gas has no objections to those parties attending SPAA meetings as observers and receiving copies of papers and minutes. Indeed, we believe that this would facilitate greater I&C supplier understanding of the SPAA environment and thereby ease their eventual transition from non-member to member status. In addition, all I&C suppliers should be given the option to accede to and pay for full SPAA membership, at any time in ahead of the formal accession circumstances being reached. However, British Gas believes that it would be wholly inappropriate for non-members to have any voting rights prior to the full accession and payment process being completed.

It is also necessary to consider carefully the position of the number of suppliers, for example British Gas Trading, who supply a combined domestic and non-domestic portfolio under a single Supply Licence. In this instance, the introduction of a Licence Condition mandating accession other than in Section C would have equal weighting with both domestic and non-domestic functions; clearly running counter to the desired, flexible position set out above. Whilst British Gas believes that the proposal to only mandate accession by domestic suppliers could be made to work, consideration will need to be given to the mechanics in order to ensure that a single Licensee's domestic and I&C portfolios are not subject to the same rights and obligations.

4. GT Accession to the SPAA

As with British Gas's views on I&C supplier accession, the inclusion of GTs in the SPAA is imperative to achieve the longer term aims of the Agreement, and British Gas views a Licence Condition as the only realistic way of guaranteeing suitable commitment going forward.

However, given the proposed order and timing of the Schedules, British Gas believes that, as with I&C suppliers, the GT should not be required to accede to the Agreement from the outset. Indeed, with the initial governed Schedules planned as being the supplier to supplier elements of RGMA and DCoP – neither of which have a direct impact upon GTs, it could be many months if not years before Supply Point Administration (SPA) issues, which will have a GT impact, are considered.

However, drawing further parallels with the I&C position in respect of accession, British Gas believes that any GT should be permitted to attend SPAA sessions and receive SPAA papers prior to mandatory accession; the timing and process for which will need to be carefully mapped and agreed in advance.

Recognising that this view runs contrary to the position set out in Ofgem's proposals, it is worth stating that British Gas has no particular objections to GTs being mandated to accession from the SPAA's inception, but if this is to be case, then GTs must also be required to fund their membership accordingly. If, for whatever reason, GTs were provided with full membership and voting rights – putting them in a position to influence or stop changes - without being required to pay for that privilege, then British Gas would reconsider its own position in acceding to the SPAA.

In terms of GT funding, British Gas would suggest that a costs are split such that suppliers collectively pay two thirds of the total costs, apportioned between suppliers by MPRN ownership, and transporters pay the remaining one third of the costs, again apportioned by MPRN ownership. This aligns with the approach adopted under the MRA.

As a compromise, a possible way forward is that a Licence Condition is included in the Transporter Licence from the outset, but is only activated upon the satisfaction of certain pre-determined criteria, which will be developed by SPAA Working Groups in conjunction with Ofgem.

5. Limited Supplier Participation in the SPAA Development Process

British Gas has been involved in the SPAA development processes from the outset, attending every GIGG and Working Group meeting and working with Ofgem and other stakeholders to develop acceptable solutions. Throughout this extended period, it has been noticeable that not all suppliers have taken a close interest in the SPAA's development, even though the benefits and impacts that will derive from it apply to all suppliers.

British Gas is now concerned that the final implementation of the SPAA is being jeopardised because of the limited number of suppliers actively participating in its development, or mandating other suppliers to act on their behalf. An example of this is

the recently announced volunteers to the Constitution Group (just 4 suppliers being represented) and the Procurement Group (where only one supplier – British Gas – has volunteered).

Steps must be taken at this stage of the SPAA's development, to ensure that all future development work is carried out with either full supplier participation, or alternatively through participants being given a mandate to act on behalf of non-attendees. Failure to act now could result in extensive development work being undertaken, only to be rejected as unacceptable at the 11th hour by those who have actively chosen not to participate.

6. Energywatch Involvement in the Change Process

British Gas recognises that there are sensitivities around the proposal to permit energywatch to raise changes to the SPAA and believes that, without safeguards, the industry may be left open to charges of failing to heed the opinions of customers and those who champion customer causes.

However, British Gas believes that a process can be agreed that provides energywatch with a voice, and confidence that their views will be heard and fully considered, as well as giving suppliers confidence that their reputations will not be threatened if energywatch's desired changes are not accepted.

One possible solution would be for energywatch to put together a "business case" for any change that it felt were appropriate, and seek support from a supplier in proposing that change. This method also has the benefit that it aligns with the principle set out for I&C suppliers and GTs – namely no direct participation or voting rights without an appropriate funding contribution.

An alternative could be that energywatch is provided with rights to raise changes, but agrees to in advance that it will not seek publicity from any of its involvements with the SPAA unless agreed in advance with all other parties. British Gas is happy to work further with energywatch and other stakeholders to arrive at a mutually acceptable position.

7. Domestic Licence Condition

Having reviewed the proposed Supply Licence Condition at Appendix 2 of the consultation, British Gas has the following observations:

7.1. British Gas considers that paragraph 4 a) of the proposed Licence Condition, as currently worded, is far too broad in application; i.e. it encompasses every Licence Condition, many of which fall outside of the scope of the SPAA. We would suggest that the wording is amended along the following lines: "*the efficient discharge of the licensee's obligations, relevant to the Agreement, under this licence*". Alternatively, we believe that sub-paragraph a) could be removed altogether, without detriment.

7.2. If, as suggested in section 4 of this response, GTs are not mandated to join the SPAA from its inception, British Gas believes that paragraph 3 b) (i) of the proposed Licence Condition will need to be revised. Clearly, when I&C suppliers are required to accede further revisions and /or repositioning in the licence (i.e. section B or C) will be necessary.

7.3. Proposed paragraph 5 c) (i) makes reference to the objectives set out in paragraph 5: British Gas believes that this should read paragraph 4.

8. Conclusion

British Gas remains optimistic that the SPAA will prove to be a valuable tool in securing the effective and efficient development of gas retail governance, and is committed to working with all other parties in order to secure its successful implementation. However, it is evident that a significant amount of work needs to be undertaken before it can be implemented.

In order that the initial delivery of the SPAA is not jeopardised, British Gas believes that a phased implementation is appropriate, with parties only being mandated to join when aspects of the SPAA directly impinge upon their operations. Clearly, this level of detail will need to be worked through by the Working Groups.

British Gas is also concerned at the apparent limited resource support for ongoing SPAA development shown by a number of suppliers. Without greatly increased participation, for example in the Working Groups, delivery of the SPAA will again be jeopardised. British Gas urges suppliers to fully participate in order to that delivery of the SPAA is not further frustrated.