



Nick Simpson  
Director Modifications  
Office of Gas & Electricity Markets  
9 Millbank  
London  
SW1P 3GE

Date: 1<sup>st</sup> April 2004

Dear Nick

## **POWERGEN RESPONSE TO GAS RETAIL GOVERNANCE – FINAL PROPOSALS - MARCH 2004**

Thank you for giving Powergen the opportunity to comment on the above consultation document outlining Ofgem's final proposals on new gas retail governance arrangements and the creation of the Supply Point Administration Agreement (SPAA). Powergen have been keen supporters of the gas governance project from the beginning and have contributed significant resources through our involvement on the Gas Industry Governance Group (GIGG) and the various sub-groups set up to progress this important programme of work.

Our response to this consultation is structured in two parts:

- Part 1 summarises our key views on this consultation document
- Part 2 details our response to the questions posed by Ofgem

### **PART 1**

#### **SPAA Implementation & RGMA Baseline**

Your proposal states that the licence condition and SPAA should come into effect w/c 24<sup>th</sup> May 2004 in readiness for the Review of Gas Metering Arrangements (RGMA) Go-Live. We also understand RGMA is now expected to be in place on 12<sup>th</sup> July 2004. We are pleased that Ofgem have shown greater clarity and resolve in relation to the implementation of both projects and we look forward to both being implemented in a co-ordinated and timely manner.

The relationship between the delivery of the RGMA and SPAA are fundamental to the ongoing viability of a competitive gas metering market and industry interoperability and we therefore support the twin-track approach taken by Ofgem for both projects. Any further delays will affect the efficient implementation of the SPAA and impact on its effectiveness.

However, we cannot see what benefit there is in SPAA being implemented so far in advance of the RGMA Go-Live date, and therefore suggest that SPAA implementation be delayed until at least 1<sup>st</sup> July 2004. This would have the added benefit of providing more time for the GIGG and its subgroups to sort out the many outstanding issues related to the implementation of SPAA.

### **Interim Change Control Administrator**

As noted in the Ofgem / GIGG Seminar of 22<sup>nd</sup> March, the timetable for completion of the SPAA procurement process is challenging. We note with concern the service provision gap that has developed between the implementation of SPAA (May 2004) and the appointment of the secretariat / website provider which is not likely to occur before September 2004. The industry should have in place effective interim arrangements to manage change control between SPAA Go-Live and the appointment of the Service Provider. This needs to be managed properly to avoid damage to the credibility of SPAA. The SPAA Constitution Group would seem to be the most appropriate forum to progress this issue.

Our preference would be to continue with the existing RGMA Change Control Board and DCoP change control process (suitably adapted, if required) until the appointment of the service provider. Ofgem, as they have volunteered at the seminar, could carry out the administrative functions associated with the changes to ensure SPAA parties are adequately informed and involved in the change process.

### **Provisions of the SPAA document**

We note Ofgem's suggestion that they may undertake RIAs for any change proposals that relate to a mandatory provision. Although we do not oppose Ofgem giving careful consideration to changes this does present a couple of issues:

- Is there a defined process around an Ofgem RIA, their timescale for delivery, consideration of comments by people affected or interested, and an agreed scope of deliverables that they must achieve? It seems inevitable that the end result will be an increase in the timescale that it will take for changes to be implemented.
- If this is a requirement for SPAA changes then will the same apply to BSC, MRA and NWC changes which have a similar requirement for Ofgem to approve?

### **Governance of Metering**

We are generally supportive of the merits of the MAMCoP. However, until the situation is clearer regarding governance and ownership and funding, we are reluctant to have it as a licence condition upon suppliers.

As for the NGT metering contract the solution should be quite simple: it has a link to the RGMA Baseline and, as the SPAA will be the home of the Baseline, the NGT contract should be able to follow any changes to the RGMA. Having Transco as an

SPAA signatory should resolve any issues or concerns that they may have at an earlier stage before any RGMA changes need to be reflected in the NGT contract.

### **Consumer Representation**

We are pleased that Ofgem have decided that consumer bodies should not be able to vote on change proposals or appeal decisions but we do not support the proposal that energywatch should have equal consideration to SPAA signatories to raise change proposals. energywatch could potentially put forward change proposals with little or no benefit to consumers or signatories but would nevertheless require substantial diversion of resources by SPAA parties to manage the change proposal. The June draft of the SPAA gave consumer bodies the ability to contribute to meetings and to comment on change proposals, and we believe that is sufficient.

As previously stated in our June 2003 consultation response, our reasoning for limiting the involvement of consumer bodies is that the SPAA is essentially an inter-industry agreement, and if no industry parties are supportive of a change proposal it is wholly inappropriate for the SPAA to be a vehicle for such a change. However, in practice, one or more industry players will always be prepared to promote a cost-effective change which benefits customers.

### **DN Sell Off**

We have previously stated elsewhere our concerns that the current discussions surrounding Transco's intended sale of one or more of their distribution networks does not negatively impact on the SPAA project. We are particularly concerned that there should be no delays in the implementation of the SPAA or RGMA in order to facilitate the sale of a DN. Ofgem have obviously concurred with this view and we therefore look forward to the speedy conclusion to the SPAA programme of work in 2004. This would then leave the gas industry to concentrate on the Transco DN sale issue.

In addition, we would like confirmation from Ofgem that they see the SPAA initiative as a discrete project to improve gas retail processes and that they do not use this as a precedent to further fragment the gas trading arrangements as part of their DN Sales Process. We need to, as far as possible, avoid fragmentation of settlement processes and the creation of unnecessary new interfaces.

We would like to extend this improved governance to all shipper activities under the unified network code. However, this requires all shipping and transportation charge settlement processes to remain managed centrally by a "Central Settlements Agency" (to start with this would remain with Transco). This is the vision that Powergen have been articulating as part of the DN Sales process (and is supported by the Gas Forum, the AEP and MEUC). Please refer to our presentation 'Lessons from BETTA' for further details on Powergen's proposal.

## **PART 2**

### **SPAA Licence Conditions**

Powergen agrees the licence condition as proposed in Appendix 2 is appropriate. Appendix 2 details the proposed new licence condition on domestic suppliers and, given that there is no equivalent to the electricity distribution licence condition LC37, the drafting is pitched at the right level.

We support Ofgem's compromise in allowing I&C suppliers to voluntarily accede to the SPAA as we believe that they will sign and agree to move such items as the I&C CoP into the Agreement once the SPAA is proven to be workable. Once I&C suppliers see that SPAA can function successfully they should see the advantages of joining the SPAA. They should also have a commercial driver to be involved once discussions begin to move the SPA processes into the SPAA.

### **Gas Transporter involvement in SPAA**

Powergen agrees with Ofgem's suggestion that Gas Transporters should be signatories of the SPAA from Day 1, via a licence condition, as their involvement would ensure the efficient functioning of core SPAA processes such as the RGMA Baseline. A major benefit of the participation of GTs in the SPAA would be that they would have gained experience of the SPAA's governance framework prior to the move to separation of supply point administration from gas transportation.

We also agree with Ofgem's recommendation that GTs do not contribute to the funding of the SPAA initially. At this stage it is difficult to know what, if any, contribution GTs should make. It is preferable to assume 'a wait and see' position regarding this issue until the industry have a better idea of the impact and level of involvement that GTs will have in the SPAA. Once this is known, it is then a case of an appropriate change proposal being raised requesting that GTs contribute to SPAA funding.

We have had a look at the proposed GT licence condition in Appendix 3 and have no issues with the drafting. As stated under the section 'SPAA Licence Conditions' above, the arrangements in gas are the opposite to electricity and therefore the GT has the simple condition to accede to an agreement run by suppliers. The draft SPAA appears to have been fully amended to take account of GT membership and provision is made in Schedule 1 Part 4 for GT members.



If you have any questions please let me know. I can be contacted by phone on 0870 419 1463 or by e-mail at [afroze.miah@powergen.co.uk](mailto:afroze.miah@powergen.co.uk).

Yours sincerely

Afroze Miah  
Head of Market Development  
Retail Regulation  
Powergen Retail Limited

Powergen Retail Ltd  
Griffin Court  
Colliers Way  
Nottingham  
NG8 6AT

[powergen.co.uk](http://powergen.co.uk)