



Gemserve

GAS DISTRIBUTION PRICE CONTROL REVIEW – INITIAL CONSULTATION (259/05)

To – GDPCRresponses@ofgem.gov.uk

Joanna Whittington
Director, Gas Distribution
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

Dear Joanna,

Gemserve is pleased to be able to respond to the Gas Distribution Price Control Review and as a leading provider of independent governance services to utilities wishes to confine itself to relevant sections of the document. Accordingly whilst following the structure of the tables set out in Appendix 2 of the document we are only commenting where appropriate.

Table A2.2 Views sought – issues for early decision

Issue 3 – xoserve

- Are the current funding arrangements for xoserve satisfactory?
- If not, should change be limited to refinements on the status quo or more substantial reform?

The present arrangements are, in effect, a continuation of those prevailing under Network Code, that is an allowance for the estimated costs of operation, maintenance and development of the appropriate systems over the review period is made within allowed revenues. Such an arrangement can act as a disincentive to change and stifle innovation as the revenue is guaranteed whilst elements of the expenditure that it is intended to fund may be avoided.

It is our opinion that some form of ex-ante cost recovery could be expected to provide a more level playing field as between NG/GDNs and users whilst also encouraging a more forward looking environment for innovation. It is acknowledged however that a straightforward “user-pays” approach, perhaps based upon supply points, may be workable for operational costs yet not entirely satisfactory for future system developments and further work is needed in this area.

Moving to an ex-ante cost recovery method would support rather than preclude a competitive tendering exercise, systems and data ownership may require further attention. However, Gemserve believes that wherever feasible competitive market based prices should be sought and at the very least employed as a benchmark to improve upon.

In similar vein Gemserve is unclear why the consultation document is silent regarding the funding arrangements for the Joint Office function. The Joint Office is in many ways analogous to xoserve as it operates as an agent of NG/GDNs in discharging certain licence and UNC obligations. In some respects it is even easier to envisage a competitive tender for the provision of this service.



Issue 4 - Process

- Should Ofgem conduct its consultation process in a different way to the process outlined in Chapter 7?

Gemserv considers that the proposed process involving milestones of three further Consultation documents, Initial Proposals, Updated and then Final Proposals should provide adequate opportunity for all interested parties to raise issues and or objections in a satisfactory way. The provision of Seminars to discuss issues within consultation documents is welcome and Gemserv assumes that minutes of all bilateral meetings will be published in addition to those from Working groups and Authority meetings with various interest groups.

What is missing from the Consultation document is a clear project structure, for example what governance arrangements surround the GDPCR Working group and will shippers, suppliers and customers be able to attend? How can issues be brought to this group and escalated from it? No doubt these will be forthcoming shortly.

Table A2.3 Views sought – issues for initial views

Issue 1 – Principles for the conduct of the review

- Are the proposed principles for the conduct of the review appropriate?

Under paragraph 4.2 of the Consultation Document you set out the main functions of a price control. The leading bullet point, and by inference the most important function, is "to protect customers from the abuse of monopoly power, of which an important aspect is incentivising companies to make efficiency savings...".

In Gemserv's view it is a natural extension of this function to have separate treatment of any activities undertaken by GDNs which are not part of its natural monopoly. Specifically the costs associated with xoserve and with the Joint Office activities. Some or all of these activities could be made subject to competitive pressures through a tendering exercise which would yield genuine market prices with an expectation of potential savings for customers.

Issue 3 – Setting the one year control – operating expenditure

Gemserv is unclear that any market testing or competitive tendering exercise in respect of some or all of xoserve and the Joint Office activities must necessarily be delayed until 2008.

Yours sincerely,

Ken McRae
Commercial Manager (Utilities)



Gemserv

