

## **Gas Distribution Price Control Review**

### **SBGI response to Initial Consultation document**

#### **1. Introduction**

The SBGI is the trade association for the UK onshore gas industry.

The SBGI takes the view that serving the long term interests of gas consumers is consistent with the Society's principal objective, the promotion of a thriving UK gas industry. The consideration in this review of the social and environmental outputs of a Distribution Network is therefore welcomed.

The issues raised for comment are broad ranging and as with other organisations participating in the consultation it is not within the remit of the SBGI to respond to every issue. The SBGI has responded where appropriate and for ease of reference sets out the responses using the structure and numbering used in consultation document.

#### **2. Issues for Early Decision**

##### **1 Related Projects**

The SBGI is not aware of any related projects other than those itemised in the consultation document. However we would note that the issue of NTS Offtake Reform is critical as it will affect the Distribution Networks' requirements for capital expenditure for storage.

##### **2 Objectives and Framework**

*What should be the outputs of a Gas Distribution Network?*

Key topics from the SBGI viewpoint are:

Safety	incident reporting statistics
	safety collaboration
Capital expenditure	allowances versus actual
Mains Replacement	allowances versus actual
Quality of Service	extending the network generally and with reference to "fuel poor"

*What aspects of gas Distribution Network give rise to concerns?*

Allowances for investment in skilled workforce (direct and indirect)

Consistent standards and procedures across networks

New connections

Interface with UIPs -- design information, approvals and adoption process

*Are the objectives for review proposed by Ofgem appropriate?*

The SBGI in general supports the objectives. The supply chain would like stability and predictability of investment in the asset base as outcome of the price control.

We also support the early establishment of the cost reporting framework as the new networks develop their internal reporting systems.

#### **4 Process**

The SBGI agrees with the consultation process.

#### **5 Impact Assessments**

The SBGI agrees that the benefits to consumers of price control are well established. Therefore the Ofgem proposal not to carry out a full Impact Assessment but to carry out individual Impact Assessments for new initiatives etc is accepted.

#### **6 Timetable**

The SBGI accepts the proposed timetable.

### **3. Issues for Initial Views**

#### **1 Principles for the conduct of the review**

The SBGI agrees with the proposed principles.

#### **2 Setting the one-year control -- capital and replacement expenditure**

The SBGI agrees with Ofgem that the input to the one-year control should be proportionate to the period of the control.

The focus on capital and replacement expenditure is agreed.

The use of historical data to validate the interim forecast is agreed.

#### **3 Setting the one-year control -- operating expenditure**

The SBGI is generally in favour of a simple approach to evaluating operating expenditure on the basis of proportionate workload.

However there are sound reasons for addressing shrinkage at this stage, as it is issue that will remain to be addressed.

The SBGI is neutral as to whether pensions are addressed in the interim control or the main control.

#### **4 Setting the one-year control -- incentives**

The SBGI believes that five year rolling incentives should be applied to the one-year control so that the focus on efficiency savings is not deferred to the main control.

#### **6 Structure of the price control**

The SBGI is not aware of any reasons for introducing changes to the structure of the price control but would not rule out new ideas.

#### **7 Scope of the price control**

The SBGI considers the scope of price control is appropriate and is not aware of any reasons to change the excluded services.