

The Gas Forum



Joanna Whittington
Director – Gas Distribution
Ofgem
9 Millbank
London
SW1P 3GE

13 July 2007

Dear Joanna,

Re: Gas Distribution Price Control Review – Initial Proposals Document

Thank you for the opportunity to comment on the above consultation. This response is provided on behalf of Gas Forum members. The Gas Forum is content that this response may be placed on the Ofgem website and in the Ofgem library.

In this response, the Gas Forum (“the Forum”) has chosen not to respond specifically to the questions listed in the document, believing these points are best addressed by members on an individual basis. However, there are a number of areas of policy in which we have common concerns, and which are listed and discussed below:

1) Quality of Service

Broadly, the Forum supports the rationalisation and updating of the standards of performance described in the Initial Proposals document subject to reviewing the licence and legislative drafting giving effect to the proposals later this year

In our view, the proposal to introduce output reporting measures is a sensible first step to address concerns that have been expressed about the inaccuracy of pipeline records but we would not wish to see licence obligations precluded in the event performance does not improve in a timely manner

The relatively modest allowances for quality of service arrangements do not seem unreasonable, provided that GDNs are not then permitted to recover compensation or insurance payments they may have had to make in excess of these allowances through other means (e.g. as a result of an Income Adjusting Event or post price control efficiency assessment). We believe this is a particular issue as the event cap has been reduced to 30,000 consumers.

2) Carbon Monoxide Monitoring

The Forum is surprised that GDN's Emergency Service personnel do not currently carry and use carbon monoxide measuring equipment when they attend emergency investigations as a matter of course, as we would have thought this was a normal safety requirement. However, to the extent they do not, and the HSE are persuaded that there would be material safety benefits arising from such equipment being made available, we suggest these benefits should be quantified and the efficient costs of provision included within GDN's capex and opex forecasts.

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In the event the HSE are persuaded of the safety benefits we would expect that this change would be supported by HSE amending aspects of relevant safety procedures and/or legislation at the same time to mandate carrying of such equipment during emergency investigations.

3) Core services/User Pays Model

The Forum believes that a considerable amount of industry resources will be required to develop the appropriate governance arrangements to support a user pays regime. In this respect the Forum holds mixed views and is not wholly convinced of the merit of Ofgem's proposals on the funding of xoserve, particularly bearing in mind the very limited number of service lines that have been identified that could possibly be funded through this mechanism from day one.

In addition to the above, concern has been expressed by some Forum members that Ofgem's "final" impact assessment in support of this decision is based on informal information provided by xoserve and just one shipper. To this extent it has been suggested that more robust analysis of shipper costs needs to be undertaken before embarking upon such a significant change to xoserve's funding mechanism.

4) Comparative Efficiency

In principle, the Forum supports Ofgem's approach of using a range of methodologies to inform future levels of operating cost. The proposed approach utilises the disaggregated opex benchmarking as the main analysis and then uprates this analysis to reflect the outcome of the top down opex analysis. As an approach, we are broadly supportive as this method helps to address the issue that at a disaggregated level there may be boundary issues between companies.

We note that the disaggregated analysis uses an upper quartile benchmark. However, when these results are uprated to reflect the outcome of the top down analysis we believe that they are only uprated to the level of the frontier company not the upper quartile. There are mixed views between members on whether the uprating should be to the frontier company or the upper quartile, some supporting the upper quartile on the basis of the approach used under DPCR4 and others supporting the frontier as a benchmark given the scale of the uprating proposed is significantly higher at 5.6% than the equivalent adjustment under DPCR4.

5) Capex and Repex

The Forum welcomes the evidence from the document that Ofgem's consultants are challenging the GDN proposals extensively. Forum members believe that Ofgem needs to continue this vigilance and challenge the GDNs robustly when the revised BPQ data is submitted.

We also note that Ofgem intends to publish the consultant reports to enable respondents to study them in advance of submitting responses. The Forum welcomes the intentions behind this publication, but believes that for the information to be more useful, it would be better if it could have been published nearer to the publication date of the Initial Proposals. We hope that this will be possible when the Updated Proposals and associated consultant reports are published.

6) Opex

The Forum notes that in the Initial Proposals, Ofgem is no longer proposing to expense non operational capex. The Forum supports this change believing that this is in customers' interests.

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I hope that you find these comments from the Gas Forum helpful. Should you wish to discuss any of the points raised in more detail, Alison Russell, who chairs the Gas Forum subgroup on GDPCR would be pleased to co-ordinate queries. Alison can be contacted via e-mail at Alison.russell@centrica.com or on 07789 570046.

Yours sincerely



Steve Briggs
Chairman