



Ms Joanna Whittington
Director – Gas Distribution
OFGEM
9 Millbank
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Dear Joanna

Re: Gas Distribution Price Control Review – Initial Proposals

SBGI is a Trade Association representing over 200 companies in the UK onshore gas and utility sector. Its membership draws heavily from both network and supply chain companies in the onshore gas sector and has a proud history of over 100 years representation in the sector.

SBGI wishes to submit a response to the above consultation document as follows:

Chapter 3 - Operating and Expenditure Analysis

Question 1: *Do you agree with our approach for setting opex allowances and the proposed allowances we have derived using that approach?*

Regarding the input price projections for PE tabled in Appendix 7, we would support a figure at the high end of the 1.5 – 2.5% (above RPI) range offered by the GDNs. This is on the basis of data supplied to us showing the contribution to the input prices (at supplier level) of PE pipe and fittings which are in excess of 3% above RPI. Two major contributors to this increase in the last 12 months are the cost of the extrusion-grade polymer itself, coupled with the high price of energy consumed in forming PE-based products.

Chapter 4 – Capex and Repex analysis

Question 2: *Do you agree with our approach for setting repex allowances and the proposed allowances we have derived using that approach.*

SBGI supports the continuation of the agreement with HSE on workloads to replace iron mains within 30m of a property over a thirty year timescale. Related to our response to the question above, SBGI is somewhat concerned at the current large gap (£400m, 19% relative to Ofgem figures) between the aggregate GDN and Ofgem view of the total cost of this mains replacement programme over the forthcoming price control period. This is an area where SBGI would encourage further constructive debate and analysis to ensure the continued success in safety terms of the mains replacement programme, and to ensure an adequate supply of both quality materials and contract labour to deliver this programme.



Chapter 6 – Incentives

Question 2: *Is it appropriate to implement an opex rolling incentive?*

Our response here is restricted to the subject of IFI. SBGI's view is that some form of opex retention mechanism is required, separately identified or included in the opex rolling incentive, to stimulate longer term innovation investment across the gas distribution supply chain. Contrary to the view that the gas distribution business is mature, and following release of the Government's Energy White Paper, SBGI is currently canvassing its members to form a view on the specific areas where investment in R&D might be targeted to best affect the dual objectives of sustainability and security. SBGI intends to communicate separately with Ofgem on this point ahead of the next price proposals.

Chapter 7 - Sustainable Development

Question 5: *Do you support our proposals for the introduction of a Discretionary Reward Scheme for GDNs and its format given the larger reward?*

The SBGI strongly welcomes Ofgem's proposals for encouraging Gas Distribution Networks (GDNs) to invest in network extensions which would benefit a significant number of fuel poor consumers.

The context for this is the acknowledgement last year by the Government in its Energy Review (para 2.102) that its target of eliminating fuel poverty in vulnerable households by 2010 is likely to be missed by over one million such households. There is also widespread doubt regarding the prospects for achieving the target of eliminating fuel poverty in all households by 2016. Appropriate extension of the gas network has consistently been recognised by the Fuel Poverty Action Group as one of the most effective and efficient ways of reducing fuel poverty. It is absolutely right, therefore, that Ofgem should incentivise the GDNs to make a substantial contribution to the delivery of the Government's social policy objectives in this area.

The following observations are, however, submitted for consideration.

Whilst the principle of a Discretionary Reward Scheme is supported, it is important to ensure that the discretionary nature of the scheme does not deter GDNs from devoting adequate resource to the preparation of applications. It might be helpful if Ofgem issues a statement of intent that the full £20m will be awarded over the five year period provided GDNs put forward proposals for at least this sum, which meet whatever criteria are specified.

Of the three categories specified for the scheme, the GDNs already give the highest priority to safety. The principle of additionality may therefore be difficult to satisfy with regard to safety. As far as raising awareness of carbon monoxide is concerned, this is already being addressed by gas suppliers, who arguably are better placed to undertake this role, as they are in regular direct communication with all consumers. GDNs are already heavily committed to reducing the environmental impact of their networks, so again the additionality criterion may be difficult to meet. Whether formally determined by Ofgem as part of the scheme framework or decided, as currently proposed, by Ofgem and the Panel at the start of each year, the SBGI would wish to see the majority of the £20m being devoted to network extension. The knowledge of this in advance



will encourage GDNs to invest most of their effort in developing proposals focused on this category.

Yours sincerely

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