

Kieran Donoghue  
Gas Distribution  
Ofgem  
9 Millbank  
London  
SW1P 3GE  
[kieran.donoghue@ofgem.gov.uk](mailto:kieran.donoghue@ofgem.gov.uk)

19 September 2007

Your Ref: Ofgem doc 185/07

Dear Kieran

### **Gas Distribution Price Control Review (GDPCR) Cost Reporting Consultation**

energywatch welcomes the opportunity to respond to the issues raised in this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem website.

We strongly agree that the gas distribution networks (DNs) should be expected to provide detailed cost information to Ofgem in line with their licence obligations. There are a number of benefits to this approach for other stakeholders in gas distribution, most notably consumers who pay a significant proportion of their total gas bill to the gas DN to fund monopoly provision of these networks. Specifically, robust cost reporting by the gas DN between price control periods would:

- allow much more effective monitoring of gas DN costs, with the ability to compare and contrast how well each of the gas DN is performing;
- streamline preparation for the next price control period, reducing administration costs in the process;
- allow informed judgements on whether all the gas DN are equally efficient in reducing similar types of costs;
- and, if not, allow the best performers to be held up as examples for future benchmarking. This can be reflected in future price control settlements.

We accept that the purpose of cost reporting is not to revisit the agreed price control allowances set every five years – this would create too much uncertainty, affect the stable operation of the networks, and would be inefficient. However, the use of robust reporting does place the onus on gas DN to act openly and transparently in developing their networks, ensuring that allowances are set only after sufficient objective scrutiny of how their cost estimates have been developed. In addition, it provides an impetus to gas DN to outperform cost targets in their price control settlements. It also ensures objective scrutiny of gas DN cost performance going forward in relation to any incentives with which they may be

provided under the price control. Effective monitoring and enforcement of licence obligations needs to be undertaken by Ofgem in furtherance of its primary statutory duty to protect consumers' interests.

Consumers expect the efficient and economic delivery of safe, secure and reliable gas networks by monopoly owners. We believe that consumers must be provided with savings through the current 2008-13 price control rather than awaiting the outcomes of the cost reporting process in future price controls. These savings have been anticipated since the sale of the gas DNs in 2005. We believe that these were predicated on the grounds that commercial operation of the networks would increase innovation and competition amongst the different owners and lower some of the associated operating costs. There has now been two years of operation in a competitive environment. Ofgem must follow through by ensuring that efficient and economic operation is reflected in the price controls to apply from 1 April 2008. We expect Ofgem's initial proposals to reflect this position when they are published later this month.

### **Specific comments**

It is critical to the effectiveness of the information gathering process that the reporting framework allows ease of comparison and, therefore, there must be a standard format introduced for completion. The RIGs must be clear, simple and readily understood by the gas DNs who need to complete the spreadsheets. Consistent treatment of costs will enhance the comparative nature of the data. We agree that direct engagement with gas DNs throughout the cost reporting exercise will remove or minimise the risk of misunderstanding or misinterpretation of reported data.

We agree that data should be gathered from the best source, whether this is directly from the gas DN or not. There is no compulsion to provide data where the entity is not licensed. However, Ofgem should consider the most expeditious way in which to obtain good quality information. Similarly, while auditing will impose some costs, it is necessary to ensure that sufficient objective control in the information gathering process exists and to minimise risks of error which could impact on the price control settlement. We believe that Ofgem must seek data from the most optimal source and in sufficient detail to be usable for the purpose for which it is gathered.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers. We look forward to Ofgem's final proposals on cost reporting in due course.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley  
Head of Regulatory Affairs