



Ms Joanna Whittington
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OFGEM
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Dear Joanna

Re: Gas Distribution Price Control Review – Updated Proposals

Thank you for the opportunity to respond to Ofgem's updated price control proposals for gas distribution.

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 Expenditure Analysis

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

SBGI welcomes the move to uplift the disaggregated benchmarks based on upper quartile rather than the frontier under the top-down analysis.

With regard to real price effects, a number of our engineering contractor members feel that a 2 per cent increase in real terms for contractor rates is restrictive when compared to the forecast labour cost increase due to the growth in infrastructure investment in the utilities sector, and the potential shortage of resources arising over the price control period. This supports our earlier views and analysis presented by GDNs. With respect to materials, and particularly polyethylene components, the real price growth of 1 per cent per annum would seem inadequate, and we would support a figure closer to the upper figure proposed by some GDNs of 2.5%.

Question 2: *Do you agree with our approach to the additional operating cost items included in these proposals covering the areas where our work was incomplete at initial proposals?*

We welcome the inclusion of additional allowances for training and apprentice costs. We would question however whether the allowance proposed, some £68m across the price control period for all GDNs, is adequate to incentivise the contractor side of the market to invest in the required way. Ofgem has itself recognised this as an important source of skills retention in rejecting E&U



Skills' analysis of the potential loss of staff in the industry. Additional training resources will help stabilise labour rates and ultimately deliver opex and repex in future years.

Chapter 4 – Capex and Repex analysis

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

We welcome the reassessment of repex costs where there has been a shift in replacement mix to generally larger diameter mains. With regard to abandonment ratios there would appear to be a potential conflict between the need to rationalise the network through high abandonment ratios (abandoned : lay) and the need for innovative (no-dig) mains insertion techniques tending to 1:1 replacement.

Chapter 7 - Sustainable Development

SBGI welcomes the proposed introduction of IFI/SD to reverse the downward trend in RD&D investment by the regulated gas distribution companies. We would encourage as wide a remit as possible for this fund, recognising the need to maintain alignment with Ofgem's five published sustainable development themes. We would also encourage active promotion, monitoring and audit of the scheme to ensure the engagement, where appropriate, of the entire supply chain in collaborative projects.

Following consultation with SBGI members the following is a list of priority issues:

Investment is required to develop improved pipe and associated equipment reducing the need for maintenance and leading to cost reductions for the consumer. 'No-dig' technologies need to be further developed to reduce traffic disruption caused by carrying out street works. Pipes and pipeline materials need to be developed that can cope with increasing network pressures, providing greater flexibility in network design and rationalisation.

The UK is moving closer to an ever increasing reliance on imported sources of energy. Factors such as gas quality, security of supply – including protecting the integrity of the network as far as possible from attack – require serious consideration.

With short-term storage the UK lags behind the rest of Europe and development of storage systems to cope with winter peak day demand needs to be progressed. The development of mains-connected biomethane as a renewable energy source should be advanced, adding to the UK's indigenous fuel stock. These are long term projects where research into the various technical and operational (as well as commercial) challenges is required.

The UK government is rapidly moving green issues up the political agenda and the gas industry needs to respond. Long term research into improving the environment by reducing further fugitive emissions to reduce the damaging effect of methane on the ozone layers needs addressing. Research is required to develop infrastructure materials that require less energy to manufacture and are also more environmentally friendly. It may be possible to develop pipes designed primarily for natural gas that are capable of transporting hydrogen in any future hydrogen-based economy. Implementation of an IFI in the gas sector will accelerate the above



developments, adding materially to those projects already supported by parallel schemes in the electricity transmission and distribution sectors.

On behalf of consumers the industry should be actively researching incidents from CO-poisoning, and finding innovative ways to extend the network to the fuel-poor. In addition to its primary consumer benefit of helping deliver reduced energy consumption, the introduction of 'Smart Metering' should assist GDN's to cope better with the diurnal demand, and potentially avert unnecessary network reinforcement by moving gas demand 'off-peak' and plan future mains investment and maintenance based on accurate consumption data.

Yours sincerely

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