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Dear Rachel

### **Consultation on strategy for the next gas distribution price control – RIOO-GD1 Overview Paper**

SBGI is pleased to provide some comments in response to the questions raised in the above consultation document.

SBGI is a representative body comprising some 200 member companies in the energy and utilities sector supply chain, including two GDNs. Specifically we represent 103 UK-based organisations who have a direct interest in the gas networks supply chain servicing both distribution and transmission sectors. This includes (i) manufacturers of PE pipes, valves and fittings, and inspection, repair and control systems (ii) network engineering companies that form key elements of the Alliances, Coalitions and related contracting entities undertaking both mains replacement and new connections, (iii) meter and metering services companies, (iv) engineering consultancy and professional services organisations operating in the sector, (v) all the UK gas storage operators either connected or seeking connection to the network.

The following responses to selected questions views are made on behalf of our supply chain members:

#### Context

*Q1 – Do you agree that we have identified the key challenges facing the gas sector, and our approach to accommodating these challenges within the price review?*

There has been much industry debate in the last 12 months about the uncertain future role of gas networks and both DECC and industry-sponsored research conclude a wide range of possibilities regarding annual gas flows in 2050. All studies however point to a substantive role for gas at the end of the price control period being considered (2021). Whilst such long-term scenarios may impact on capacity expansion projects on the network, the uncertainty in 2050 should not colour the investment required to maintain a safe, secure and reliable gas distribution network to 2021 and beyond. Indeed the risk models used to prioritise iron mains replacement are not directly influenced by the flow rate of gas inside the pipes.



There is a natural concern by the supply chain companies who provide equipment and engineering installation services into the iron mains replacement programme of decisions on replacement volumes being made on anything other than safety and risk grounds. We also feel that the wider benefits of the mains replacement have not been recognised fully in delivering benefits to consumers:

- Reduced leakage and environmental impact emanating from all-PE networks
- Reduced operating costs through lower repair and emergency work
- Improved security of supply, and reduced disruption for the public
- Long term commitment to replacement that encourages commercial and technical innovation from both buyers and supply chain

The uncertainty around the repex programme review is a key issue and one that needs resolving quickly. We await the outcome of the HSE review before commenting further.

Regarding mains replacement in traffic sensitive areas, the TMA has added significant costs and uncertainty to the industry. Our contractor members feel that highways and local authorities are not discharging their obligations to coordinate street works effectively, in so not realising benefits for consumers.

We are generally supportive of the actions being taken to facilitate connection of biomethane supplies to the grid and await the outcome of the RHI to gauge the adequacy of these actions in delivering this important renewable heating fuel to UK consumers.

#### Making sure stakeholders' views are heard

*Q1 – Do you have any comments of the overall approach to stakeholder engagement?*

Our observation as a supply chain representative body is that stakeholder engagement by the networks has been variable. Our engagement with National Grid has been very positive and thorough and has provided opportunity for a range of SBGIs' supply chain members to engage directly with the 'Talking Networks' team. It remains to be seen how stakeholder views provided to all networks are acted on in the preparation of business plans.

#### Outputs and Incentives

*Q3 – Do you have any views on the proposed outputs or incentive mechanisms?*

We make the point here again that the output areas are not independent, with particular linkages between the safety, reliability and environmental outputs.

#### Innovation

*Q2 – Do you have any views on the time limited innovation stimulus?*



We welcome the broad approach to innovation, the addition of a gas sector stimulus package, and the longer price control period which in itself will foster innovation investment. We are supportive also of the move to include supply chain companies in this programme and note the separate consultation on this. We are wholly supportive of continuing the IFI-style allowance as accessible sources of innovation funding for smaller supply chain companies but are unclear why the hurdles for gas distribution are being set higher than for Tier1 LCN projects.

We also support extension of the gas stimulus objective to embrace long term network sustainability rather than the somewhat restrictive, but challenging, 'low carbon future'. Overall we would encourage simpler and unified processes in accessing funds (hurdles, project review mechanisms, maximum levels of project funding) as an aid in encouraging both networks and their suppliers to come forward with innovation proposals in all sectors.

We trust you will find these comments useful.

Sincerely

**Martin J Atkinson**

Director Utility Networks

SBGI