

Rachel Fletcher
Partner, Distribution
Ofgem
9, Millbank
London SW1P 3GE

30 September 2010

Dear Rachel

**Open letter consultation on Gas Distribution Price Control Review 2 (GDPCR2)
– the way forward**

I am responding on behalf of the four gas distribution companies in ENA membership to your Open Letter consultation on GDPCR2. GDPCR2 together with TPCR5 will be the first controls that reflect the new regulatory framework resulting from the RPI-X@20 Review and we look forward to working closely with you throughout the review process to secure its successful implementation.

Whilst we support many of the features of the new RIIO approach to ‘Sustainable Network Regulation’ we described in our recent submission to Ofgem a number of key concerns with the current recommendations, particularly in relation to the proposals on financeability, which we hope will be addressed in the Final Proposals and subsequently reflected in GDPCR2.

Having said that, ENA members have no major concerns with Ofgem’s proposed approach to the GDPCR2 process and we welcome the attempt to clarify at an early stage of the review the principles and key policy issues that will need to be addressed. We also welcome the retention of an RPI-X based incentive framework although it is important that the final financeability proposals do not contribute to a lessening in the GDNs’ incentives to improve their operating efficiencies and do not disturb their cash flow profiles.

As far as the timetable and process is concerned the early establishment of key work streams will be beneficial although we have some concerns over the time allocated to develop the appropriate outputs framework. We feel there is a risk that the front end of the process is being squeezed due to the desire to implement a fast track process which could potentially compromise quality discussion time in the working groups. In this context, it is important for us to understand the process you envisage for implementing the proposed fast track arrangements. There is some concern amongst our members that decisions will not be taken using the best and most up to date information. For example, the enhanced stakeholder engagement process, if it is successful, is likely to raise a number of important issues as the review progresses and it will be important that the fast track process, which will presumably require early decisions on key review issues, is able to take these into account.

Throughout the Open Letter there seems to be a presumption when discussing asset lives, load related investment, network extensions etc that in the context of a low carbon economy gas networks will become increasingly redundant over the next 40 years. As you will know from the work we have commissioned on gas futures we disagree with this view and believe that there will be a significant role for gas for the foreseeable future. We acknowledge that the situation is very uncertain; however, it would be very unwise to make any assumption of redundancy in framing your proposals for this review.


The treatment of the Repex programme is very relevant in this context. We agree that it is quite legitimate for Ofgem to review the companies' repex programmes in view of the scale of costs involved. The GDNs are committed to working with HSE and Ofgem, with an open mind, to ensure an appropriate outcome is achieved. However, Ofgem should be aware that legislation restricts what can be done in this area and more positively, should recognise the wider benefits of the programme including the reduction in shrinkage gas costs, the avoidance of having to make ad hoc repairs to pipes following public reported escapes and the carbon abatement value of the programme by the reduction in methane leakage.

Finally, we believe that there are some important review issues that should be given more prominence than is suggested by the Open Letter. These include the costs of compliance with the TMA, the impact on costs of the smart meter programme and the impact on GDNs of the loss of meter work and possible increase in call-out volumes. We also feel that potential real price effects, i.e. material, contractor costs etc should be examined in detail.

I hope you find these comments useful. We look forward to participating fully in the forthcoming review.

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Yours sincerely,

A handwritten signature in black ink that reads "Andy". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Andy Phelps

Director of Regulation

Energy Networks Association

andy.phelps@energynetworks.org

Tel: 020 7706 5118

Mob: 07795312881