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Rachel Fletcher
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Ofgem

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Dear Rachel

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

Thank you for the opportunity to give our views on the above consultation.

Key Issues

Replacement Expenditure
The UK gas industry has an enviable safety record and this should not be compromised. However we welcome the forthcoming review by HSE and believe that capital expenditure should not be pursued without regard to appropriate cost benefit analysis.

Given that the UK government is on a course towards a zero carbon energy market it would seem inappropriate to replace infrastructure on a like for like basis if that infrastructure is to become redundant. We would expect the GDNs to carry out rigorous appraisal before embarking upon replacement work taking into account any existing and anticipated alternative renewable heat projects that are likely to displace mains gas.

Environmental Issues
We understand that Ofgem is considering alternatives to the leakage model along the lines adopted by the electricity industry using settlement data. We would be interested to know more about how this would work in gas. We understand that line loss in electricity, the equivalent to gas leakage, can be determined by power consumption through the particular part of the network.

However gas leakage is not related to gas flow but rather to volume and pressure, as acknowledged by recent changes to the existing leakage model.

In relation to biomethane we would support opportunities to explore change to the way the network is designed to address identified issues. One such issue is calorific value shrinkage which can be overcome by adding propane. However this reduces the environmental benefits of biomethane and adds cost. One solution could be to measure calorific value on a more local basis. Together with Smart metering and developing AMR it should be possible to calculate actual energy usage at the meter.

Demand Uncertainty

We also have concerns about the accuracy of the GDNs demand forecast. We have been particularly active as a shipper in attempting to refine this by introducing improved weather correction methodologies and continue to lead change in this area.

With regard to alternative options to investing in new capacity, recent changes to the interruptible regime would appear to have proved unattractive to customers in general and so in their present form may not deliver a credible alternative. We fully supported implementation of the regime including holding customer seminars and providing supporting material. However in our experience customers viewed the process as overly complex and had difficulty valuing interruption as there were no price signals available. A number of those who did expend considerable time and effort constructing their bids were unsuccessful and have reported that they would be unlikely to repeat the process, instead electing to go firm. We understand that the majority of interruptible sites will convert to firm in October 2011.

As we have stated above under *Replacement Expenditure* we expect the GDNs to evaluate fully the requirement for replacement capacity, the same is true of new capacity and both should be viewed in light of renewable alternatives. Though this will include bio methane, it will also include electric heat pump technology and biomass coupled with CHP and district heating.

xoserve

The existing funding structure for xoserve has proved to be ineffective at promoting change and encouraging services for the industry and consumers. The User Pays arrangements have failed to deliver any benefits (e.g. the debacle of the SPAA SCOGES replacement project) to the industry.

The provision of gas industry central services, delivered by xoserve, should be provided in a transparent cost effect manner. During the last gas distribution price control review discussion we argued that User Pays would only work if applied to all services in conjunction with true transparency of costs.

We would suggest that the funding for gas industry central services is removed from the current price control allowances for the gas transporters and transferred to a direct pass through of costs to the industry participants in a similar manner to that used for Elexon in the electricity market.

Network Extensions

The consideration of alternative renewable heat technologies also applies to network extensions and may reduce the need to extend the mains gas network. Heat pump solutions are likely to be a particularly attractive alternative when combined with renewable generation. The subsidy for both of these technologies and mains extensions is likely to come from the same source i.e. consumers of fossil fuel based energy. We would welcome Ofgem engaging with relevant government departments to develop an encompassing policy in this area.

Carbon Monoxide

We would be interested to understand the detail behind this initiative. It may be appropriate to fund the GDNs dependent upon what it is they are being asked to provide. In any event we would expect to see any services that they offer measured against key and specific outputs in line with Ofgem's overall philosophy for the next price control.

Other Issues

Sub-deduct networks

We belive that many of these in the industrial and commercial sector relate to firm/interruptible gas supplied to a single premise. Given that in many cases the interruptible element is likely to convert to firm in October 2011 the need for sub-deduct metering in these instances will disappear. For the remainder including those serving domestic customers we would support 'engineering out' the sub-deduct arrangement by transferring responsibility for the relevant networks to the GDNs.

Offtake Meters

Following the sale of four of the eight distribution networks in 2004, boundary meters, known as offtake meters, became the responsibility of the GDNs. Since then we have seen the introduction of Meter Error Notification Guidelines in 2008 which have highlighted numerous measurement errors some of significant magnitude. Network businesses are impacted only marginally by deficiencies in this measurement regime and we would welcome any suggestions as to how the regime could be significantly improved.

If you have any queries or wish to discuss any part of this response please contact brian.durber@eonenergy.com telephone 01538 386923 / 07768 031942.

Yours sincerely

Alex Travell
Energy Policy & Regulation (by email)