



Rachel Fletcher
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Dear Rachel

**SBGI Response to open letter consultation on Gas Distribution Price Control Review 2 (GDPCR2)
– the way forward.**

SBGI is pleased to provide some comments in response to the above open letter.

SBGI is a representative body comprising some 200 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 views are made on behalf of our supply chain members:

Key Issues for the Review

We note the comment that the costs incurred by consumers for the provision of the gas distribution networks now accounts for 15% of an average bill. Whilst changes to these costs will affect consumer bills, the majority of price variability is with commodity prices. Indeed it is a credit to the gas distribution sector, and regulatory environment in which they operate, that this percentage is now so low.

Replacement Expenditure (Repex)

In relation to Repex, we support the need to review and challenge the risk profile of the remaining iron mains on the network and to modify and update, as appropriate, replacement



prioritisation schemes. But we strongly reject an argument supporting a substantive reduction in the mains replacement programme that has anything other than safety and risk considerations as its basis. It is a fact that the unit replacement cost is rising as the ease of replacement reduces. However, iron mains that were at risk 5 years ago, and that have not been replaced, are surely still at risk. Publicly available statistics from HSE to 2007/08 show there are still some 200 explosion/fire incidents reportable under GS(M)R. With no apparent enduring trend in these numbers one can argue that the industry is only treading water.

The industry is mindful of the need to demonstrate value for money for consumers and the supply chain remains committed to playing its part in developing new technology, solutions and collaborative working practices that will improve further the efficiency of mains replacement.

From the supply chain perspective, and the industry in general, it would be beneficial for Ofgem, HSE and the GDNs to make to make substantial progress in reviewing the Repex issue ahead of requiring business plans to be written by the GDNs.

Environmental Issues

Maintaining a high level of mains replacement also benefits the environmental issue associated with gas leakage and the incentives on the GDNs to tackle this. With around 150,000 gas escapes per year requiring repair and around 900 gas-in-building incidents (HSE Report for 2008/9), the output measures for environmental emissions should not be seen in isolation from the Repex issue. Regarding leakage, the GDNs and the working groups being assembled to deliberate output measures, will no doubt have views on whether settlement data can provide a robust alternative to a modelled approach for leakage.

We are highly supportive of the case for building a 'renewable gas' industry and removing barriers to growth of the biomethane industry in Great Britain.

Demand Uncertainty

On the issue of capacity investments we concur that consumers should not be exposed to the unnecessary risks of funding redundant capacity expansion. There is however a level of uncertainty in forecasting future gas demand; we note that in two 'Project Discovery' scenarios gas demand falls to 2020; in the other two scenarios demand rises.

At distribution level gas demand is driven by residential space and water heating and there is huge uncertainty in the viability and potential uptake of alternative technologies, particularly renewable heating technologies. Despite huge focus on heat pumps in DECC's recent energy pathways study, recent field trials have proven less than convincing with only 13% of ground source heat pump installations hitting their performance targets in UK field trials conducted by the Energy Saving Trust. At this performance level only off-gas grid homes (i.e. LPG, electric or oil fired) show economic benefits for consumers.

Our conclusion is that during the expected term of the price control review (and beyond) gas will retain its position as the preferred heating fuel and that continued investment in the network will



be required to deliver gas from the beach, where landing patterns continue to shift, into and through the distribution networks. The industry accepts that in the long term a higher percentage of residential (renewable) electrification will lead to falling gas demand, but this should not colour investment decisions the need to take place in the short term to address ongoing safety, environmental and capacity challenges on gas networks. This is critical to the migration towards a low carbon economy.

Network Extensions

On the issue of network extensions we support Ofgem's view in reviewing the economic test for network extensions to fuel poor households and communities. This problem is particularly acute with rising fuel prices the major contributor to some 9.6% of households (DECC statistics 2009) being in fuel poverty, and specific challenges in rural communities.

Outputs-led Regulation

We are supportive of the proposed shift to outputs-led regulation as part of RIIO provided of course there is good agreement on the measures. Taking safety, reliability and environmental issues together, it is clear there is an interdependency between the three output measures and a combination of these primary output (or sub-) measures may well lead to 'best' performance by the GDNs.

Providing for Enhanced Engagement

SBGI's supply chain companies play a major role in delivering the networks opex, repex and capex programmes as well as providing a range of supporting specialist engineering and specialist services to the GDNs. We are supportive of the enhanced engagement provided this can make a real difference to outcomes. SBGI, on behalf of its 103 network supply chain members, has already offered to provide input to the Price Control Review Forum (PCRF).

We trust you will find these initial comments on GDPCR2 helpful and look forward to working with Ofgem, the GDNs and other stakeholders during the course of the review.

Sincerely

Martin J Atkinson

Director Utility Networks

SBGI