



SBGI Utility Networks
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17th January 2012

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Dear James

RIIO-GD1: Gas Distribution Networks' (GDNs) business plans – publication and next steps

SBGI is pleased to provide some comments in response to the above letter dated 9th December.

SBGI is a representative body comprising some 200 companies in the energy and utilities sector supply chain, including two GDNs. Specifically we represent 100 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.

OVERALL QUALITY OF THE PLANS

Do you consider that the plans are comprehensive and well-justified? Do they provide a clear understanding of what the company will deliver over the price control period?

The business plan documents are very comprehensive and provide an extensive justification of planned activities and investment by the networks. The executive summaries are clear and concise; the body of the business plans vary in clarity of explanation and presentation and are largely for the expert reader. Year by year expenditure tables are helpful to suppliers in identifying any peaks and troughs throughout the control period.



Do the plans include all relevant information necessary for you to understand the impact of those plans on your interests?

With respect to the iron mains replacement scheme post 2013 we could find suitable analysis in most submissions of work load volumes in each tier, except in the plans presented by W&W Utilities. There is difficulty in all the submissions however in comparing total mains replacement workload with the current GDPCR1 period as public data (and forecasts for 2012/2013) are produced only for the 30/30 iron mains programme. The supply chain would benefit from a direct comparison with current levels in all tiers of the iron mains programme and total workload (including steel abandonment work and diversions). On a positive note, the levels of repex, capex and opex have been compared on a like-for-like basis for key asset groups across the two control periods and this is very helpful to suppliers.

REFLECTING WHAT CUSTOMERS VALUE/STAKEHOLDER ENGAGEMENT

Have the views you provided to the network companies been reflected in their plans?

SBGI and its members were heavily engaged with National Grid Gas and Scotia Gas Networks in their various stakeholder exercises. Where there have been differences in views these are related to the HSE/Ofgem review of iron mains replacement and the concern over the lack of a mandatory risk threshold in tier 3, and its subsequent impact on work volumes and materials supply in this tier. In other areas the plans would appear to reflect the consensus view on most topics, for example on the approach to both decommissioning and demolition of gas holders.

Overall the word 'reflect' gives the right balance of stakeholder feedback and Network action; suggestions for example by some stakeholders to accelerate the mains replacement programme, not decommission gas holders, and suspend mains replacement during winter were just some of the feedback not thought by the networks to give best value to all stakeholders or provide strong enough business cases.

Do you consider that the plans reflect the interests of both existing and future consumers?

The issue of whether gas holder sites should (following demolition) be remediated now or in the future is worthy of further debate.

EXPENDITURE PROPOSALS



Do you consider that the companies have clearly identified and justified their operating and capital expenditure requirements to deliver the required outputs?

The expenditure plans appear well mapped to the primary output measures; we note some networks have included their target secondary measures also.

UNCERTAINTY AND RISK

The business plan submissions contain robust risk analysis and mitigation plans. We agree with the networks' views that the degree of risk imposed by the deployment of smart metering is unclear in respect of (i) additional emergency work following new installation, (ii) training of FCO's to be able to deal with smart meter re-boot, (iii) any related service relocation work arising from situations where meter boxes, or their location, are found to be unsuitable for smart meters and communications devices.

The entire deployment of gas smart will take place during RIIO-GD1; one network with 2.6m meters has allowed extra totex of £4m, or £1.50 per meter on average. We would encourage effective collaboration between networks and suppliers during the foundation deployment stage to 2014 in order to review and refine these likely expenditure provisions, which in our view are at the low end of the scale. An effective response by the networks to smart installation problems will be a major success factor for the SMIP as a key contributor to a low carbon economy.

Related to the installation of smart meters, we would support the networks in compensation claims for stranded meters fitted by them as providers of last resort.

OTHER ISSUES

Some networks have provided data on projected Gas-In-Building Incidents (per length of iron main) and breaks/fractures occurring on the network along the time line of the price control review. It appears to our analysis that little impact is being made on these secondary measures of safety performance, despite the considerable replacement and repair expenditure in this area. The question should be asked of the industry therefore 'is enough being done to maintain the safety and integrity of the network'?

We also note two different approaches being deployed to determine the risk threshold of tier 2 pipes in the new iron mains replacement approach – 'target risk level' versus 'historic workloads' – and whether this will lead to differing safety approaches across the networks.



We trust you will find these comments constructive and we look forward to receiving Ofgem's Initial Assessment paper in March.

Sincerely

Martin J Atkinson

Director Utility Networks

SBGI