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Dear James

**RIIO-GD1: Gas Distribution Networks' (GDN) business plans (170/11)**

Thank you for providing SSE with the opportunity to comment on the above consultation. Overall, SSE believes the plans follow the guidance set out by Ofgem and are both comprehensive and transparent. The process of stakeholder engagement has been beneficial in ensuring the plans contain all relevant information and provide confidence that the plans will ensure a safe and reliable network over the next price control period.

SSE offers the following responses to the specific questions raised in the consultation.

**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?***

In general, the GDNs business plans appear to be comprehensive and follow Ofgem guidance on what should be included in a well-justified business plan. The plans all set out key deliverables, associated costs and impacts on customer bills in a transparent manner.

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

As one of the UK's largest gas shippers and suppliers, SSE has a strong interest in ensuring the safety and sustainability of the GDNs networks across the UK. The framework set out by Ofgem and the increased focus on stakeholder engagement has been beneficial in ensuring the business plans contain all relevant information. The

GDNs business plans provide enough information for SSE to assess the impact of the plans on our interests.

**Reflecting what customers value/ stakeholder engagement**

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

The four GDNs have successfully undertaken stakeholder engagement initiatives to incorporate the views of customers into their various business plans. SSE have noticed a significant change in approach during this price control process as GDNs have adapted to the RIIO principles and embarked on stakeholder engagement.

Given the significant proportion of SSE customers located on SGN networks, SSE has been involved in various SGN stakeholder events, including the Live Event in Edinburgh in January 2011. We believe SGN is to be commended for its openness and transparency throughout the process. They provided a lot of good background information about their business activities at the start of the stakeholder process which helped us better understand the issues that GDNs face and helped us to determine the priorities from a shipper and supplier perspective, the services that we value most and our willingness to pay.

In addition, we found the publication of SGNs proposed business plan summary ahead of submission to Ofgem to be a positive development; for the first time it gave stakeholders the opportunity to see the outcome of the stakeholder process and gave us an opportunity to submit final comments ahead of the plan being submitted to Ofgem. The SGN stakeholder engagement process has ensured our views are reflected in the business plan. For example, SSE raised concerns on price volatility which have been addressed in the business plan.

Offtake meter errors have a significant impact on shippers, suppliers and customers bills. Given the significance of some of the offtake meter errors over the last few years, we are pleased to see proposals set out in SGNs business plan for this area of work. As indicated at our bilateral meeting with SGN, we believe it is essential to replace meters at the most crucial off takes and reduce the risk of any future error occurring.

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

As a shipper and supplier, SSEs first priority is to ensure the gas distribution network is safe and reliable so that we can ensure continuity of supply and the safety of our customers. Asset integrity is crucial to ensure the safety, reliability and sustainability of the network and the GDNs business plans all clearly state revenue requirements to meet consumers existing and future needs.

Accurate forecasts of future consumer demand are central to meeting the future network needs of consumers. Given the significant proportion of SSE customers located on SGN networks, we paid particular attention to SGNs analysis of future demand and believe it is credible. The SGN business plan states that over the GD1 period, peak day demand will remain fairly flat. As a result of this work, they are able to significantly reduce their capacity related investment without any detrimental impact on reliability of supply. We welcome the fact SGN has been open about these savings and they will be passed on to customers. We found that some of the other GDNs business plans were not so clear in linking expectations about future demand with investment in the network.

The overall impact of the proposals on TOTEX, allowed revenue and customers' bills is of central interest to SSE. The GDNs business plans have all addressed the likely impact of their plans on consumer's bills. These impacts are difficult to compare across the GDNs business plans. The SGN and Northern Gas Networks business plans have limited the impact on customers' bills, quoting around 1p per day for a typical household which seems reasonable given some of the challenging and crucial issues to be addressed at this point in the networks life cycle. In addition, given the focus on energy prices at the moment, SGNs proposals for assisting with fuel poor connections and for addressing price volatility are welcomed.

### **Expenditure proposals**

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

Overall, the operating and capital expenditure requirements presented by the four GDNs look appropriate. There are clearly regional and local differences in expenditure needs that need to be accounted for when assessing the plans. Without specific knowledge of the individual networks it is not possible to give any detailed views on the level of expenditure forecast.

We appreciate some of the assets that are referred to in the GDNs business plans are critical and failure could have a significant detrimental impact on continuity of supply, not just for a short period, but for a significant length of time. It seems credible, particularly in light of third party reports, that given the age of the network and evidence of deterioration, some of these assets have reached the end of their operational lives and need to be replaced. As indicated by most stakeholders at the SGN Live Event that we attended, given the nature of the gas network, safety must always be a priority and where required, expenditure to improve asset health should be a priority, providing costs can be efficiently managed.

### **Financial proposals**

***Do you have any views on the package of finance measures proposed by the companies?***

The finance packages outlined in the business plans appear to be based on similar parameters and do not raise any concerns.

### **Uncertainty and risk**

***Do you consider that the plans present a comprehensive consideration of the sources of uncertainty they face, including uncertainty in relation to the future role of gas networks in a low carbon energy sector?***

The current economic and financial outlook is particularly uncertain and managing uncertainty and risk forms an important part of the business plans. The quality of the treatment of assessing and managing uncertainty varied across the business plans, with some being more comprehensive than others. However, all of the business plans did include a consideration of the main uncertainty and risks.

SSE found the demand scenarios used by SGN in their business plan as useful in considering the role of gas networks in a low carbon energy sector. In addition, the various third party reports commissioned by SGN as part of their business plan process give us further confidence that comprehensive consideration to the risks the business face has been given.

From the level of information provided and the efforts made by the GDNs to engage with stakeholders and the transparency of their plans and expenditure, we feel that where savings can be realised they have been transparent and they will be passed on to customers. Unfortunately given the age and life cycle of the assets across all networks there are areas where significant investment is required to maintain safety and reliability. Providing costs and approach can be shown to be efficient, we believe investment is crucial. SSE looks forward to Ofgem's assessment of the GDNs business plans.

Yours Sincerely

Colin Brodie  
Regulation & Energy Strategy