



**SBGI Utility Networks**  
Camden House  
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Kenilworth, CV8 1TH

25<sup>th</sup> January 2012

Dora Guzeleva  
Head of Networks Policy: Local Grids  
Ofgem  
9 Millbank  
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Dear Dora

**Consultation on further design features of the Network Innovation Competition**

SBGI is pleased to provide some comments in response to the above letter dated 4<sup>th</sup> January.

SBGI is a representative body comprising some 230 member companies in the energy and utilities sector supply chain, including two GDNs and two IGTs. 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.

***Breadth of network licensee participation***

We support the view that the treatment of non-RIIO licensees should be the same across both electricity and gas sectors; initially this would mean inclusion of the Independent Gas Transporters in the gas-NIC for 2013. A number of SBGI's engineering member companies are themselves IGTs (e.g. GTC) or form part of a wider engineering/asset owner group (e.g. Fulcrum Pipelines) and we have forwarded the consultation documents to them directly as an aid in assessing the appetite of gas independents.

In terms of benefits our view is that the independents are focussed largely on new assets and associated installation and connection technologies and therefore the benefits across the wider network sector will be limited. The independents may however have a bigger role to play in



emerging low carbon heat networks and connections technology and processes for biomethane plant or CNG vehicle refuelling schemes.

In terms of funding their bid submission costs it would seem unfair not to allow access to a funding mechanism for IGT bid preparation costs outside RIIO, particularly as we expect the appetite by IGTs for NIC to be lower than RIIO licensees, and to be zero if funding for relatively large bid submission costs is not forthcoming. We would expect IGTs to want to fund bid preparation cost efficiently if they are to win the competition.

If IGTs are included in the bidding process (effectively doubling the number of potential bidders) there is a case to increase the RIIO period NIC funds for gas distribution from £160m so as not to deter entry into the competition, particularly for the IGTs.

***Funding Allowance for RIIO network licensees bid submission costs***

On the basis that network companies will be able to submit a maximum number of proposals to the NIC, we are unsure whether the proposed sliding scale and caps proposed for bid cost recovery from NIA (effectively financing 0.05% of AR as NIC bid costs in all cases) delivers the level playing field that Ofgem is attempting to preserve. Further, the proposed scheme would seem to penalise the licensee that produces a well justified technology strategy (i.e. granted 1% of AR as their NIA), and by inference well-justified NIC proposals, compared with the licensee that has the default NIA position (0.5% of AR). The proposed scheme may still not remove distortion in the bid costs recoverable arising from the relative size of networks across the country and therefore not remove unequal access.

Our preliminary analysis of the networks' business plans for 2013 – 2021 suggest aggregate annual allowed revenues of around £3,000m, indicating total NIA in the range £15m - £30m per annum, giving in turn £1.5m of recoverable NIC bid costs from NIA. This would seem in aggregate to be a satisfactory level (7.5%) of the £20m per annum project finance available. We would propose a fixed allocation of this £1.5m per annum to each RIIO network company to be recovered from NIA in a way that incentivises all companies to bid in an efficient way.

We trust you will find these comments constructive.

Sincerely

**Martin J Atkinson**

Director Utility Networks, SBGI