

RIIO GD1; Initial Proposals
Consultation Co-ordinator
9 Millbank
LONDON
SW1P 3GE

17th September 2012

Ref 103/12

RIIO-GD1: Initial Proposals – response to consultation

Thank you for giving us the opportunity to respond to the Initial Proposals, which is a welcome step, providing of course that comments and responses are genuinely taken on board.

One of the key themes of Ofgem's IP, revolves around the future of gas as an energy source in the UK, especially for heating. Reference is made to the DECC Heating Strategy on a number of occasions. We believe that such references do not justify the conclusions arrived at by Ofgem in assessing what the UK's housing stock will use as a fuel for heating post 2020. Our reading of the situation, and interpretation of the DECC Heating Strategy, is that gas will be the fuel of choice post 2020, even if there is a huge take up of renewable technologies such as Air Source Heat Pumps. Given the findings of the field trials by the Energy Savings Trust, and as yet no guarantee of carbon-free electricity production, we believe Ofgem need to prepare for gas being used as both a primary and secondary fuel source post 2020.

Indeed, given the condition of the UK housing stock, assessments of the effectiveness of renewable technologies in cold spells, and the UK's overall position regarding the lack of capacity to fuel all our energy needs by electricity it is extremely short-sighted of Ofgem to reduce planned investment in the maintenance and condition of the existing gas distribution network. Therefore we would argue that investment in low pressure mains pipework needs to be considerably higher than proposed under the IP.

The view of our members is that the uncertainty over the future of gas is being overplayed, and that there are risks in delaying investment in the short term for the potentially longer term benefits to consumers. The consequence of Ofgem's IP is that there will be a 20 per cent reduction in the safety and environmental outputs that the networks had committed to.

Industry takes its obligations extremely seriously and suggestions that Ofgem, and hence government, were cutting back on investment in both these areas (for little impact upon energy bills) would not play well to the public gallery. Planning for safety is a more sensible PR stance than avoiding the blame when something goes wrong.

We agree that connecting fuel poor households to mains gas is a sensible way of helping to alleviate fuel poverty. Given there are 1.3 million homes in gas postcodes there is huge scope for this to happen. But we believe there is a contradiction between this policy, which we applaud, and Ofgem's interpretation of DECC's Heating Strategy. Gas, and therefore the maintenance of the whole gas distribution network, has an important role to play in tackling fuel poverty not only today, or for the IP investment period, but after 2020 as well.

One aspect that puzzles the industry as it seems to be in direct contradiction to Whitehall thinking elsewhere, is the IP assumption on skills and training. Our analysis suggests cuts to trainee and apprenticeship places of around 25 per cent. We are in no doubt the new Minister of State John Hayes, given his previous portfolio might not view this favourably. It is certainly not a sensible way forward and sends entirely the wrong signals to the sector about the importance of training and the value of apprenticeships. We are so surprised by this aspect of the IP we are writing separately to the Minister to forewarn him of the potential embarrassment.

Likewise, we are disappointed that no GDN has been allowed the full 1 per cent innovation allowance. We believe innovation is instrumental in developing industry solutions to the challenges we face, including cost reduction. Therefore to not fully support GDNs plans in this area seems inconsistent with the overall push to generate cost efficiencies. Ironically, part of the title RIIO is "innovation" yet Ofgem do not seem to fully value the "I".

We are yet to be convinced that Ofgem's "notional efficiency" can be borne out in reality. The plans submitted by GDNs reflect their assessment, and that of their supply chain, based on historic and future analysis of the industry cost base. They are assessments carried out using real world conditions, and for so many GDNs to be "inefficient" suggests that the benchmarking carried out by Ofgem may also be imperfect.

GDNs and its supply chain benefits from the wealth of experience in tackling problems that relatively few people have the capacity to solve. For example, tackling larger diameter works across the industry is a specialist area. The dramatic reductions envisaged under the IP could lead to the wholesale loss of skills required to address this issue in the future. Seeking a longer term view would require investment in large diameter replacement, prolonging the industry's ability to tackle potentially emergency situations.

Yours sincerely



Mike Foster
Chief Executive