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21st March 2025

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Dear Donald and Michael,

Wales & West Utilities (WWU) response to Independent Gas Transporters' Relative Price Control – Call for Input

Thank you for the opportunity to respond to this consultation. WWU is a gas transporter and a regional gas distribution network (“**GDN/s**”), serving 2.6 million supply points in Wales and south-west England. This response is not confidential and may be published by Ofgem.

1) To what extent do you support a review of the IGT RPC framework? How do recent developments, including those we have listed or any others of which you are aware, inform your opinion? We are especially interested in views in relation to the following perspectives:

- Interests of existing and future gas consumers
- System decarbonisation to achieve net zero
- Economic growth.

Ofgem listed three issues as potential concern:

1) That the annual change in the GDNs' SSP charges has generally outpaced the 'RPI + annual percentage change' effect on the floor and ceiling. This has resulted in IGT charges being constrained by the ceiling price within a few years of entry point. We have been advised that the charges for 67% of supply points on the IGT networks are currently at the ceiling.

2) That IGTs' ability to accelerate recovery of historical investment through charging is potentially constrained under the current framework because of the restrictions placed on IGT charges by the RPC ceiling. Our decision to accelerate the GDNs' depreciation charges, set out in our July 2024 RII0-3 Sector Specific Methodology Decision, may present incompatibilities between the RPC arrangements, as they currently stand, and the upcoming RII0-3 framework, once implemented.

3) That, under the existing regulatory framework, there is no mechanism for IGTs to recover certain disconnection costs when gas consumers on IGT networks approach their Gas Supplier to request a disconnection. We have been informed that IGTs may be unable to levy a disconnection charge in accordance with Standard Condition 4B of the Gas Transporters' Licence and cannot recover the costs from their customer base via transportation charges, due to the capped nature of RPC. We have recently published a Call for Input signalling our intention to review the

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regulatory arrangements that govern the gas disconnections process for domestic and small business consumers to ensure it remains fit for purpose and support an orderly decommissioning process. IGT stakeholders have previously suggested that any changes to the arrangements that are applied to GDNs following the review should also be implemented for IGTs under the RPC framework as both GDNs and IGTs are facing similar challenges in terms of potential acceleration of gas network disconnections (and therefore increasing costs) in the context of system decarbonisation.

We make some general points and then comment on the specific impacts Ofgem has asked about.

- 1) GDNs have conducted a mains replacement programme since 2002, (before the relative price control was introduced) this increased GDN transportation charges above what they otherwise would have been. These costs have been reflected in GDN transportation charges, both in the Single Supply Point (SSP) charge and the charge to the CSEP. This means that IGTs have benefited from these higher charges when entering the relative price control and hence have had revenues even though they have not had to do any repex work. We suggest that IGTs may therefore had access to higher revenues than they needed as a result of this effect and that Ofgem needs to take into account any historical benefit compared to the capping effect of the relative price control mechanism before making changes to the relative price control. The GDNs' repex programme ends in 2032. It may be time to consider the revenues that IGTs require to finance their networks rather than tying their charges to GDN SSP charges. The relative price control was introduced because IGT charges were, in some cases, significantly above the Transco SSP charges at the time and at the time it was not considered appropriate for IGTs to have a full price control review given their relatively small size. Since that time IGTs have consolidated and the number of supply points served by them has increased significantly. We note that the 3 million customers served collectively by IGTs is significantly larger than WWU's network and that GTC reached 1.5M gas connections in 2019.
- 2) We recognise the potential increase in disconnections affects IGTs as well as GDNs and expect that IGTs will have responded to the call for evidence on that subject. Without repeating our response on that subject, we note that funding of disconnections by the remaining customers connected to the gas network is not sustainable in the long term and is also likely to put costs onto customers who are less able to pay and onto vulnerable customers.

In relation to the capping of IGT charges, we suggest that the interests of existing and future customers are best served by looking at IGT costs and revenues since the introduction of the relative price control and not just by looking forwards.

In relation to disconnection charges, we recognise the challenge to networks by Suppliers failing to meet their obligation to disconnect the service pipe as required by the Gas (Installation and Use) Regulations and that networks then have to do the disconnection without charging the customer under their obligations in the Pressure System Regulations. We agree that in this situation gas transporters cannot charge customers as the customer has not asked

for a disconnection whereas gas transporters can charge customers who request a disconnection.

During 2025 Ofgem will issue draft and then final proposals for the GDN RIIO3 price control and it may be appropriate to mirror some of the regulatory mechanisms in those determinations to the IGT relative price control while taking into account that the financial performance of IGTs has not been looked at since the relative price control was introduced.

2) To what extent does our proposed review scope meet your expectations? If the proposed scope does not meet your expectations, please provide details of what should be excluded / included and your reasons for those exclusions / inclusions.

We agree that the key focus should be the cost to IGTs of running their networks efficiently and the revenue they need to do this and finance their business. As this is the first look at this issue since the relative price control was introduced Ofgem needs to consider any historical divergence between revenue and cost as well as looking forward. A review of the relative price control should also review activities that IGTs have historically not done but which now given their growth need to be addressed. One example of this is IGT shrinkage which is treated as being zero; this is clearly incorrect because IGTs networks suffer from damage and release of gas notwithstanding other sources of shrinkage.

3) To what extent does our proposed approach meet your expectations? If the proposed approach does not meet your expectations, please explain why and what could be done to meet your expectations.

The proposed approach envisages the IGTs providing data to Ofgem. The challenges of acquiring consistent data when this has not been previously provided should not be underestimated.

Yours sincerely,



Richard Pomroy
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Wales & West Utilities