

# Wales & West Utilities (WWU) Independent Stakeholder Group (ISG) response to Ofgem's publication of the Draft Determinations for the Electricity Transmission, Gas Transmission and Gas Distribution sectors.

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## 1. Introduction

This is our response to the Ofgem Draft Determinations (DD) for the electricity transmission, gas transmission and gas distribution sectors, published on 1st July 2025.

The WWU Independent Stakeholder Group (ISG) does not represent any particular groups or individual stakeholders and it comprises of seven people from a range of relevant professions and sectors.

The WWU ISG developed from the Customer Engagement Group (CEG) which fulfilled a similar role for RIIO-GD2. The transition from CEG to ISG requirement was confirmed and defined by Ofgem in July 2024. The WWU ISG has clear terms of reference, governance and membership, in accordance with Ofgem business plan guidance. The terms of reference have been published on the [WWU website](#). Also included via this link are the challenge logs and meeting agendas which define the scope and nature of our engagement with Wales & West Utilities. We are pleased that WWU recognised the benefit that the ISG brings to its operations and confirmed its continuation for the duration of RIIO-GD3 in advance of guidance from Ofgem.

It should be noted that the remit of the ISGs does not cover either financing or cyber security.

## 2. Context

### *Domestic Customers*

In reviewing these documents, we are very mindful of pressures facing domestic customers, especially customers in vulnerable circumstances. We would have liked to have seen more clarity on the impact on domestic customers in the draft determinations.

As of 1 July 2025, the typical household pays £1,720 a year and National Energy Action's figures show there are 6.1 million UK households in fuel poverty. New official estimates from the Welsh government reveal 25% of all households in Wales (340,000) were in fuel poverty in October 2024. These are households unable to

keep their home warm at any reasonable cost, needing to spend more than 10% of their income to adequately heat their home.

A particular concern in reviewing the draft determinations is the consequential increases in the standing charge, which households pay regardless of how much energy they use and tends to make up a higher proportion of fuel poor households' bills.

We welcome Ofgem's investigation into the introduction of zero, or low, standing charge tariff options. The review of energy cost allocation is much needed and must consider fairness, efficiency and affordability.

Domestic energy debt has reached a new high of £4.15bn in Q1 2025, an increase of £0.84bn compared to Q1 last year, marking the tenth consecutive quarter of rising domestic debt, growing by ~£300m in the last quarter alone.

- The average debt per household has reached a new high this quarter, up from £1,135 to £1,202. The number of customers in debt has also risen by 78k to 3.47m
- Concerns remain as 75% of total debt still has no payment arrangement, with over 2m customers in this situation.
- Total debt has almost tripled since 2020.<sup>1</sup>

We note that Ofgem are currently consulting on consumer debt and potential debt write off, with the proposed debt strategy update due in the Autumn.

Finally, almost 6 in 10 (57%) of all adults reported their cost of living had increased in the last month (4 December 2024 to 5 January 2025). Of all adults 39% were using less fuel, such as gas or electricity, in their home with around 1 in 3 adults (32%) who pay energy bills reported finding it very or somewhat difficult to afford these. Additionally, around 1 in 6 (16%) reported they were occasionally, hardly ever, or never, able to keep comfortably warm in their home.<sup>2</sup>

### *Business Customers*

In early January 2025, 62% of trading businesses reported that they were experiencing at least one challenge that was having an impact on their turnover with around 30% reporting that their turnover had decreased in December 2024.<sup>3</sup>

Prices for industrial electricity in the UK are among the highest in the world, with customers paying an average price of £258/MWh, including taxes, in 2023<sup>4</sup>. This compares with an International Energy Agency (IEA) median of £177/MWh.

All of the above needs to be considered in the context of the GDNs facing significant issues, including inflationary pressures, work force resilience and supply

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<sup>1</sup> <https://www.bfygroup.co.uk/blog/energy-debt-hits-record-3-8bn-as-ofgem-propose-initiatives-to-raise-standards>

<sup>2</sup> [Public opinions and social trends, Great Britain - Office for National Statistics](#)

<sup>3</sup> <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/23january2025>

<sup>4</sup> <https://www.ft.com/content/f3bcd4a4-0a5f-4fc1-ad8a-cf2530e6001a>

chain challenges, all of which have had an upward pressure on costs in recent years.

### 3. Electricity Transmission Draft Determination

We note the proposed award of £8.9bn to the electricity transmission sector, and the upgrading of the grids is projected to add £54 per annum to the domestic bill, albeit with potentially reduced balancing costs.

However, we also note that in the Ofgem RIIO-3 Draft Determinations Stakeholder Webinar (01/07/2025) it was stated that this award could increase by £70bn over the period, with a potentially huge impact on customer bills. We would have liked to have seen a range of scenarios presented in the DD assessing this potential increase, and the impact on the consumer bill; it would be very helpful if this could be undertaken for the final determinations.

To recover the higher electricity transmission network charges under RIIO-3, electricity standing charges are expected to increase from £196 per annum today to around £230p.a. by 2026 and £275p.a. by 2031. As noted above, we have a particular concern about increases in the standing charge and the consequential impact on the fuel poor.

### 4. Gas Distribution Networks (GDNs)

#### General comments on the Draft Determinations

##### *Readability and comparability*

We note that readability across the GDN plans, and bill comparability, is extremely difficult. We would encourage Ofgem to ensure that a defined format, audience and a uniform methodology for bill comparison is consulted on, developed with appropriate stakeholder input, and adhered to for future controls.

##### *Representative Customer Profiles*

We would also encourage Ofgem to consider moving away from the single average customer bill metric, as a default option, and instead determine a range of profiles reflective of the domestic market, including vulnerable households, and industry. We remain particularly concerned about disproportionate costs falling onto low-usage customers via the standing charge.

##### *Willingness to Pay and Affordability Research*

We question the overall appropriateness of willingness to pay and acceptability testing when commissioned by individual companies in isolation. We would strongly encourage Ofgem to consider wide-ranging, holistic, cross-vector collaborative research with consumers regarding affordability on the journey to net zero.

### 5. Comments on the Wales & West Utilities (WWU) Draft Determination

### *Stakeholder Engagement*

Whilst perhaps understated in the submitted plan, we were pleased that the stakeholder engagement undertaken by WWU reflected our guidance and was embedded across the business. This is considerably advanced from what was undertaken for RII-GD2 in terms of who was consulted, why this was appropriate, and the methodology used.

Further, we feel the development of a bespoke AI tool to enhance and collate research responses is an exciting development and has already provided significant insight into customer needs and behaviours.

### *VCMA (Vulnerability & Carbon Monoxide Allowance (VCMA))*

#### *GDQ11 Do you agree with our proposed design of the VCMA UIOLI mechanism?*

We are particularly pleased that Ofgem took on board the feedback from the ISGs and other stakeholders to revise its position on the VCMA funding and support the stance taken. As we believe that the GDNs are uniquely positioned to identify and support vulnerable households because of their work inside customers' homes.

However, we note that the proposed funding of £165m (2023/24 prices), is a significant reduction on that awarded under RII-GD2 - £171m (2018/19 prices) which equates to £211m (2023/24 prices).

We encourage Ofgem to clearly define the baseline allowance for the BAU elements, CO, services beyond the meter and Priority Service Register (PSR). Given the nature of the work, we would request that this is not subject to regression.

As an ISG, we shall continue to challenge WWU to ensure that these funds are used efficiently and fairly.

### *Accelerated Depreciation*

#### *FQ24: What are your views on our proposal to accelerate depreciation for new assets only in GD and is there any further evidence you would like us to consider before we reach a final decision?*

Given the move to net zero by 2050, we support the move to accelerate depreciation for new assets only, as we believe this is fairer for both existing and future customers.

However, we do not believe that accelerated depreciation will solve the range of challenges arising from forecasted declining gas usage over the medium/long term and remain very concerned about fewer customers being burdened by ever rising costs. This is particularly acute for the fuel poor, who do not have the funds to transition away from gas heating.

### *Non-Mandatory Repex*

#### *GDQ5 Do you have any feedback on our approach to assessing non-mandatory repex workloads?*

Given the GDNs have a statutory duty to maintain safety and the potentially significant environmental benefits through reduced leakage, we are concerned about the proposed reduction of the Cost Benefit Analysis (CBA) payback cut-off period from 16 years (as used in RIIO-GD2) to 11 years, especially given that even under the new regime the assets will be depreciated through to 2050.

Our concerns arise regarding projects that would otherwise have gone ahead, not being implemented, with the potential impact of the resulting increasing costs falling on current customers in terms of ongoing maintenance increases and future customers in respect of delayed capital expenditure which will be required to maintain the network into 2050 and into the future.

### *Efficiency*

#### *OVQ19 Do you agree with our proposed approach to ongoing efficiency?*

We note the proposed ongoing efficiency target of 1%, double that suggested by the GDNs, which although this was well evidenced, it was at the lower end of our expectations, and we challenged the company accordingly.

### *Sustainability and Environmental Management*

Over the RIIO-GD2 period there has been a significant focus on the environment by WWU. We are pleased that this emphasis has continued into RIIO-GD3 planning with renewed focus on supporting communities through biodiversity, community resilience and environmental action.<sup>5</sup> This was strongly endorsed by consumers and stakeholders in company research.<sup>6</sup>

We welcome recognition in the DD for the work already undertaken by WWU and their ongoing strategy. We felt that customer benefit manifests itself throughout the plan, for example as evidenced by more sustainable procurement processes, better visibility of carbon metrics across the organisation and the supply chain.<sup>7</sup>

We are pleased with the monies set aside by Ofgem to encourage innovation in reducing shrinkage and see this as an ideal opportunity for the GDNs to work collaboratively. We look forward to engaging with the company as work progresses in this area.

We endorse Ofgem's requirement that the GDNs collaborate to better define their Business Carbon Footprint (BCF) targets, resulting in an aligned and consistent methodology. This is particularly key given WWU's largely insourced delivery model, which will generate a different profile to the other GDNs.

#### *OVQ2 Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?*

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<sup>5</sup> <https://www.wvuutilities.co.uk/media/5995/48-environmental-action-plan.pdf> - 1.7 Our RIIO-GD3 Aims

<sup>6</sup> stakeholder justification <https://www.wvuutilities.co.uk/media/5887/stakeholder-justification-paper-biodiversity.pdf>

<sup>7</sup> <https://www.wvuutilities.co.uk/media/5995/48-environmental-action-plan.pdf> - 2.1 business carbon footprint

Yes, we fully endorse Ofgem's decision to ensure that the companies cooperate to develop coherent Environmental Action Plans that use a defined set of metrics and allow easy comparison between the GDNs.

### *Innovation*

#### *WWUQ9 Do you agree with the level of proposed NIA funding for WWU?*

We welcome Ofgem's stated openness to further support innovation by using the Network Innovation Allowance (NIA), the Strategic Innovation Fund (SIF) and re-openers as a mechanism to fund innovation, particularly as government strategies for net zero continue to evolve.

However, we are disappointed that Ofgem proposed large cuts to WWU's NIA and Net Zero and Re-opener Development (NZARD) budgets (-69% and -85% respectively). We expect that WWU and the regulator will review and better define the NIA funding requests, leading to a better outcome for consumers.

Further, we understand that in the case of NZARD this was because several projects were grouped together into logical programmes of work and, consequently, it was interpreted that they exceeded the UIOLI individual project maximum of £2m, and therefore were disallowed. This is unfortunate and we trust that WWU and Ofgem can redress the issue before the final determination.

We do note the positive suggestion from the regulator in the draft determination, that these projects could be submitted via the NZASP re-opener. It would be very disappointing if customer centric net zero innovation were to be curtailed due to these DD proposed cuts.

### *Totex*

We note that in the draft determination it is proposed that WWU's baseline Totex is reduced by £688.6m, a difference of -31%. This is the largest of any of the GDNs. Whilst some of this reduction will result in work proposed by WWU not being undertaken, a significant part will potentially impact core activities required to keep WWU's network safe and secure.

We trust that in arriving at the final determination, the regulator working with WWU will consider the impact of deferred activity on future bills and whether this is in the best interests of current and future consumers.

## **6. Future of the Independent Stakeholder Groups**

#### *OVQ1 We would welcome any views on the enduring role of the ISGs during RII0-3 and for future price controls.*

We look forward to working with Ofgem and the other ISGs to better define our remit as our role evolves from scrutinising the business plan to monitoring and challenging the performance of the company throughout the RII0-GD3 plan period.

In addition, the ISG will focus on three key areas:

- Customers – especially vulnerable ones.
- Stakeholder Engagement – in terms of who is consulted, why this is appropriate, and the methods used.
- Strategy & Innovation - the company's response to government policy (i.e. home heating), regulation (i.e. changes to energy price structures) and market developments.

We are also very aware that over the RIIO-GD3 plan period, several significant developments are expected, including:

- Government policy on the role of hydrogen (especially for home heating).
- How the net zero targets evolve as a consequence of government policy.
- Move to alternative forms of home heating and the consequential impact on the gas networks.
- Fuel poverty and the potential impact of increasing bills (due to reinforcement of the electricity network and changes to the depreciation of gas assets).
- A focus on intergenerational fairness and vulnerability ensuring no customer is left behind.

All of the above have significant implications for customers, Ofgem, the companies and the future role of the ISGs.

## **7. Conclusion**

We recognise that the RIIO-GD3 process reflects an evolutionary development of the RIIO-GD2 plan which fits with currently developed policy for the sector and we understand that Ofgem has refused to countenance funding in areas that are still subject to government policy (i.e. hydrogen). However, we do trust that as decisions are made that Ofgem and the companies are able to respond flexibly and appropriately, whilst at all times considering the impact on affordability.

As an ISG, we are committed to continuing to challenge and holding WWU to account whilst acting in the best interests of customers, especially the vulnerable, and other key stakeholders.

This response is not confidential and may be published.