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21st May 2026

Dear Matthew,

Wales & West Utilities (WWU) response to Ofgem Consultation Independent Gas Transporters Relative Price Control review

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

Q1. Do you agree with our assessment that the current RPC floor and ceiling have resulted in a material constraining effect on IGT charges over time?

Paragraph 2.13 states:

> "While a significant GDN cost driver relates to the repex programme of iron mains replacement, we understand that this is recovered within the GDN's CSEP charge and not included in the portion used to calculate the IGT RPC. The activities undertaken by IGTs are therefore broadly comparable to those carried out by GDNs at the network level at which IGTs operate. In this context, the constraint imposed by the RPC ceiling raises questions about the long-term financeability of IGTs."

Ofgem fails to explain where this understanding comes from. We are not aware that Ofgem has asked the GDNs whether this statement is true. For WWU repex costs are recovered proportionately across all GDN charges, this means that while some cost is included in the charge to the CSEP cost is also recovered in the Single Supply Point (SSP) charge. As the SSP charge will be typically greater than the charge to the CSEP then the difference between them, which is used to set the IGT entry point into the relative price control, will include an element of Repex costs[1]. The question should be not whether the current RPC floor and ceiling has resulted in a material constraining effect on IGT charges over time but about financial resilience in the IGT sector.

[1] WWU-response-to-Ofgem-consultation-Independent-Gas-Transporters-Relative-Price-Control-Call-for-Input.pdf

Paragraphs 2.12 and 2.14 suggest that there is no evidence of an immediate issue although there may be in the future. The normal response to this would be to collect more information on the regulated businesses, in particular the transportation business.

Of the particular issues identified we have the following comments.

Disconnections

Ofgem are expected to issue a report following the series of workshops on domestic disconnections. We do not expect this to address the long-term issue that will result should there be a significant increase in the number of disconnections from the gas network by domestic customers. There are two issues, first the funding of the actual disconnection and secondly the impact on future revenue / individual customer charges. We realise that this impacts IGTs differently from GDNs; however, the issue is real for both and needs to be addressed for both in a coordinated way. It is not just a question of cost recovery but also one of equity between customers who disconnect and those who remain connected to the transporter's network.

Depreciation

As stated in paragraph 2.41, the decision in the GD3 price control was to:

> "…accelerate depreciation only for new additions to GDN Regulatory Asset Value, using a sum-of-digits approach with asset lives set so that new investment is fully depreciated by 2050."

We agree with the conclusion in paragraph 2.42 that this decision means that the impact on IGTs is much reduced. We would also add that as new building regulations come into effect on 24th March 2027 that effectively prevent gas connections to new homes, one might expect that the development networks for domestic housing would soon cease.

Q2. Do you agree that a case for revising the RPC floor and/or ceiling has been sufficiently established?

There is a case for gathering more information on the finances of IGT transportation business and it may be that rather than adjustment of the RPC floor and ceiling that a more fundamental review of the IGT price control is required. Paragraph 2.44 states:

> "Based on the evidence currently available, our view is that the existing RPC floor and ceiling arrangements may no longer be fit for purpose in the context of the energy transition. The combined effect of rising disconnections, the structural decline in new gas connections, and the mechanical constraint imposed by the RPC ceiling creates a credible and material risk that IGTs will be unable to recover their efficient costs in the years ahead."

The question that has not been asked is whether the Relative Price Control continues to be the appropriate mechanism.

We note the observation in paragraph 5.4 that the domestic price cap is calculated based on GDN tariffs and that Ofgem has been unable to determine whether Shippers have passed on any benefit of IGT charges being lower than GDN charges to customers. As described in paragraph 1.4, the original argument for the RPC when it was introduced in response to "large and inconsistent differences between the IGTs and the charges of what was then

Transco.” Charges to domestic customers are now again regulated by a price cap that is not intended to be permanent but seems likely to endure for some time. In addition, as the consultation states in paragraph 4.3 “the largest IGTs [are] now operating at a scale comparable to some smaller GDNs”. A mechanism introduced when IGTs were essentially disrupting the gas connections market is not necessarily appropriate now they are mature businesses with substantial assets.

Q3. Do you agree with our proposed changes to the RPC floor and ceiling?

Ofgem’s preferred approach is option 2b - Adjust RPC according to RIIO changes (keeping the floor and ceiling) with a phased uplift to align IGTs with GDN charges.
Please see our response to question 2. As explained in our response to question 1, we also think that Ofgem has made an error in its understanding of how Repex costs are recovered by GDNs and Ofgem need to consider whether this error affects their analysis.

We note that the option of “Application of cost adders to the current RPC framework” has been rejected and we assume that this conclusion has been fed into the team considering domestic disconnections.

Q4. Do you agree with our proposed reporting requirements for the IGT sector?

We strongly support the proposed reporting requirements for IGTs. As stated in paragraph 4.3 the IGT sector has expanded significantly and enhance regulatory oversight is required so that Ofgem can protect customers and promote high quality service across all parts of the gas distribution market.

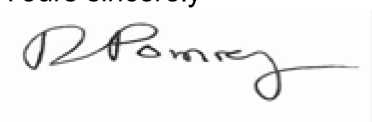
Q5. To what extent should proportionality (such as thresholds, phased adoption, sampling) be applied to this reporting that would maintain data quality while limiting burden on smaller IGTs?

No response.

Q6. Do you have any views on our proposed ‘other’ changes to the IGT RPC

No response.

Yours sincerely



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