



The Forthcoming GDPCR

A Wales & West Utilities Perspective

Wednesday 11 January 2006

- We are a stand-alone gas distribution business
- We serve over 2.4 million customer sites, from extremely large industrial premises to individual households
- We have about 1,200 staff and about 500 contractors
- Total revenues are about £240 million
- We operate over 30,000 km of pipelines
- We provide some 22,000 new connections p.a.
- We are a medium sized network

- We are a business in transition
- The review represents a series of key challenges:
 - ◆ Devoting sufficient resource to it as the same time as all the other things that we are doing to develop our business
 - ◆ Accessing past information and assessing its materiality
 - ◆ Understanding our costs and developing sensible cost forecasts
 - ◆ Engaging on the things that matter, both short and long term
 - ◆ Striking the right balance in a number of areas, for example getting right the incentives to deliver improved customer service

- We support the overall approach, a one year extension followed by a full review. Whilst there has to be an overlap, we would also like to see as much separation as is sensible
- We support in principle the proposed subjects for the extension and for the main review
- We think the timetable is achievable, but have concerns over the potential amount of repetition
- We accept that annual cost reporting is coming, and want to see it developed as proposed during the latter stages of the main review – but we worry at the workload implications

- Focus on capex overspend and RAV consolidation is appropriate
- Open minded on best way to deal with opex roll forward
- Feel that both shrinkage and pensions are subject to significant externalities beyond our control, so believe it appropriate for some treatment in extension

- Agree with scope
- Glad that Ofgem recognise difficulties of obtaining sensible comparative data – for WWU, for example, in 2006/07 we will be:
 - ◆ Transitioning off several service contracts with NG
 - ◆ Consolidating three principal offices into one
 - ◆ Implementing a huge investment in new IT
 - ◆ Introducing a range of other changes

- Finding out what customers want, for example getting the balance rights between costs and service levels and determining the best approach for xoserve
- Creating appropriate incentives – in particular we would like to see some form of rolling incentive on opex to apply now, not just from 2008
- Getting the cost comparisons right – which means identifying what are real drivers for cost differences between networks
- Developing capex policies that provide incentives to forecast correctly and deliver efficiently
- Minimising any increases in complexity
- Putting in place a new cost reporting framework that properly recognises all the above

- We are happy to commit to greater transparency
- We think that the various proposals in para 7.4 of the consultation paper are appropriate
- Whilst we think that the paper is a good first step, we all know that there is a long way to go, and plenty of room for debate
- We intend to be proactive going forward

- We welcome feedback, on what we have said today or what will be in our responses to consultation
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