

Mr Andrew MacFaul
Head of Better Regulation & Co-ordination
Ofgem
9 Millbank
London
SW1P 3GE

Ferry Road
Grangetown
Cardiff/Caerdydd
CF11 0XR

T:029 2076 7600
enquiries@wwutilities.co.uk
www.wwutilities.co.uk
24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

17 February 2006

Dear Andrew

Proposed Corporate Strategy & Plan 2006-2011

I am writing further to the publication of the above proposed corporate strategy and plan for 2006 to 2011 on behalf of Wales & West Utilities.

Chapter 2 - Regulating Network Monopolies

We welcome the principle that Ofgem remain committed to incentive regulation, allowing businesses who meet their statutory and licence targets to earn higher regulatory returns and those that fail without genuine reasons to meet them to run the risk of being fined and those underperforming their price control targets should earn lower returns. It is therefore important that price control allowances enable transporters to meet their statutory and customer obligations.

The basic principles as set out in para 2.4 are appropriate, but are not always easy to put into practice, as the significant increase in the number of Ofgem consultation documents in the last four years indicates.

We look forward to working closely with Ofgem as part of the Gas Distribution Price Control Review. We support the open & transparent process that is being put in place whilst recognising that this is a massive workload issue for all concerned that will require substantial resources. The GDPCR is a very challenging process with tough deadlines, particularly over the next 2 months.

We are working closely with Ofgem in the project to reform the arrangements for interruption on gas networks and the introduction of incentives. It is important that this is taken into consideration as part of the price control review.

We would welcome further discussion about extending and developing Quality of Service Initiatives, and this should be addressed as part of the price control review. We believe it is timely, as part of the GDPCR, to review the standards of performance for appropriateness and in particular to identify those that are of value to customers. Also, standards are only achievable if performance against them can be accurately monitored and reported.

Chapter 5 – Environment

It is important for Ofgem to look at the treatment of shrinkage as part of the price control review. It is essential that Gas Distribution Networks (GDNs) are incentivised on costs that are within their direct control. The current increase in gas prices is of major concern to WWU and therefore we propose that the regulatory treatment of shrinkage costs should be revised to recognise that the price of gas is not controllable by GDNs

Chapter 6 - Fuel Poverty

WWU are concerned about the access to the gas network of homes and businesses in rural areas. Currently there are barriers preventing GDNs in assisting in alleviating Fuel Poverty which is an important regulatory and political issue. Clearly the cost advantages of gas are a recognised benefit to the fuel poor and we have some ideas on the way forward.

Within the WWU boundaries there are around 50,000 domestic customers less than 2,000 metres from the existing gas network. The requirement for cost-reflective pricing prevents many of these customers from being connected to the gas network. There are possible options to assist in reducing the level of contribution required from the customer, for example joint initiatives with local authorities, we are currently looking into this as an option for the future. We also believe that the industry needs a general policy change to enable more extension schemes to go ahead. To do this, we propose that GDNs should be able to offer a greater proportion of the extension for free to the new end users or at least at a lower cost, by capitalising a greater portion of the costs which would then be incorporated into our RAV. We would welcome further discussion with Ofgem in this area.

I trust that our comments are useful but if I can be of any further help please feel free to contact me on 029 2058 8106 (sarah.williams@wwutilities.co.uk)

Yours sincerely

Sarah Williams
Regulation Support Manager