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26th November 2010

Response to Open letter consultation on the development of Gas and Electricity innovation

Dear Anna,

Wales & West Utilities Limited (WWU) is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover $\frac{1}{6}$ th of the UK land mass and deliver to over 2.4 million supply points. WWU is one of only two Licence Operators that focus solely on Gas Distribution in the UK.

This letter is a response to your initial open letter consultation on the development of Gas and Electricity innovation stimuli.

We participated in the first Innovation Stimuli stakeholder event held recently and recognise that Ofgem's thinking on the proposed innovation stimuli will be informed by the recent workshop and ultimately the responses received to future consultation papers. However, ahead of the initial strategic consultation on RIIO GD1 (Gas distribution price control review) in December, we think it is important we set out our concerns over a couple of aspects of the proposals in the hope that you may review them before finalising the December document. Our initial concerns relate to;

- Clarity on the proposed funding mechanism
- The proposed withdrawal of IFI,
- The encouragement of non-network parties to lead on projects financed by customers under the stimulus

Clarity on the proposed funding mechanism

The open letter states that the scheme will not be funded centrally but funded by transfers of money between licensees. Please could you clarify how this would work in practice? It would help if you provide some simple numeric examples to explain the impact on allowed revenues for networks and the collection of these revenues from network users.

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

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Innovation Funding Incentive (IFI)

The IFI scheme has worked well in encouraging innovation across the whole Energy networks sector and we are concerned by its proposed withdrawal. It has taken some time to re-establish research and development as a valuable core business process within the sector and without the focus of IFI there is a danger that research associated with the provision of safe, reliable efficient and secure networks will significantly decline.

We do not believe that the route to innovation should be wholly dependent upon either well justified business plans or the competitive innovation Stimuli. It is likely that the former will only include "low risk", fully quantified projects that warrant Ofgem providing ex ante funding. The latter will be associated with high cost, high risk projects that will require a significant amount of work to prepare a winning pitch for competitive funding thus ruling out smaller but very valuable Innovation projects. Furthermore the IFI arrangement can be a valuable "nursery" for larger more ambitious projects that then become prime candidates for a competitive funding process

Third Party Participation

While we fully support third party involvement and see that third parties have a valuable contribution to make, we do not agree that Ofgem should enable them, via licence, to have independent access to our live networks. Given the ultimate safety and security of supply responsibilities bestowed upon us by primary and secondary legislation and indeed our existing licences we do not think it is appropriate for Ofgem to proceed as proposed. Rather, third parties should have access to the scheme by working in partnership/conjunction with network companies.

Experience of the IFI scheme has demonstrated that networks and third parties have, and continue, to work together to deliver innovative solutions.

I hope you find our initial comments useful and we hope they will contribute the development of future consultations on the innovation stimuli.

Yours sincerely

A handwritten signature in black ink, appearing to read "S Edwards", with a long horizontal flourish extending to the right.

Steve Edwards
Head of Commercial and Regulation
Wales & West Utilities