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Dear Rachel & James,

Further to your recent notification that no GDN will be fast tracked, and the follow up actions you have identified leading up to Business Plan resubmission by all networks in April, below we outline our thinking in relation to the current status and required actions.

Business Plan Preparation

Since the concept of RIIO was introduced by Ofgem and put forward as the model for this price control, we have sought to frame our business plan around the key requirements of RIIO - as outlined in your various pieces of guidance on the subject. We believe our November business plan submission fulfilled all the key elements required under RIIO, and in particular;

- We have undertaken significant stakeholder engagement as part of the plan preparation, receiving constructive feedback which has informed our priorities.
- We have taken industry leading asset management strategies from the latest electricity review and further developed these into robust and sector leading models/techniques that give us much improved analysis on which to make informed investment decisions.
- We have developed a robust and externally validated Cost Benefit Analysis ("CBA") model for mains replacement – which we believe allows determination of the optimum solution both from a consumer cost and public risk standpoint.

We welcome some of your detailed comments on our business plan that recognise the process we have followed as well as your references to some key principles that we have built our asset plan on.

During the past 18 months we have regularly kept your team up to date on our approach to asset management, with consistently positive feedback from them on our approach. We also provided a detailed response to the letter from Stuart Cook where we again outlined our approach. You will also recall our initial proposal to all networks at the start of the RIIO process in 2010 to work collaboratively on a single approach to this key area.

Similarly, on the development of a CBA model for mains replacement, we initially proposed a collaborative approach to this across all networks, but unfortunately could not get agreement from the others. Recognising the importance of this subject area however, we decided to continue development of our own model in isolation. Even since developing our model, we have been prepared to share its approach and findings with all parties.

Throughout the process leading up to the submission of business plans in November last year, we have discussed with Ofgem the difficulty that the independent approaches taken by the GDN's to both mains replacement analysis and asset management strategy more generally, would cause in making meaningful comparisons across the networks in these key areas of activity.

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Proposed Next Steps

We note your latest request for all GDN's to now resubmit plans based on a more comparable set of principles. We hope that we can use the visit from your officials on Thursday 1 March 2012 to clearly demonstrate how our key strategies, principles and modelling provide a platform that can be applied across the sector.

Whilst you will note the historic reluctance from other networks to participate openly on a range of issues during the lead up to business plan submission last November, to assist Ofgem in making meaningful comparisons, WWU is prepared to share our approach with the sector. It should be recognised that we would do this with a large degree of reluctance given the significant Intellectual Property and effort invested in our approach - but in the spirit of getting to a satisfactory conclusion we are prepared to do so to assist in getting all the GDNs to the same place.

Given the available time before the resubmissions at the end of April 2012, it is unlikely that any GDN will be able to rebuild their various cost benefit models in time. We would therefore suggest that future discussions on the models should aim to understand, and where appropriate, align the underlining model assumptions in order that the resultant outcomes are more comparable.

We look forward to your early response in these matters.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'S Edwards'.

Steve Edwards
Head of Commercial and Regulation
Wales & West Utilities