



WALES&WEST
UTILITIES



WWU RIIO GD1 update to PCRf

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➤ Overall revenues and charges:

- expected charge changes, and
- overview of principal cost changes relative to GDPCR1

➤ Investment plans:

- how plans reflect value-for-money for consumers

➤ Uncertainty:

- how plan takes into account uncertainty in relation to future network use

➤ Social outputs:

- proposals in relation to CO outputs and fuel poor networks

Expected charge changes and overview of principle cost changes

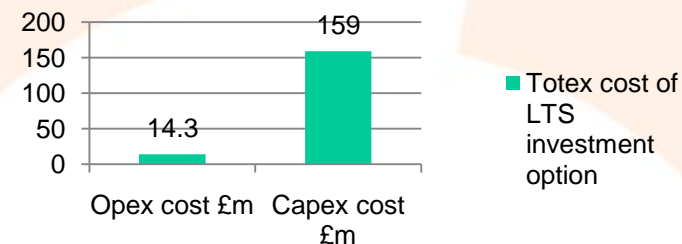
Wales & West Utilities April 2012 updated Business Plan Submission - Allowed Revenues (2009/10 prices, £m)

	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Total Allowed Revenues	332.4	333.0	337.7	339.8	333.6	334.4	333.2	330.6

Allowed Revenues exclude Smart Metering, NTS Exit Capacity & Tax,(09/10 prices)

- The Allowed revenues are broadly flat (excluding inflation) over the 8 year RIIO GD1 period.
- Using a 3% assumption for inflation, the average annual price change is forecast at 3.9% (of which 3% is inflation)
- The principle drivers to cost changes from GDPCR1 are:
 - Impact of Traffic Management Act
 - Gas prices
 - Totex approach to investment to deliver Outputs
 - Repex increases due to encroachment, deteriorating assets and cost benefit analysis (CBA)
 - Stranded emergency costs as a result of Meter tipping point removal

Example of Totex cost for an LTS intervention (£m)



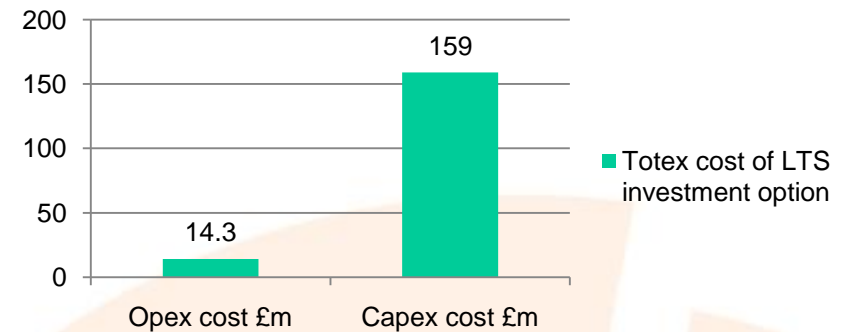
Note: We have excluded impact of Smart meters. We have proposed an uncertainty mechanism to address this material uncertainty. There is broad network agreement on the proposed uncertainty mechanism



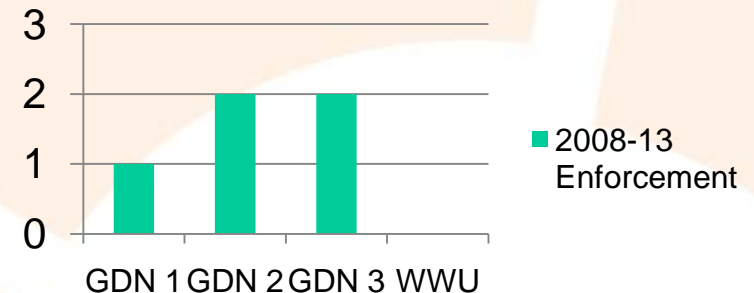
Our ageing assets are clearly deteriorating

- We now have high quality data on which to make decisions, eg. asset condition, health & consequence of failure. We also have significant performance data through fault analysis
- We have developed a mix of interventions so we optimise the asset decision, eg;
 - Extend asset life = Opex spend
 - Replace when CBA justifies = Capex spend/Opex decrease
- A good example is LTS pipelines, where we propose Opex spend of £19m to save £169m in capex
- Its also not just about cost - legislative and safety compliance is also a key requirement for GDN's
- In this regulatory price control period WWU is the only gas networks not to have had any HSE enforcement action taken against it

Example of Totex cost for an LTS intervention (£m)



2008-13 Enforcement



Our plan is aimed at delivering the most cost efficient solution to meet stakeholder and legislative requirements - as our assets clearly deteriorate



How our plan addresses uncertainty and the future role of gas networks

- No current energy mix scenarios exclude gas for heat or generation before 2035
- The longer term energy solution for the UK should utilise existing infrastructure wherever possible to mitigate cost to consumers
- The use of 16 year payback as suggested by Ofgem would increase costs to current & future consumers - and significantly put at risk UK security of supply
- If this approach was applied to smart meters, renewable electricity, transmission assets, or indeed any other long life energy assets they would all fail this test
- WWU investment plan has sensitivities and shows payback periods by asset class, for example LTS and Multiple Occupancy Building services
- Our plan also appropriately balances Opex & Capex to reduce the risk of stranded costs
- From a business financing standpoint, the current debt index approach does not reflect the real costs of raising finance - and without a collar mechanism adds significant risks for both consumers and networks.

Given gas will continue to play a key role in the energy mix for some time, a sensible approach needs to be taken on investment assessment which mitigates consumer cost and the risk of flight of investors



WWU Social Outputs – proposals in relation to CO and Fuel Poverty

WWU has taken a proactive approach to raising awareness of CO poisoning, both with our direct labour and contract staff and, more widely, to the 7.5 million people who live and work in our network.

- Personal Alarm Monitor (PAM) alarms have already been issued to all First Call Operatives alongside comprehensive training, CO alarms have been issued to staff, and will be made available to fuel poor customers and other identifiable vulnerable customers.
- Our planned awareness programme – which ultimately aims to help reduce the number of deaths and injuries from CO poisoning – is estimated, over the coming twelve months to reach over one million people.
- Improved reporting enables our network CO ‘hotspots’ to be monitored on a monthly basis, whilst our back office processes enable us to follow up on 100% of incident reports received within one working day of their occurrence, providing confidence and support to victims of CO poisoning.

WWU has completed detailed analysis which identifies those properties with no gas supply which lie within the Governments Index of Multiple Deprivation top 20% areas and is working with the Welsh Government to establish a forum for Wales in order to maximise the use of this data set to reduce fuel poverty.

- A minimum of 10,800 fuel poor connections, which equates to 8% of fuel poor households not on gas within our network will be targeted over RII0-GD1.
- WWU is exploring opportunities to develop alternate gas sources as a solution to providing gas to those communities remote from our network where traditional network extension methods may be exorbitantly expensive and have commissioned a study to identify potential sources of distributed gas within our geography.
- In addition, WWU’s environmental proposals will, over the next 10 years, provide an overall reduction of 18% in carbon dioxide emissions.



Summary

WWU has a leading track record on key measures going into this review - including cost to supply, customer service, safety, and efficient cost reduction. We have delivered rather than promised.

- Our package represents a sensible and affordable mix between consumer cost, public safety and reliable service - with full justification and cost analysis for all our planned activities
- Efficiency comparisons between networks cannot be based on traditional bottom up regressions - a new Totex environment demands a more generic and balanced approach to ensure comparisons are made on a whole life cost basis. And regressions should only be part of a review of network performance

Gas will continue to play a key role in the UK energy mix for the foreseeable future - and our business plan represents a sensible balance for consumers in a balanced energy mix going forward