

Mick Watson
Ofgem
9 Millbank
London
SW1P 3GE
mpr@ofgem.gov.uk

Wales & West House
Spooner Close
Celtic Springs
Coedkernew
Newport NP10 8FZ
Telephone/Ffôn: **0800 912 29 99**
Fax/Ffacs: **0870 1450076**
Email/Ebost: enquiries@wwutilities.co.uk
www.wwutilities.co.uk

Tŷ Wales & West
Spooner Close
Celtic Springs
Coedcernyw
Casnewydd NP10 8FZ

12th January 2016

Dear Mick,

Wales & West Utilities is a licensed Gas Distribution Network (GDN) providing gas transportation services for all major shippers in the UK. We cover 1/6th of the UK land mass and transport gas to over 2.5 million supply points.

We have not responded to questions related to the Transmission Mid-Point Review issues. We provide responses to those questions on the generic Mid-Point Review process (Chapter 1), Gas Distribution issues (Chapter 4) and Cross Sector issues (Chapter 5).

Chapter 1

Question 1: Do you have any views on the additional clarity we have provided on the RIIO-T1 and GD1 MPR scope?

The RIIO GD1 Final Proposal documents published in December 2012 by Ofgem provided the scope of a "RIIO" Mid-Point Review. This consultation document is consistent with the scope as detailed within the Final Proposals. We also think the level of clarity provided within the document is appropriate and probably helps those stakeholders not familiar with the RIIO GD1 final proposal guidance.

Question 2: Do you consider the issues we have identified for RIIO-T1 and GD1 in this consultation fall within this scope?

Changes to legislation and Outputs were indicated "within" scope of a Mid-Point Review, as part of the RIIO GD1 Final proposals.

The two issues identified within the consultation document for gas distribution are "Iron Mains Safety Risk Reduction" and "Asset Health and Risk".

The Iron Mains Safety Risk Reduction was subject to a potential legislative change from HSE. We note, the HSE has confirmed to Ofgem that it recommends no further change at this point.

Smell gas? Call us!
Arogli nwy? Ffoniwch ni!

0800 111 999

All calls will be recorded and may be monitored
Bydd yr holl alwadau'n cael eu cofnodi ac
fe allant gael eu monitro

Asset Health and Risk is linked to Output delivery and significant progress has been made defining a detailed methodology for the assessment of the health and criticality of gas assets via a monetised risk process.

We agree the two issues raised within the GD1 consultation fall within the MPR scope.

Question 3: Are there any other issues within the defined scope that we have not included when assessing the need for an MPR for RIIO-T1 and GD1?

There are no other issues within the defined scope that have not been included within this document for gas distribution.

In addition to this MPR consultation Ofgem will be aware that we are delivering significant industry change and have voluntarily agreed to provide, Fuel Poor Connections and Vulnerable customer protections and additional Theft of Gas activities over the RIIO GD1 period.

Industry Change:

We are working collectively with Xoserve, Shippers, other networks and Ofgem to develop the following evolutions to benefit customers:

- Updating the Funding, Governance and Ownership (FGO) of Xoserve to make it more transparent and inclusive for other industry participants. We are on target to establish revised arrangements by April 2016
- Faster Switching. We have committed resources to support the retail sector in implementing the UK government aspirations for faster switching
- UK Link and Project Nexus. The Xoserve systems are undergoing the most significant review and we are playing our full part in supporting all parties to deliver the industry required changes by October 2016

Fuel Poor Connections, Vulnerable Customer protection and Theft of Gas activities:

We have worked collectively with Ofgem, our stakeholders and fuel poor partners to review the existing Fuel Poor scheme. Following a detailed stakeholder led process; we are pleased that the outcome is a continuation of the scheme with updated eligibility criteria.

We have also undertaken a review of services that can be provided to Vulnerable customers and again we are targeting additional support compared to our initial RIIO GD1 Output commitments. Additional benefits to those in fuel poverty and the most vulnerable are as follows:

- As a beneficial outcome for the most fuel poor in our area we have committed to an additional 20% of fuel connections by 2021. This challenging target will require us to deliver over 12,500 fuel poor connections by 2021, compared to Our RIIO GD1 Output target of 10,800. We are making very good progress against this additional target.
- Vulnerable customers. We have agreed to extend the Priority Service Register process between electricity distribution and gas distribution and are using a range of innovative techniques including “Apps” to ensure the eligible customers are identified and added to the PSR. This will result in more people being able to benefit from our services offered.

Smell gas? Call us!
Arogli nwy? Ffoniwch ni!

0800 111 999

All calls will be recorded and may be monitored
Bydd yr holl alwadau'n cael eu cofnodi ac
fe allant gael eu monitro



Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Celtic Springs,
Coedkernew, Newport NP10 8FZ
Registered in England and Wales number 5046791

We are working with industry partners, Xoserve and through the Supply Point Administration group (SPAA) to ensure we collectively tackle theft of gas.

Chapter 4

Question 17: Based on our current assessment we have not identified any material issues for RIIO-GD1 which we think would require further examination through an MPR. Do you agree with this assessment?

We have outlined in our responses to Chapter 1 some areas that have evolved within the existing RIIO GD1 framework. Outside of these areas, we have not identified any other material issues that require further examination through an MPR.

RIIO is in its infancy but the early signs are that it is achieving its key objectives of delivering stakeholder driven outputs, driving efficiency for the benefit of consumers and enabling innovation to move the industry forward. This first RIIO period is eight years and we are on track to deliver our eight year commitments to customers.

Since the start of RIIO-GD1, the drive to innovate has increased significantly with much resource devoted to finding new solutions to our current and future challenges. The incentive and innovation mechanisms introduced within RIIO are delivering significant efficiencies which drive down long term costs, with outperformance being shared with consumers under the totex incentive. As an example, the lifecycle of a Replacement is benefitting from a number of innovations that are collectively delivering efficiencies that are feeding through to customers totex cost savings and interruption duration.

Stakeholder driven Incentives such as the Broad Measure of Customer service, Discretionary Reward Scheme, Shrinkage gas and Environmental Emissions are ensuring GDNs are focused on delivering stakeholder requirements with sufficient penalty for failing to do so. As such, behaviours across the GDNs are focused towards the benefit of consumers.

In summary, whilst RIIO is in its infancy, we believe the RIIO framework is delivering as intended and there is no requirement to examine further at mid-point.

Question 18: Do you agree with our current assessment that there is no need to review the risk reduction output associated with the iron mains risk reduction programme, as part of an MPR?

We have undertaken our own review of the current Output and concluded the Iron Mains Risk reduction Outputs are delivering significant customer benefit. We therefore agree there is no need to review the Output requirements. The details of our review are as follows:

Following a productive consultation ahead of RIIO GD1 we collectively agreed to move to a “3 Tier approach to deliver the Iron Mains Reduction Programme”. The move to a 3 tier mains replacement programme provides significant safety, environmental and cost benefits to consumers. The current balance between selecting pipes on a combination of risk and CBA enables GDNs to deliver the best outcome for customers. We do not believe a move to a more risk biased approach will be to the benefit of customers as it would impact negatively on environmental outputs and operating costs whilst having minimal impact on risk removed.

Smell gas? Call us!
Arogli nwy? Ffoniwch ni!

0800 111 999

All calls will be recorded and may be monitored
Bydd yr holl alwadau'n cael eu cofnodi ac
fe allant gael eu monitro



Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Celtic Springs,
Coedkernew, Newport NP10 8FZ
Registered in England and Wales number 5046791

The benefits of the programme in its current form are highlighted below:

By 2050 the programme will have delivered in WWU's geography

- **Safety benefits:** avoided over 2,900,000 gas escapes, 175,000 fractures, 205,000 Gas in Building events and 80 explosions preventing circa 100 serious injuries and 40 deaths
- **Environmental value :** Prevented emissions equivalent to 12,400,000 tonnes CO₂e
- **Customer impact:** avoided 600,000 unplanned interruptions

This is whilst delivering value to consumers

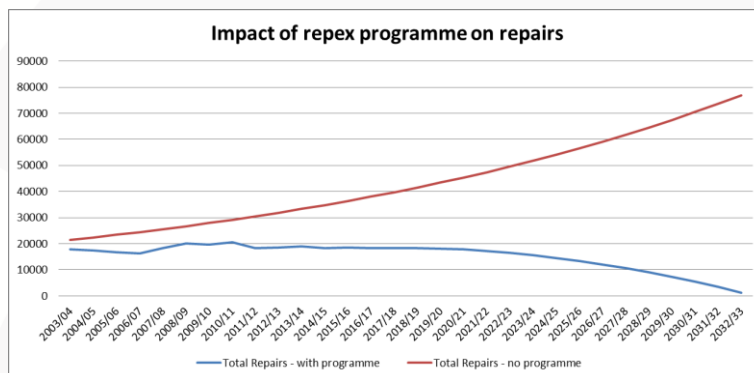
- **Financial Value:**
 - Net Present Value of the Programme from midpoint (2017/18) = circa +£1,289m
 - Pays back by 2037
- **Impact on annual gas bills:** Minimal impact as capital investments are offset by future operating savings. Current cost is only £7 per consumer per annum more than having no programme but this figure decreases to £0 by 2030 as the cost of managing a severely deteriorated metallic mains network outweighs the programme costs
- **Future energy benefits:** Completion of the Iron Mains programme supports a low cost, safe and secure gas network that will play a significant role in a future sustainable energy mix for GB Businesses and Consumers

The programme also ensures compliance with the Pipeline Safety Regulation 13a and the requirements of the HSE in managing iron mains

Current Impact of the programme

The programme from commencement to 2015/16 has avoided over 148,000 gas escapes, 13,000 Gas in Building events and 6 incidents preventing 6 serious injuries and 3 deaths

Graphs 1: Impact of programme on repairs



Smell gas? Call us!
Arogli nwy? Ffoniwch ni!

0800 111 999

All calls will be recorded and may be monitored
Bydd yr holl alwadau'n cael eu cofnodi ac
fe allant gael eu monitro



Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Celtic Springs,
Coedkernew, Newport NP10 8FZ
Registered in England and Wales number 5046791

It can be seen from the graph above that with no programme we would currently be responding to over 36,400 leaks per annum instead of our current rate of just over 18,000. Due to the seasonal profile of leaks, this would require a repair workforce of circa 3x our current level to manage the higher risk escapes safely.

The impact on our current output measures is illustrated in the table below

Output Description	2014/15	
	Actual	No programme
MRPS Risk existing on iron network	148,531	847,941
Fractures	616	2,185
Gas in buildings from fractures	48	170
Million repair risk score per annum	19	39
Unplanned interruptions	10,160	17,351
Environmental emissions (gwh)	376	496

In summary, without the programme we would be operating a very reactive business with significantly increased risk and interruption to the public and a much increased impact on the environment

Question 19: Do you agree with our current assessment that we do not need to review the asset health and risk secondary deliverable as part of an MPR?

We are currently developing the consistent methodology that will underpin the reporting of asset health and risk. We have been developing this methodology over the last two years and invested significant resource and time to this important area for customers.

This area of work is due to be completed by July 2016. The process has just gone through industry consultation with positive feedback for the approach taken. Our view is given the support expressed under the recent consultation and the fact that we will only have one year of reportable data by mid-point to support any analysis, it would not add any value to re-assess under a mid-point review. We do however support a review at RIIO-GD2 when the process is embedded and there is sufficient data to inform the review.

Chapter 5

Question 20: Do you agree that we should clarify some areas where it isn't clear how late or non-delivery will be treated? If so, which areas do you consider would benefit from such clarification?

Appendix 3 of The RIIO GD1 Final Proposals (Outputs and Incentives) document adequately clarifies how late or non-delivery of Network Outputs will be treated within Gas Distribution. Therefore we do not think further clarification is required. Some assumed "workloads" may vary to those anticipated at the start of the RIIO GD1 period due to factors outside of our control. We discuss these areas with Ofgem during annual visits and where RIIO GD1 defined Outputs are delivered we do not expect any penalty or additional allowance for "workload variances".

Smell gas? Call us!
Arogli nwy? Ffoniwch ni!

0800 111 999

All calls will be recorded and may be monitored
Bydd yr holl alwadau'n cael eu cofnodi ac
fe allant gael eu monitro



Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Celtic Springs,
Coedkernew, Newport NP10 8FZ
Registered in England and Wales number 5046791

Question 21: How material do you consider innovation tax relief has been and is likely to be for the network companies? Do you consider this is an issue that we need to pursue as part of any MPR? We request that the network companies provide estimates of the benefits accrued so far due to this tax relief as part of their responses.

Innovation is a key enabler to delivery of a sustainable energy sector supporting homes and businesses. The Innovation stimulus within RIIO is working well and we are engaging with over 1,000 external businesses from inside and outside the UK to develop the ideas and outcomes that will benefit UK customers for years to come. Therefore it is important that mechanisms to promote investment in innovation are utilised.

Yours sincerely,



Steve Edwards
Head of Regulation
Wales & West Utilities

Smell gas? Call us!
Aroglu nwy? Ffoniwch ni!

0800 111 999

All calls will be recorded and may be monitored
Bydd yr holl alwadau'n cael eu cofnodi ac
fe allant gael eu monitro



Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Celtic Springs,
Coedkernew, Newport NP10 8FZ
Registered in England and Wales number 5046791