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for energy consumers

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Date: 10 March 2016

Dear Richard

Wales & West Utilities 4B Connection Charging Methodology

You submitted a revised copy of Wales & West Utilities (WWUs) Connection Charging Methodology Statement (the "Statement") to us¹ on 12 February 2016. You proposed a number of changes to the Statement including amending its structure, text revisions to improve readability, and to incorporate recent changes we made to the Fuel Poor Network Extension Scheme (FPNES).

Standard Condition (SC) 4B of your Gas Transporter Licence states that any modification to the Statement can be vetoed by us. On this occasion, we have decided not to veto the modifications. Our decision is explained below.

Background

SC 4B of your Gas Transporter Licence sets out the obligations for you to put in place and maintain a connection charging methodology. In particular, SC 4B states that you must review the connection charging methodology at least once in every year and make modifications in order to make sure it continues to achieve the relevant charging objectives.²

It also states that any modifications must be submitted to us alongside a report which sets them out, explains why they will better facilitate the relevant objectives, and includes a timetable for implementing the changes. We have a 28 day period starting from the date this information is submitted to veto the proposed modifications, ie to issue a direction to the licensee that the modification shall not be made.³

The changes you propose are described in more detail below.

Revisions to WWU's connection charging methodology

You propose to restructure the Statement so it is in a more logical and readable order. As part of these changes you propose moving the text describing the Economic Test from the annexes to the main body of the Statement.⁴

¹ Expressions "we", "us", "Ofgem", "Authority" are used interchangeably in this letter. "Authority" means the Gas and Electricity Markets Authority and Ofgem means the Office of the Gas and Electricity Markets.

² SC 4B, paragraph 4

³ SC 4B, paragraph 6

⁴ The Economic Test section is in Annex F in the Statement effective from 10 September 2012.

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You also propose a significant number of text deletions and revisions aimed at making the Statement more readable and concise. This includes adding diagrams in Section 3 which show the 23 metre connection rule and the connection charging point principle.

In addition to these typographical changes, you also propose changes to a number of provisions in the Statement. These include:

Paragraph	Proposed change
2.1.1	Changing the lead time customers are required to give you for projects requiring the construction of high pressure pipelines or plant from two to four years to one to two years. You explain this change is based on your most up to date experience of delivering these projects and corrects an out of date lead time originally drafted by Transco.
2.2.1	Changing the definition of a Sufficiently Complex reinforcement from one which, amongst other things, is expected to have total construction costs of £100,000 compared to £250,000 in your current Statement. You have explained to us that this revision is based on your recent experience of delivering these projects and it is unlikely that such projects would cost above £250,000.
2.3.4	A new section titled 'Illegal Connections' has been added which sets out what an illegal connection is and the action you will take should one be made to WWU's network. You have explained to us this change is intended to provide more information on illegal connections.
2.4.2	Changing when an Advanced Reservation of Capacity Agreement (ARCA) may be required for capacity loads below 586 GWh when the specific reinforcement cost upstream of the connection charging point equals or exceeds £500,000. You have explained to us this change will make sure that your Statement is consistent with the Connection Charging Methodology Statements held by other Gas Distribution Networks.
7.2	You have revised the text to make it clearer that you may relocate supply meter installations subject to a survey and being able to use existing material. You have explained that this change is necessary as the text on the current Statement may give the impression you have an absolute obligation to move supply meters.
8.1 and 8.2	These paragraphs have been revised to make clear that you will provide entry connections to systems below 7 barg. You have also included more information explaining entry and storage connections, and charging. You have explained to us this change is necessary as entry connections have become more common in recent years. The text in the current Statement was drafted when these connections were much less common, and suggests you will not connect to systems below 7 barg.

You also propose revising the section setting out the Fuel Poor Network Extension Scheme (the "Scheme"), now section 5 in your revised Statement. You indicate that the modifications will revise this section in line with the changes that will become effective to the Scheme on 1 April 2016. They will ensure that WWU operates the Scheme in accordance with its obligations. We agree that the overall changes being proposed will bring the Statement in line with the new Scheme requirements, following our decision in September 2015.

Our comments

We appreciate your efforts to restructure the Statement. Succinct and clearly written methodology statements benefit both us and network users by providing concise and understandable information.

We have however noted some paragraph numbering errors you should correct when the Statement is next revised. These errors do not invalidate the information contained in the Statement. Correcting them, though, would make it easier to reference and locate text within the Statement.

We have identified incorrect paragraph numbering in 'Section 2- Design'. The paragraph numbering in this section runs from 2.2 to 2.4 to 2.3 and finishes at 2.4. You should correct the numbering so it runs in the correct ascending order.

There is incorrect paragraph numbering in 'Section 6 – Disconnection and alteration of gas connection apparatus'. The paragraphs are numbered '7.x' in this section when they should be numbered '6.x'.

This has had a knock-on effect on 'Section 8 – System Entry and Storage Connections'. This section should be titled 'Section 7' and the paragraphs numbered '7.x'.

Under the changes proposed for FPNES, we have found some areas that should be corrected when the Statement is next revised, with reference to the relevant paragraphs in the Statement:

5.2 *Note that eligibility does not extend to non-domestic premises or domestic new build premises, regardless of location. Developers will continue to pay for the full cost of connections for new build domestic properties. The assessment shall be undertaken against the tenants of the property and not the requester.*

The Scheme provides connections for fuel poor and vulnerable households. We agree the requester will not always be the party assessed (unless they are also the party occupying the premises) to ascertain if it is a fuel poor or vulnerable household. However, we have concerns with the use of "tenant" as a potentially limiting term. We consider that any reference to tenant, as well as all reference to domestic connectee, should be taken to mean "fuel poor and vulnerable households". Although we have decided not to veto the modifications submitted, we want the term 'tenant' to be changed to reflect accurately FPNES policy. You should provide us with a final amended version of the statement, updating this term, within seven working days from the date of this letter.

5.3 *The **Fuel Poor Voucher** for any domestic Fuel Poor connectee, will have a value equal to the lesser of:*

- *The total connection cost determined for that connection, or*
- *The Standard Domestic NPV Transportation Revenue calculated using the following assumptions:*
 - *A Standard domestic AQ value (in kWh) equal to the prevailing Typical Domestic Consumption Value (TDCV) in use by Ofgem at the point at which the Fuel poor Test is applied;*
 - *A regulatory asset life of 45 years;*
 - *A discount rate of 4.94%, being equal to the pre-tax WACC assumed in the derivation of the RIIO GD1 distribution price control (2013-21);*
 - *The transportation charges in force for that Distribution Network (DN) at the time of carrying out the Fuel Poor Test.*

We note that WWU has correctly stated that the prevailing TDCV will be used as part of the fuel poor test. However, it is the *medium* TDCV value, which will be used as a proxy for average gas consumption by the standard domestic consumer. Our decision letter on the changes to the Scheme, made clear we decided to use the medium TDCV as the source of the gas consumption number because, in our view, it will most accurately reflect typical household gas consumption. Therefore, this requires an amendment.

5.3.4 Where an Independent Gas Transporter (IGT) proposes to undertake a network extension to a Fuel Poor community WWU will, on receipt of the necessary information, calculate the level of the Fuel Poor Voucher payment that will apply in respect of that Connected System Exit Point (CSEP). The value of the Fuel Poor Voucher payment will be equal to the lesser of:

- The NPV of the GDN transportation revenue attributable to the Fuel Poor connections in that CSEP; or*
- The cost of the scheme multiplied by the NPV of the transportation revenue attributable to the Fuel Poor connections in that CSEP divided by the net present value of the transportation revenue which would be received if the customers were directly connected to the WWU network.*

WWU will pay the IGT upon receipt of 'As Laid' drawings and confirmation that heating systems have been installed in all of the properties.

We have noted how you are proposing to work with the IGTs to deliver fuel poor connections. However, by responding to this modification notice, we are in no way approving this as the only method to engage with IGTs to deliver fuel poor connections.

Our decision

We have considered the modifications you propose to make to the Statement. We are satisfied, subject to the comments above, that they update the Statement to reflect the changes we have made to the Fuel Poor Network Extension Scheme and will improve its readability.

We expect you to make the further changes we have identified above, particularly those relating to paragraph 5.2, within the next seven working days. This will correct the paragraph numbering and make it clearer that the medium TDCV will be used as the standard domestic AQ value.

Decision Notice

In accordance with Standard Condition 4B of the Gas Transporter Licence, the Authority has decided not to veto this modification to the connection charging methodology of Wales and West Utilities.

Yours sincerely

Andy Burgess

Associate Partner, Energy Systems Integration

Signed on behalf of the Authority and authorised for that purpose