

# Wales & West Utilities Independent Stakeholder Group (ISG) response to Ofgem's call for evidence on Wales & West Utilities RIIO-GD3 gas distribution business plan.

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## 1. Introduction

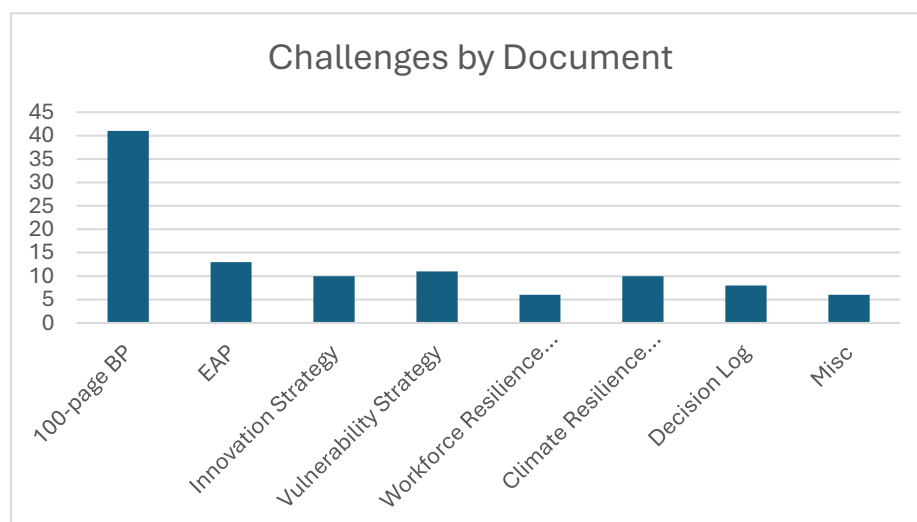
This is our response to the Ofgem Call for Evidence, published on 18 December 2024.

The WWU Independent Stakeholder Group (ISG) does not represent any particular groups or individual stakeholders. It comprises seven people from a range of relevant professions and sectors who have been asked to review the company's business plan from a consumer engagement perspective (except for financial elements, and cyber security).

The ISG acts as an 'informed critical challenger', to help ensure the WWU business plan represents consumer interest; and that the company has effectively engaged with its stakeholders and acted upon their concerns.

The WWU ISG developed from the Customer Engagement Group (CEG) which fulfilled a similar role for RIIO-GD2. The transition from CEG to ISG requirement was confirmed and defined by Ofgem in July 2024. The WWU ISG has clear terms of reference, governance and membership, in accordance with Ofgem business plan guidance. The terms of reference have been published on the [WWU website](#). Also included via this link are the challenge logs and meeting agendas which define the scope and nature of our engagement with Wales & West Utilities.

The chart below illustrates the range of challenges the ISG made to the business during the development of the plan.



## 2. Context

### *Domestic Customers*

Our comments on the Wales & West Utilities RII0-GD3 business plan reflect our concern regarding the pressures facing customers, especially the vulnerable.

As of 1 January 2025, the typical household pays £1,738 a year and National Energy Action's figures show there are 6.1 million UK households in fuel poverty.

Cost-of-living payments totaling £900 for households receiving means-tested benefits and £150 for those in receipt of disability benefits ended in April. This cut to income is not offset by the slight reduction in energy bills.<sup>1</sup>

A particular concern in reviewing this plan is the consequential increases in the standing charge, which households pay regardless of how much energy they use and tends to make up a higher proportion of fuel poor households' bills.

Further, energy debt has reached a new high of £3.8bn as of Q3-24, up £134m from the previous quarter, and £0.9bn over the past year. £2.9bn (75%) of this debt remains without any repayment arrangement in place, with 2m customers in this bracket. Total debt has almost tripled since 2020.<sup>2</sup>

Finally, almost 6 in 10 (57%) of all adults reported their cost of living had increased in the last month (4 December 2024 to 5 January 2025). Of all adults 39% were using less fuel, such as gas or electricity, in their home with around 1 in 3 adults (32%) who pay energy bills reported finding it very or somewhat difficult to afford these. Additionally, around 1 in 6 (16%) reported they were occasionally, hardly ever, or never, able to keep comfortably warm in their home.<sup>3</sup>

### *Business Customers*

Running a business in the UK is getting increasingly difficult. April's national insurance increases, potential changes to employees' rights, the increase in the national minimum wages and threats and potential of AI and Net Zero are all in addition to the continuing impacts from Brexit, Covid 19 and rising energy costs.

In early January 2025, 62% of trading businesses reported that they were experiencing at least one challenge that was having an impact on their turnover with around 30% reporting that their turnover had decreased in December 2024.<sup>4</sup>

Businesses have a key role to play as users of the energy system, as innovators and as part of the crucial supply chain in the journey to net zero. They need Government to take these factors into account when thinking about the UK's approach to supplying energy to industry and commerce. We would welcome greater emphasis

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<sup>1</sup> <https://www.nea.org.uk/energy-crisis/>

<sup>2</sup> <https://www.bfygroup.co.uk/blog/energy-debt-hits-record-3-8bn-as-ofgem-propose-initiatives-to-raise-standards>

<sup>3</sup> [Public opinions and social trends, Great Britain - Office for National Statistics](#)

<sup>4</sup> <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/23january2025>

on the economic contribution and social impact of businesses on the communities they serve in future plans.

### 3. Benefits to consumers

#### *Safety and security (Maintaining a safe and resilient network – Page 64)*

Several members of the ISG were members of the CEG, which scrutinised the RIIO-GD2 business plan, giving these members six years of experience of working with the company. Over this time, we are pleased to have detected no deterioration in the company's approach to safety, nor the way in which the leadership team promote the importance of WWU's class leading performance in this area, and are pleased to see this continuation, evidenced in the RIIO-GD3 plan, including

- Being the only gas network to have achieved RoSPA gold awards for safety consecutively over the last 11 years.
- Holding ISO 45001 the international standard for occupational health and management systems and guidance.
- Holding ISO 55001 the international certificate of Asset Management.
- From January to December 2024, achieving zero lost time injuries and zero high voltage cable strikes.

#### *Engagement with consumers (Consumer Voice – Page 15)*

We believe WWU has provided the information and evidence required for it to monitor how consumers and stakeholders have been engaged and how this engagement has affected the development of the RIIO-GD3 business plan. There has been a significant step change, innovation and investment in the way engagement is approached by the company. Engagement is now embedded within the business with the ISG pushing for further strategic development, enhanced stakeholder mapping and reporting including:

- Identification and prioritisation of key stakeholders by sector and activity.
- Improved outcome justification.
- Clearer relationship management within the organisation.
- Investment into AI, leading to clearer and more focused triangulation.
- Clearer cohesion from consumer and stakeholder feedback to business plan commitment.<sup>5</sup>

#### *Efficiency (Cost Efficiency Strategy – Page 88)*

We note the efficiency target of 0.5% and feel this is much better evidenced than the RIIO-GD2 submission.<sup>6</sup> However, in the light of current energy and cost-of-living crises, we would regard this as a minimum and would hope the company achieve better. We look forward to seeing the evidence of these savings manifesting themselves across the business to the benefit of consumers.

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<sup>5</sup> <https://www.wvuutilities.co.uk/about-us/stakeholder-engagement/reports-policies/> - RIIO-GD3 Plan Engagement Evidence

<sup>6</sup> <https://www.wvuutilities.co.uk/media/5965/60-cost-assessment-and-benchmarking-approach-redacted.pdf> - 4. Ongoing Efficiency

#### *Environment (Environmental Strategy – Page 46)*

Over the RIIO-GD2 period there has been a significant focus on the environment by the company. We are pleased that this emphasis has continued into RIIO-GD3 planning with renewed focus on supporting communities through biodiversity, community resilience and environmental action.<sup>7</sup> This was strongly endorsed by consumers and stakeholders in company research.<sup>8</sup>

#### *Sustainability (Environmental Management – Page 47)*

The ISG believe WWU have increased their focus on sustainability, this was strongly supported by customers and stakeholders in research. Customer benefit manifests itself throughout the plan, for example as evidenced by more sustainable procurement processes, better visibility of carbon metrics across the organisation and the supply chain.<sup>9</sup>

#### *Innovation (Innovation Strategy – Page 59)*

The future of our energy systems will need to change significantly and innovation will be one of the drivers of this. We believe the business has demonstrated an appropriate level of ambition regarding innovation within the constraints of the RIIO-GD3 framework. An example of this is the company's Hyline Cymru project, that looks to deliver low carbon hydrogen needed to support the decarbonisation of industry in South West Wales, one of the biggest clusters in the UK.<sup>10</sup> This project leverages NIA and NZARD UIOLI funding, alongside funding available from external sources to develop a suit of supporting projects to deliver their ambition.

We welcome Ofgem's stated openness to further support these innovations by considering re-openers as a mechanism to fund innovation, as government strategies for net zero continue to evolve.

The ISG encourage Ofgem to fund appropriate and timely activity in both preparing the network for either hydrogen or decommissioning, where these investments are very low risk and will protect longer term consumer interests.

#### **4. Issues for consumers**

##### *Bills (Customer Bills – Page 92)*

For businesses and consumers any increase in bills is unwelcome, especially given that the current economic environment is so very different to that at the start of RIIO-GD2 plan period with interest rates, inflation and cost of living increases all significantly higher. We note that most Totex costs (97%) reported in the plan are the results of mandated work activity, and that Opex increases are driven by the like of a move to cloud based computing.

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<sup>7</sup> <https://www.wuutilities.co.uk/media/5995/48-environmental-action-plan.pdf> - 1.7 Our RIIO-GD3 Aims

<sup>8</sup> stakeholder-justification <https://www.wuutilities.co.uk/media/5887/stakeholder-justification-paper-biodiversity.pdf>

<sup>9</sup> <https://www.wuutilities.co.uk/media/5995/48-environmental-action-plan.pdf> - 2.1 business carbon footprint

<sup>10</sup> <https://www.wuutilities.co.uk/media/6004/55-innovation-strategy.pdf> - Page 40

Whilst we understand the company's rationale for bill increases (average domestic bill increase of 48%, using Ofgem's notional capital structure basis), we remain concerned at the ongoing financial pressures this will bring to all consumers. The ISG believes there must be ongoing focus on the most vulnerable in society to ensure that no one is left behind in the energy transition. We are concerned that vulnerable consumers are likely to make up an increasing proportion of the domestic gas consumer base in the future.

We note that almost 50% of the proposed bill increase arise from Ofgem's decision to accelerate revenues from future control periods into RIIO-GD3 relating to its policy decisions to accelerate RAV depreciation and terminate indexation of the fixed rate debt portion of RAV.<sup>11</sup> Whilst we appreciate these are "speed of money" adjustments and are net present value neutral to both networks and consumers taking a longer term view beyond RIIO-GD3, we question the appropriateness of doing so at this time given the significant pressure on household finances.

*VCMA (Vulnerability & Carbon Monoxide Allowance (VCMA) – Page 30)*

Given the increase in bills, we welcome WWU's call to maintain the Vulnerability & Carbon Monoxide Allowance (VCMA) at enhanced GD2 funding levels.

We note the significant investment made by the company under RIIO-GD2 to develop partnerships with providers and communities to best service the vulnerable customers in their very diverse regions.<sup>12</sup> The ISG believe that Gas Distribution Networks are uniquely positioned to identify and support vulnerable households as a consequence of their work inside customers' homes. We would be disappointed if a reduction in the current level of VCMA funding meant that the impact of this investment would diminish, given over 140,000 WWU vulnerable customers benefited to date in RIIO-GD2 with combined savings of £17.5m.<sup>13</sup>

We believe that it would be appropriate for Ofgem to ask for more detailed plans from all GDNs of the potential impact of the enhanced VCMA allowances. Further, the ISG would urge Ofgem to undertake an assessment of the potential impacts on vulnerable households if the enhanced level of VCMA funding does not continue. These actions should happen prior to draft determination.

*Cost of cyber and security (IT and Telecoms Strategy – Page 84)*

The current uncertain world situation ensures that both physical and data security for a critical infrastructure company is paramount. The investment in cyber and infrastructure must, as a minimum, comply with the national standards set by the Competent Authority and in line with direction from the National Cyber Security Centre (NCSC). We expect the company, where appropriate, to continue to engage with its peers and appropriate industry bodies, to ensure that the cost of this

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<sup>11</sup> This comprises the sum of £27.1 for accelerated depreciation and £8.0 for the change to the Kd allowance to a mixed real nominal basis, expressed as a percentage of the average RIIP-GD2 bill of £152.6. This amounts to a 23.0% increase, almost half of the 48% increase under the Business Plan using Ofgem's notional capital structure.

<sup>12</sup> <https://www.wvuutilities.co.uk/media/5994/62-vulnerability-strategy.pdf> - Page 16

<sup>13</sup> [WWU Business Plan - final - for our website.pdf](#) - Page 13, Vulnerability support

investment is incurred in an efficient and appropriate manner to minimise the future impact on consumers bills.

## **5. Issues for Ofgem to consider**

We believe that the uncertainty around the RIIO-GD3 process and the compressed timescale was not in the best interest of consumers. The ISG would encourage Ofgem to clarify the process and format for RIIO-GD4 as early as possible in the planning cycle.

The ISG would also encourage Ofgem to consider moving away from the single average customer bill metric, as a default option, and instead determine a range of profiles reflective of the domestic market, including the vulnerable, and the business and commercial sectors. For example, we remain concerned about disproportionate costs falling onto low-usage customers via the standing charge.

We note that readability across the GDN plans, and bill comparability, is extremely difficult. We would encourage the regulator to ensure that a defined and uniform methodology for bill comparison is consulted on, developed with appropriate stakeholder input, and adhered to.

We question the overall appropriateness of willingness to pay and acceptability testing when commissioned by individual companies in isolation. We recognise that Wales & West Utilities and other companies strive to do good work in this space at significant cost. We would strongly encourage the regulator to consider wide-ranging, holistic, cross-vector collaborative research with consumers regarding costs on the journey to net zero.

## **6. Conclusion**

We look forward to working with the company to monitor and challenge their performance over the RIIO-GD3 period, developing and monitoring appropriate KPIs, commitments and consumer impacts.

In conclusion, the RIIO-GD3 process reflects an evolutionary development of the RIIO-GD2 plan which fits with currently developed policy for the sector. As net zero strategies are developed to meet the legally binding 2050 targets, we call for a sector wide focus on intergenerational fairness ensuring no customer is left behind.