

2013-2021 **BUSINESS PLAN HEADLINES FOR STAKEHOLDERS**

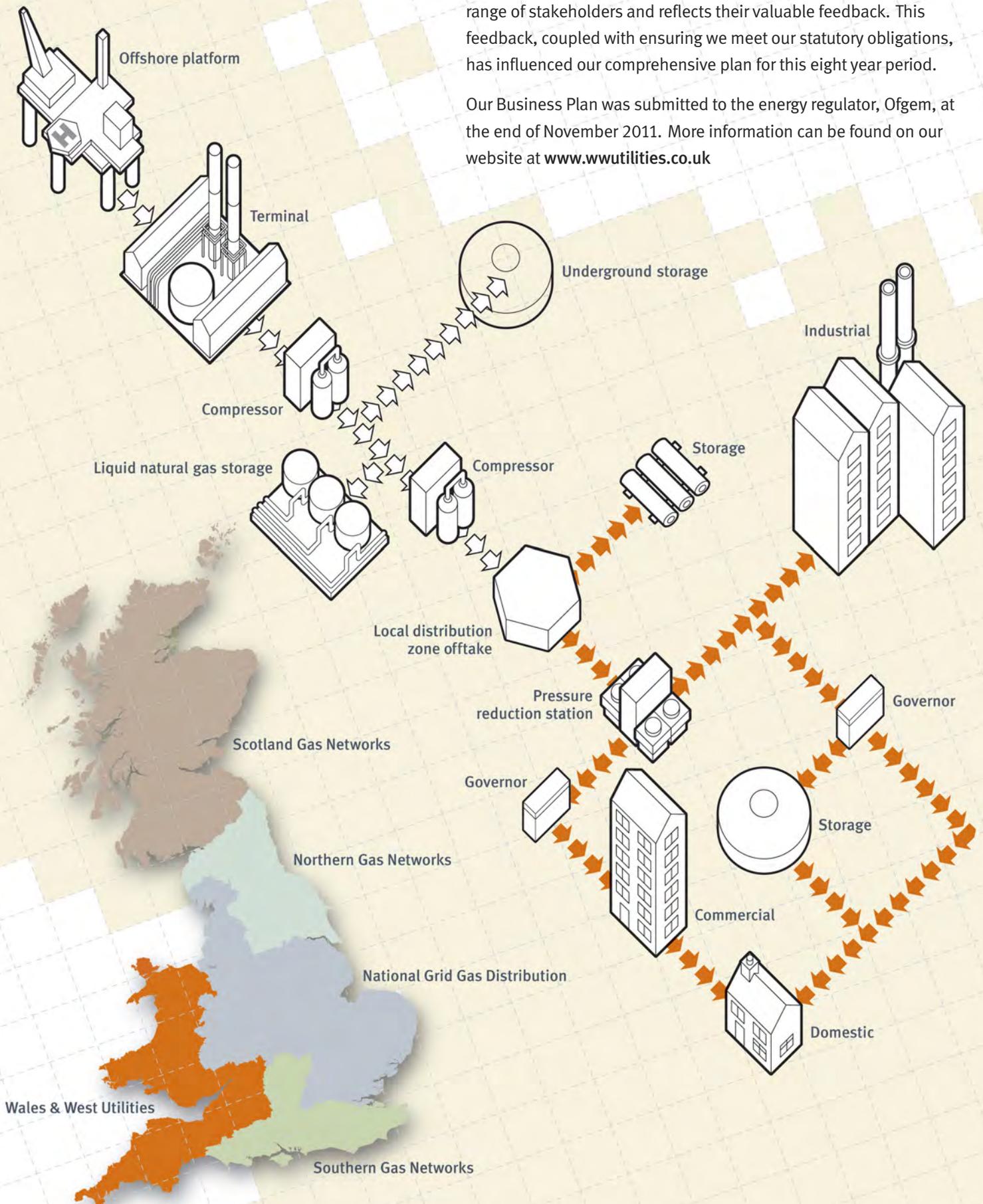


**WORKING TO KEEP
OUR CUSTOMERS SAFE**

This document outlines Wales & West Utilities' Business Plan for the next regulatory period – from 2013-2021.

It has been prepared following extensive consultation with a wide range of stakeholders and reflects their valuable feedback. This feedback, coupled with ensuring we meet our statutory obligations, has influenced our comprehensive plan for this eight year period.

Our Business Plan was submitted to the energy regulator, Ofgem, at the end of November 2011. More information can be found on our website at www.wwutilities.co.uk



INTRODUCTION AND CONTEXT

Wales & West Utilities (WWU) is owned by a consortium of international infrastructure and pension fund investors and was acquired from National Grid (Transco) in June 2005.

We distribute gas to around 2.5 million homes and businesses in Wales and the South West of England, highlighted on the map. We own and manage a gas network of over 35,000km of pipework – an area covering one sixth of the UK. We do not sell gas – that is the role of the energy supply companies.

As one of the largest companies in our region, we have revenues of over £330m a year, and an asset replacement value of over £8bn. We have invested more than £290m over the past five years to maintain the condition and performance of our network.

We take gas at very high pressures from the National Grid Transmission System at 17 connection points across our region. We then transport it to the consumer's meter point by progressively reducing gas pressures to levels that can safely be used in the home or business.

The distribution of gas has a number of potential hazards given its nature and WWU, in common with all gas transportation companies, has to meet stringent legal requirements.

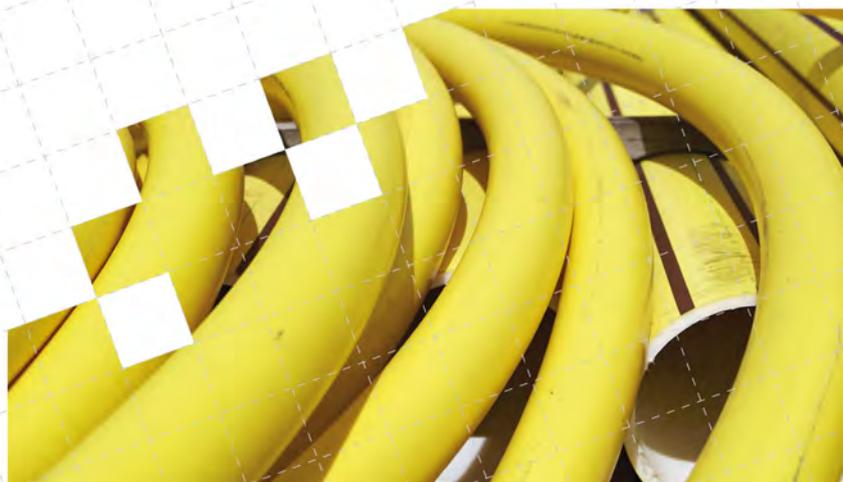
Since 2005, we have made significant improvements in:

- ✔ **Customer service** – WWU has been the leading network in customer satisfaction in the UK for the past three consecutive years.
- ✔ **Safety** – by reducing the risk of gas explosions across our network of assets, and by improving the safety of the 2,000 people who work for us.
- ✔ **Environment** – less than 20% of our spoil is now sent to landfill.
- ✔ **Cost** – reduced our operating cost base by 23%.

Reliability, too, has been maintained – keeping gas supply interruptions at a very low level – on average, consumers in our area can expect to suffer an unplanned interruption in their gas supply only once every 200 years.

The eight Gas Distribution Network businesses (GDNs) across the UK are regulated by Ofgem. The regulator determines the revenues, capital investment and operating cost allowances for each GDN for a fixed period of time – known as the regulatory price control period. These periods have typically been five years, but are now being increased to eight years with greater stakeholder involvement. If a GDN disagrees with the Ofgem final proposals, it can be referred to the Competition Commission for independent determination.

As a highly regulated business, our costs are funded through the bills that consumers pay for their gas supplies. On average a domestic consumer pays £126 per year (around 16% of their total gas bill) to fund WWU to provide a safe and reliable gas supply. At around 35 pence per household per day, we believe this delivers excellent value for money for transporting gas to homes and businesses safely.



STAKEHOLDER CONSULTATION

To help develop our Business Plan for 2013-2021, we have carried out extensive engagement with our stakeholders to understand their views.

This has included a telephone survey, on-line questionnaire and a series of workshops across our region. These workshops have involved a cross section of people representing Local Authorities, individual consumers, consumer organisations and vulnerable groups. More than 500,000 people were also asked for their feedback on our proposed plan through an extensive media programme. The results of this comprehensive stakeholder engagement can be viewed in a detailed report available on our website.

The headlines from the overall feedback can be summarised as follows:

Safety

- ✓ Our performance in attending emergency calls from the public was considered good – with the current targets viewed as appropriate.
- ✓ The mains replacement programme targeted at removing old metallic mains and reducing the risk of gas explosions was considered a high priority that should either remain at its current pace or be accelerated.

Before



¹Carbon Monoxide is a poisonous, colourless, odourless gas that can be formed by incomplete combustion of fossil fuels, like coal and gas, and also from burning wood.

Reliability

- ✔ The current low level of gas supply interruptions was considered excellent – improving this was not considered a priority.

Environment

- ✔ Our focus on reducing gas leakage from our pipes was considered a top priority – given that this accounts for around 96% of our total carbon emissions.
- ✔ There was support for introducing renewable gas into gas networks from landfill sites or waste digestion.

Customer satisfaction

- ✔ There was positive recognition for our position as an industry leader in customer service and satisfaction.
- ✔ The service levels for connecting new consumers were considered good.

Social obligations

- ✔ Connecting households suffering from fuel poverty to mains gas was widely praised.
- ✔ Raising awareness of carbon monoxide poisoning¹ was considered a valuable social service – with recognition that there was a need for wider industry involvement.

After



SPECIFIC OUTPUTS

Our Business Plan for 2013-2021 is aimed at achieving the following key outputs that target both stakeholder-valued services, and our obligations to satisfy legal requirements. Consistent with feedback from stakeholders, our balanced business plan shows that we plan to maintain the overall condition of our network, rather than spending more on improving its performance.

Customer satisfaction

- ✔ We intend to maintain our excellent customer satisfaction level as compared to our peers in the other gas distribution companies, by minimising complaints and by quickly resolving them. Currently we have the lowest level of complaints referred to the Ombudsman of any gas network. We aim to maintain that leading position in the next price period.
- ✔ We have been the recognised industry leader in customer service and satisfaction for the past three successive years, demonstrated by Ofgem league tables and overall customer satisfaction performance. We intend to maintain this excellent performance in the next price control period.

Ensuring safety

- ✔ We plan to further reduce the public risk posed by deteriorating metallic mains by continuing the programme of replacement. We aim to replace over 3,700km of metallic gas mains in the period 2013-2021.
- ✔ We intend to maintain the high performance of attendance at publicly reported gas escapes at above 97% – a target endorsed by stakeholders.

Maintaining reliability

- ✔ We plan to maintain the high reliability of gas supply, measured by the number and length of interruptions caused by planned and unplanned events at their current level. The key enablers in maintaining performance are the investment that we place in our assets and the maintenance that we carry out.

- ✔ We intend to ensure that our assets are capable of dealing with the peaks of winter gas demand that we have experienced over the past few years.

New connections

- ✔ Our current performance in the provision of new connections is better than the regulatory standard required. We intend to maintain this position and in the process, keep customer service in the upper quartile level of performance.



- ✔ Driven by the UK's greenhouse gas reduction targets, there is increasing interest in introducing gas from renewable sources into the gas distribution networks. This and other forms of alternative gas sources are termed Distributed Gas. Distributed Gas can be generated from a number of renewable sources and we intend to fully support the connection of new supplies of gas to our network, wherever possible.

Environmental performance

- ✔ We plan to reduce our carbon footprint by a further 16%, primarily through our asset replacement plans and also by actions on our transport fleet.
- ✔ Further improvements will include reducing the level of virgin aggregate we use to backfill our excavations, the level of excavated materials we take to landfill sites and by remediating our inherited sites that are contaminated from historical gas production.



Social obligations

- ✔ Working with three partner organisations, we have so far provided over 3,000 new gas connections as part of our fuel poverty initiative. We will continue to work together in addressing this key issue.
- ✔ We will also continue to raise awareness of the dangers of carbon monoxide poisoning through our normal daily activities when we visit over 100,000 consumers each year – as well as by undertaking specific awareness campaigns targeted at vulnerable groups in the community.



IMPACT ON CONSUMER BILLS

The consumer impact of our business plan for 2013-2021 results in the distribution element of gas bills increasing by around 3% by the end of the eight year period compared with the end of the current regulatory period in 2013 – equating to an increase of around £4 per supply point by 2021.

In 2010-11 Wales & West Utilities was the second lowest cost network per supply point in the UK at £126 – around 16% of the overall consumer gas bill. We believe that the low level increase proposed for the next period will maintain our competitive position. Contributing factors include:

- ✓ Our balanced business plan – where we intend to maintain the overall condition of our network – rather than spend more on improving its performance. This is consistent with the feedback received from stakeholders.
- ✓ The impact of the significant cost reduction achieved since 2005 – at 23%. These cost savings will be passed on to consumers in the next price control period.
- ✓ Despite the costs already taken out of our business so far, we have set ourselves a further challenge of offsetting projected inflationary increases over the next eight years. These are things like road fuel, energy and materials and our plan of offsetting these increases will result in further efficiencies of around 8% over the period.

We believe this low level bill impact represents excellent value in continuing to deliver a high quality and safe gas transportation service to customers and consumers, particularly given the ongoing price pressures on consumers arising from other elements of the energy supply chain.

Risks and uncertainties

A new regulatory regime, coupled with a longer price control period of eight years compared with the current five years, inevitably raises a number of risks and uncertainties for the business. Key amongst these for WWU at present are:

- ✓ Early evidence that implementation of the Government's programme of smart metering will bring a significant level of consumer calls for assistance and requests for associated asset replacement. We estimate that this will incur significant costs over the period of implementation and we have shared our research with all industry participants.
- ✓ Street works legislation and associated costs are continuously increasing and given the essential work that utility companies like WWU undertake, this could result in further costs being incurred.
- ✓ Adapting to climate change and changes to environmental legislation will increase the risk of costs being incurred. For example, how climate change may impact the operation of our assets through flooding and river bank or bed erosion.
- ✓ While we will fully support the connection of renewable gas into our network, there are currently safety and gas quality issues to be overcome – which will inevitably result in costs being incurred.

These and a number of other uncertainties ultimately represent financial and operational risks to our business, and subsequently to consumers, who ultimately fund highly regulated businesses like ours. For our part, we will do all we can to manage these risks and keep any financial impact to consumers to a minimum.

THE FUTURE OF GAS

The UK and Welsh Governments have ambitious targets to significantly reduce carbon output over the coming decades, and there is currently much debate about the preferred sources of energy going forward. However, our Business Plan has been designed to be sustainable, whichever energy pathway is chosen.

As the fossil fuel with the lowest carbon output and still comparatively cheap as a source of heating, we believe gas will continue to be the fuel of choice of consumers for many years to come.

Indeed, in our continuing support of consumers in fuel poverty, we have so far converted around 3,000 fuel poor households to gas from other forms of fuel.

We fully recognise the drive for renewable forms of energy and we are keen to support the introduction of renewable gas into the established gas network.

As we continue to play our part as a major service provider to the communities we serve, we fully recognise the continuing pressure that energy costs generally place on consumers.

As a fundamental link in the energy distribution chain, we will continue to look for ways of improving the efficiency of our own activities – and also work with partner organisations in developing the technologies essential in delivering energy in the most efficient and sustainable way into the future.



This document summarises Wales & West Utilities' Business Plan for the period from 2013-2021.

The headlines of our Plan are to deliver those outputs required both by our statutory obligations and those identified by our stakeholders:

- ✔ We will continue to maintain the safety of our gas assets and provide first class response to gas escapes.
- ✔ We will maintain the excellent reliability of gas supply to our consumers.
- ✔ We will provide new gas connections, including those targeted at reducing fuel poverty.
- ✔ We will further reduce the impact of our essential activities on the environment.
- ✔ We will continue to provide leading customer service and value for money.

Wales & West Utilities has an excellent track record of cost effective delivery since our start up in 2005, and we believe that the Business Plan we have submitted to our regulator, Ofgem, will allow us to continue to deliver the outputs valued by our stakeholders over the eight year period in the most cost effective manner.

Ofgem will be announcing its initial response to our Business Plan in February 2012, with final agreement expected in December 2012.

For further information on our Business Plan please visit our website at www.wwutilities.co.uk





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