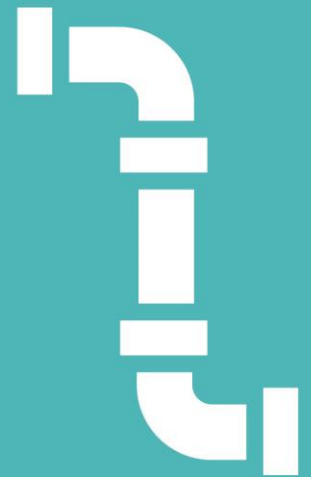




# Appendix 9A

## Loss of metering impact



December 2019

## Contents

1	Introduction.....	3
2	The Gas Emergency service.....	3
3	Non formula work .....	5
4	Loss of metering impact .....	6

### Legal Notice

This paper forms part of Wales & West Utilities Limited Regulatory Business Plan. Your attention is specifically drawn to the legal notice relating to the whole of the Business Plan, set out on the inside cover of The WWU Business Plan. This is applicable in full to this paper, as though set out in full here.



### 1 Introduction

This appendix is to explain the impact of the loss of metering work that Wales & West Utilities (WWU) is experiencing due to the uptake of Smart Meters and the consequent loss of non-formula meter work contracts. We have included a cost of this in the Cost efficiency chapter 9 of £2.8m per annum.

To understand how these costs are increasing our base regulated Controllable Totex we must discuss the Emergency service and the National Grid Metering contracts.

### 2 The gas emergency service

The provision of the emergency service is, arguably, the most visible part of Wales & West Utilities offering to gas consumers, and as such provides a core element of our organisation.

The Emergency service focuses on the safety related processes of attending to gas emergencies reported by the public that arise as an element of the emergencies. Both emergency and the resultant repair activities are mandated, and with standards of performance required by the Gas Safety (Management) Regulations 1996. The Emergency activity has more onerous standards required by Ofgem's Gas Distribution License requirements. Both are elements of WWU's approved Safety Case, also a requirement of the Gas Safety (Management) Regulations 1996.

The standards required by legislation are that WWU attends the escape as soon as reasonably practicable, and prevents the escape within 12 hours. An additional obligation is placed by the License condition, whereby escapes must be attended within either one or two hours, for 97% of cases, depending on whether the escape is uncontrolled or controlled respectively.

The Emergency process utilises single man First Call Operatives to attend all gas escapes and maintain our Standards of Service. This is common amongst all GDNs.

A brief outline of the activities carried out are below:

- The provision of a 365/24/7 gas emergency service complying with the relevant regulatory standards of service requirements,
- WWU responds to circa 90,000 Emergency calls per annum to comply with our Gas Transporters Safety Case. 80% of these are downstream of the emergency control valve (and are therefore not part of the WWU network),
- The regulatory requirement is to attend escapes within one or two hours in 97% of all cases, dependent upon category (uncontrolled or controlled respectively),
- Additionally, WWU responds to circa 30,000 "Safety Checks" annually generated both directly by customers and other organisations such as suppliers.
- Further, all escapes awaiting repair are rechecked at intervals determined by a risk management process until the repair is completed. This activity is carried out within the Emergency process.

All of these activities are hugely seasonal, being influenced by the cold weather usage of gas heating appliances, necessitating increased system pressures to provide increased gas flows over the winter to cope with the increased demand. Leakage from pipe joints is also caused by ground movement in freeze/ thaw periods which is exacerbated by the poor condition of some metallic pipes (which are subject to the replacement programme). Other related drivers are:

- The condition of metallic gas pipes, mitigated by the level of asset replacement. Those assets not replaced continue to deteriorate with associated performance issues.



## 9A Loss of metering impact

- The number of emergency calls received from the public is influenced by socio-economic factors, such as the willingness and ability (cost) to maintain domestic gas appliances and pipe work.
- The penetration of carbon monoxide monitors also influences call volumes. As a gas network we provided 25,000 CO alarms in RIIO-GD1 and plan to provide circa 5,000 to the most vulnerable customers in RIIO-GD2.
- The smart metering replacement programme has influenced both the level of calls and the requirement to repair service pipes as per our reported costs in the annual RRP.

The response to emergencies is where WWU has performed particularly well in achieving standards, whilst reducing costs. In respect of emergency, we have achieved the required 97% standard consistently since the formation of WWU in 2005 – a standard that is difficult to achieve.

The workload, particularly in respect of Emergency, is almost totally driven by external factors, given that 80% of the calls received from the public are in respect of faults on internal gas installations and appliances only 20% are actually relating to the gas network.

The stakeholder feedback on these services is good and suggests that standards should remain as they are in respect of the current 97% obligation and general reliability of the Emergency service. We have committed to attending emergency gas interruptions within an hour in RIIO-GD2, this was a top-rated commitment in terms of willingness to pay research.

We have reduced the cost of service delivery, despite our particular operating circumstances. The need to respond to emergencies on a 24/7 basis across a large geographical area with fairly poor road infrastructure leads to a relatively high fixed cost of delivery. The ability to meet the standards of service and license obligations means we have to ensure we have first call operatives based in all parts of our network on call 24/7 regardless of the workloads and gas infrastructure. This leads to efficient unproductive costs, where there is no other work in these areas for WWU to utilise the FCOs on.

In order to assure the high level of service in demanding peak winter periods, we have innovatively utilised, trained "reservists" to support field staff comprising office staff and industrial staff from non Emergency functions, e.g. maintenance engineers, and introduced a sizeable number of four wheel drive vehicles.

We have defrayed this fixed cost of providing the emergency service by utilisation of staff, who are not fully utilised given the nature of the emergency activity, for example by using emergency engineers on metering activities (non formula), this unfortunately is coming to an end resulting in the stranded costs pushing back into formula Opex.



### 3 Non formula work

First call operatives (FCO's) have historically been provided with contract meter work sourced through competitive procurement events. This has provided a significant offsetting mechanism. This work is, however, dependent upon the requirements of the client organisation (Meter Asset Manager). Since 2008, despite training some of our engineers to install electricity meters, we have seen a reduction in volumes from National Grid Metering and have not won contracts from other MAMs that do not wish to work with companies that can only provide a limited geographical coverage.

The reduction in work from National Grid Metering is a consequence of the roll-out of smart metering. They have reduced the number of routine meter exchanges, as smart metering will result in a 100% replacement of metering assets.

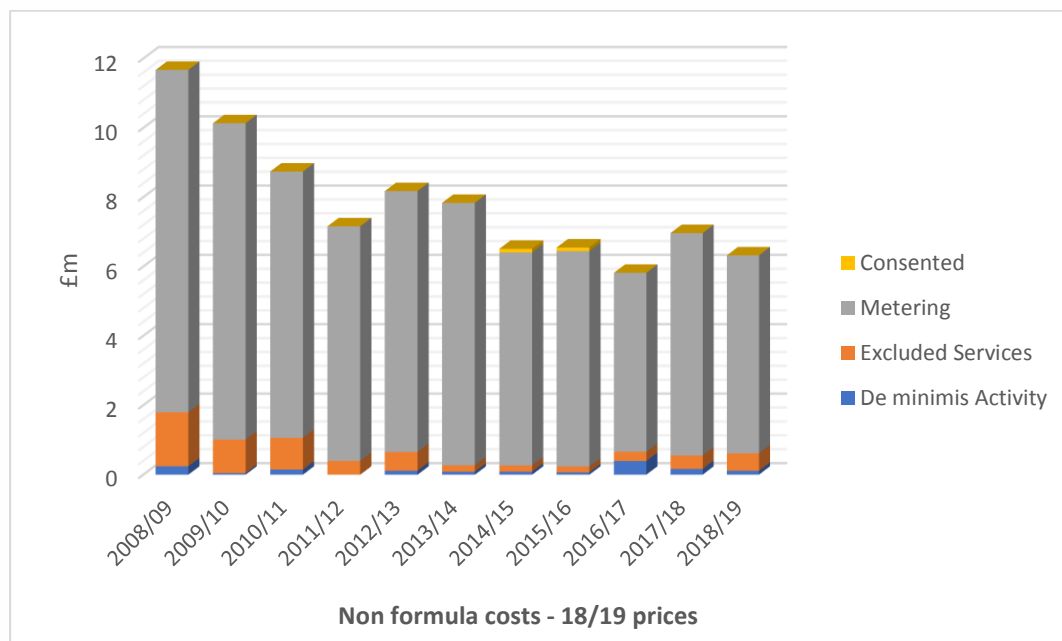
The impact of falling levels of offsetting activity, such as contract metering is pushing more cost into the emergency service.

Our current contracted metering services terminated in 2018 which was an extension of the contract from 2016. This was extended due to the delay in the Smart meter roll out.

We have secured new contracts to continue providing metering services but with a zero-volume workload. This runs on a 3 +1+1+1 contractual basis and as mentioned with a zero-volume workload. This is due to the level of planned meter exchanges reducing as we approach the finalisation of the smart metering programme by 31<sup>st</sup> December 2024. Therefore, there is no forecast for future costs and workloads associated with Non formula work in RIIO-GD2.

We have also carried out excluded services work on the NTS system above ground assets over the last two price control periods with this being taken back in house by national grid in 2015, again reducing the ability to offset the unproductive time by circa £1m per annum.

Within metering we have also gained Post Emergency Metering (PEMs) work since the sale of GDNs in 2005, with the roll out of Smart metering and some suppliers indicating they are taking this service inhouse we are forecasting zero PEMs workload in RIIO-GD2.



This Non formula work has consistently declined over the last two price controls, and on average 70% of these costs reflect the utilised emergency service time.



## 4 Loss of metering impact

The decline in non-formula workload has resulted in previously utilised time of the FCOs on non-formula activities being stranded, this has moved back into Controllable Opex. As we have discussed in the emergency service section this labour is required to man the 365/24/7 emergency work rotas and is fixed in nature. It is worth noting the only costs that strand back into Controllable Opex are labour costs, the avoidable costs like materials, travel, and contractors have all been removed from the cost base.

As a result of offsetting efficient unproductive time we incur on the emergency service, the customer has benefitted from lower bills during GDPCR1 and RIIO-GD1 on average £2.11 per annum.

2018/19 prices	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Labour costs utilised on non formula work £m	7.3	7.3	5.7	4.9	5.3	5.6	4.6	4.8	3.8	4.7	4.2
Avoided customer bill costs £s	2.90	2.91	2.30	1.94	2.14	2.26	1.85	1.90	1.51	1.86	1.69

These labour costs have been defrayed in non formula activities, as we have lost the non formula work it has been absorbed into formula opex over the last two price controls. Our emergency costs have stayed relatively static during the two price controls\*.

2018/19 prices	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Emergency work costs £m	10.8	12.6	10.7	11.9	12.0	11.0	11.4	9.7	10.3	10.2	9.1
Emergency work bill costs £s	4.31	5.05	4.27	4.75	4.81	4.42	4.55	3.90	4.14	4.09	3.65

\*During GDPCR D2 rechecks were included within emergency – it has been restated to be consistent with RIIO-GD1 costs. There are some extreme winter costs in 2009/10 year. The emergency work costs are as per Ofgem definition which excludes the operations management of the emergency department.

We have managed to keep costs low for consumers by utilising our FCOs;

- We set FCO levels to resource to the level required in an 'average' winter and use reservists to assist in extreme winters to keep overtime down and ensure an efficient use of the FCOs where needed.
- Utilising our FCOs across other work activities in their efficient unproductive time, like CP monitoring, assisting on refurbishing assets and performing all purge and relights on Mains replacement activities.
- Continuing to look for more non formula work to offset these costs for consumers, e.g. asset maintenance for gas fired power stations.
- First time repairs on site by FCOs reducing the repair costs and the FCO waiting time on site.

Moving into RIIO-GD2 the opportunity to utilise and absorb the remaining stranded costs is all but exhausted, we need to ensure the emergency service remains fully funded to achieve the license obligations.



## 9A Loss of metering impact

Below is the breakdown of the average metering costs through RIIO-GD1 (18/19 prices).

18/19 prices	£m	FTEs
Labour costs	4.5	60.3
Non staff salary costs and overhead costs	1.1	
	5.6	60.3
Materials	0.7	
Contractors	0.2	4.7
	6.5	125.3

Of these metering costs some are avoidable into RIIO-GD2, both the materials and contractors will not be incurred without meter work so we do not propose these be funded. The labour costs and associated overheads are required as per the discussion on the Emergency services section. We have been ambitious in our planning and plan to utilise over half of the stranded labour on other works (£5.6m labour costs less half), which leaves £2.8m to be funded\*. That's utilising over 30 FTEs on other works where possible.

We have saved the customer on average £2.11 per annum over the last 11 years and require the customer to now fund £1.12 per annum to pay for the whole cost of the emergency service. We are being ambitious and will be absorbing the remaining £2.8m pa or (£1.12 per customer) through our efficiency challenge and pushing utilisation further.

\*It is worth reviewing the loss of meter work that was allowed to some GDNs in GDPCR1 and RIIO-GD1, in the Ofgem Final proposals annexes.

Our future plans are to:

- Continue to meet the standards of service, which is in line with the feedback received from Stakeholders.
- Continue to seek alternative work to defray the cost of these activities but as we have no volumes of certain work, we have not included additional workload.
- Continue to utilise the emergency service where possible to offset the stranded efficient unproductive time.
- Ensure that the emergency service as a licence obligation remains fully funded.

In conclusion given the fixed nature of the Emergency service and the utilization and customer benefits we have provided we are asking for £2.8m of stranded emergency costs to be funded into RIIO-GD2.

