



WALES&WEST
UTILITIES

RIIO-GD2 Year Four Strategic Performance Overview



July 2025

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Strategic performance overview

Chief Executive's update

"I am hugely grateful for everything that our staff do, in order to continue to deliver a safe and reliable service to our customers and communities, every day"

Graham Edwards, CEO



I'm delighted to share this report which covers the fourth, and penultimate, year of the RIIO-GD2 price control for the year ending 31 March 2025.

It is a year that has once again brought both challenges and change - with continuing global conflicts, alongside US and UK leadership shifts. The resulting wide-reaching economic impacts have affected businesses through to consumers.

At WWU, we have met these challenges head on, fulfilling our role to the highest possible standards, ensuring we continued to deliver a safe and reliable network to our customers. In fact, since the business started in 2005, we have achieved all our regulatory standards, in particular customer safety and satisfaction each year.

Recognising the importance of our customers and colleagues

People are at the centre of everything we do. Our customers need the gas we transport to heat homes and businesses; to fuel important everyday tasks, and to drive industrial processes that create jobs.

Our highly skilled workforce makes sure that every element of maintaining our network of gas pipes is taken care of, so that we keep delivering the reliable, safe and value for money service that we're known for, and which we're dedicated to continuing.

Our Workforce Resilience Strategy has always been crucial. It is now more important than ever so that we can uphold our high-quality of operations - ensuring we are rewarding and supporting the people who will continue our high standards of service and also help us with the move to Net Zero. As such, we have invested heavily in the skills and wellbeing of colleagues, and continue with our Equity, Diversity &

Inclusiveness Strategy. We were recently recognised for our leading initiatives, receiving an “Investment in People Award” from the IGEM Gas Industry Awards 2025 – an award we are incredibly proud of and represents the focus in this area.

Looking after our workforce also includes ensuring that we remain compliant with all legislation including fatigue regulations from the Health and Safety Executive.

Industry leading innovation and awards

This dedication to the highest standards includes continuously innovating to develop new initiatives; to navigate the energy system changes ahead and meet the expectations of our communities, stakeholders, and consumers both today and into the future.

The skills of our people are clear to see in the innovation being produced. In 2024 we continued to support the development of Local Area Energy Plans (LAEPs) across the network and started supporting the new National Energy System Operator in a range of activity to develop its strategic and regional energy planning functions. We are using our unique simulation model, the 2050 Energy Pathfinder tool¹, that models future energy supply and demand to help identify opportunities, risks and trade-offs when designing the energy system of the future at local, regional and national levels.

In 2024 we published our feasibility study for Hyline Cymru, our proposed new 130km hydrogen pipeline designed to run from Pembroke to Port Talbot forming a critical part of the South Wales Industrial Cluster Plan². Although we are disappointed that our Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt) funding application for the next phase of the project was rejected, we are assessing options to progress the project through its next phases as relevant policy evolves, and developing similar concepts in other areas of the network. These projects help us understand the future potential for repurposing our network as the energy system evolves to meet Net Zero.

Also published in 2024, our Delivering Innovation report³ summarises the future of energy research that we are leading and collaborating on. In addition, our 2023-24 Annual Environmental report⁴ shares our progress against our Environmental Action Plan (EAP) ambitions (2024-25 report due for publication in October 2025).

As well as publications, 2024 also brought awards. Recognised for our industry-leading health and safety performance, we received our twelfth consecutive award from the Royal Society for the Prevention of Accidents (RoSPA). We also received the Institution of Gas Engineers and Managers (IGEM) Safety Award for our work on Human Factors.

This continuity of stability and expertise while innovating toward the future of energy also underpins our RII0-GD3 Business Plan, a significant piece of work which formed a central part of our activity over the past year. It will also be key to the year ahead as we work closely with our regulator Ofgem through the processes leading to final determinations, and we further prepare to put our plans into action.

¹ [2050 Future Energy Pathfinder](#)

² [SWIC | South Wales Industrial Cluster](#)

³ [WWU 2023-2024 innovation report](#)

⁴ [WWU 2024 Environmental action plan](#)

Our priorities and results

Our priorities align with our headline targets and continue to comprise 5 key areas, the achievements of which are shown below:

Demanding Safety Always

- We maintained all performance standards set by Ofgem driven by public safety throughout RIIO-GD2.
- We responded to over 99% of gas emergencies within the required safety standards throughout RIIO-GD2.
- We replaced more than 400 kilometres of old metal gas pipes, further enhancing safety.
- We were awarded the RoSPA Gold award for the twelfth consecutive year, demonstrating our commitment to safety.

Driving Outstanding Service

- We maintained our Institute of Customer Service 'Distinction' status demonstrating our commitment to excellent customer service.
- We retained the new ISO22458 Vulnerable Customer Standard and Kitemark, demonstrating our commitment to supporting Vulnerable customers.
- We continued to support Vulnerable customers through the Vulnerability & Carbon Monoxide Allowance (VCMA).
- We helped over 200,000 households in our region, saving customers over £12m on their annual gas bill.

Delivering Value for Money

- We invested over £160m in network infrastructure across replacement and capital activities to maintain or improve

the integrity of our network and keep our customers safe.

- We maintained the controllable operating cost proportion of the customer bill compared to the prior years of GD2.

Providing Sustainable Energy

- We ensured 97% of our leased car fleet is now either ULEV or ZEV, showing our commitment to reducing emissions from transport for societies benefit.
- We reduced our shrinkage carbon emissions by 12.7% over RIIO-GD2, against a target of 10% to help reduce greenhouse gas emissions, and expect to reduce this further in the final year of RIIO-GD2.
- We connected the 22nd biomethane site, decarbonising the annual heating demand of over 160,000 homes, and reducing the need for fossil fuels.

Designing our Future

- We won the IGEM Investment in People Award for our financial benefits and wellbeing strategy evidencing our commitment to staff.
- We achieved a 61% score in our first year of the Great Place to Work Survey.
- We continually develop a psychologically safe environment for our people to thrive.
- We supported industry-wide submissions of hydrogen safety evidence to HSE in 2024.

Business planning for RIIO-GD3

In December 2024 we submitted our RIIO-GD3 Business plan which covers the five years 1 April 2026 to 31 March 2031. This comprehensive plan was the culmination of 18 months of engagement with stakeholders and across our business to determine the priorities, needs and services required over the coming five years.

The Draft Determinations, Ofgem's initial view of our Business Plan, was released in July 2025. Over the coming months we will be understanding the implications on our plan and clarifying or querying Ofgem's draft decisions. This engagement will continue up until Ofgem publishes its final position, known as the Final Determinations, expected in December 2025.

Our industry has seen many changes, and there are major shifts ahead in the transition to a greener, more integrated, energy system. We have decades of experience in adapting and responding, managing changes alongside the day to day activities. We'll continue on this journey in the years to come.

The importance of stakeholder voice

Naturally our Business Plan is shaped by our stakeholders – the people and organisations with a vested interest in what we do - so we have engaged widely – listening to a broad range of views which includes customers, industry, bill payers, government, local authorities, colleagues and charities.

We commissioned a tailor-made artificial intelligence tool to help us analyse the in-depth feedback that we gathered, identifying themes and conflicts to confirm that we understand what our stakeholders want and need. What stakeholders said, shaped all areas of our plan.

The industry within which we operate is at an important point – reflecting rapidly advancing technology, evolving laws and policies, the future of energy, and a growing emphasis on sustainability. In response to these changes, we have developed our Business Plan to meet the expectations of our stakeholders, customers, and communities.

Our network has connected enough green gas capacity to meet the average demand of over 160,000 homes across our large operating region. We recognise and support the need to transition our energy system to support Net Zero.

There are still uncertainties around future policy and technological developments, but the gas network remains a critical part of the energy system with an important role to play in a low carbon future.

While we anticipate limited change to how we operate and who we serve in RIIO-GD3, we have put considerable effort into understanding how all areas of our business would need to evolve in line with potential future energy scenarios over the longer term.

Our plan will progress the decarbonisation of gas using biomethane and hydrogen, and we will continue to prepare for future decisions such as that on hydrogen for heat.

Our ambitious, attainable vision

By embracing innovation and staying true to our core values, we are well-positioned to lead the way; not only in the gas distribution sector, but across all sectors of the economy with our approach to delivering a high-quality service.

Our Business plan serves as an ambitious roadmap towards a successful and sustainable future – we are assessing the Draft Determinations outcome and its impact on the next 5 years.

RIIO-GD3 Priorities

During RIIO-GD3, we will focus on several key areas which align with and expand on the company priorities we updated in RIIO-GD2:

Regulatory compliance

Continuing to demand safety always, we invest over £200m a year and insist on raising the bar to meet regulatory requirements, to maintain public trust, and uphold the reliability of our operations.

Customer-first approach

Further enhancing our focus on outstanding service and engagement, we will engage in digital transformation and innovative tools that help us tailor our support to consumers and ensure their voices are better heard.

Workforce development

Ongoing investment in our people will design our future. With continuous training and development programmes we meet changing industry needs, reinforcing our culture of expertise and resilience.

Sustainable practices

We are committed to doing all we can to further our environmentally responsible operations, reduce and recycle the waste we produce and explore alternative energy sources in our network to support Net Zero targets.

Infrastructure strengthening

By investing in value for money technologies and digitalisation to modernise and strengthen our distribution network, we will uphold reliability and efficiency and support decisions and innovations in the journey to a Net Zero energy system. An example is creating a digital twin of our network to help us test decisions ahead of time and support the work of the National Energy System Operator.

Graham Edwards OBE - CEO

“While there are new challenges ahead, our strength and stability has been built over generations.

We look forward to continuing our work together into the future.”

Board Statement

We are delighted to present our Annual Report, highlighting the fourth year of Ofgem's five-year RIIO-GD2 (Revenue = Incentives, Innovation and Outputs) regulatory framework. Over the past year, we have continued to build upon the organisational changes introduced in previous years - changes designed to ensure we remain a sustainable, resilient, and forward-looking organisation. It has also been an exciting period in which we delivered our RIIO-GD3 Business Plan, setting the stage for future progress.

As a Group we continue to strive towards our ambition to be *'Trusted to expertly serve customers and communities with safe, reliable and affordable energy services today, whilst investing wisely to create a sustainable, greener future.'*



Leadership and Governance

We recognise that effective governance is achieved through strong leadership, cohesive teamwork, and collaboration across all levels within the Board structure, fostering a culture of continuous improvement. The recently established Risk Management and Compliance Committee has further enhanced our governance framework, complementing the existing five principal committees. Meanwhile, the ongoing efforts of the RIIO-GD3 Committee have been instrumental in defining our future plans and direction, ensuring alignment with the anticipated requirements and expectations of the forthcoming price control period.

Our Board was further strengthened by the appointment of representatives from Shareholder companies - Angus Ng (CKI Group Financial Controller), Kim Slaminka (CKI International Business Director) and Jenny Yu (Power Assets Holdings Limited International Business Senior Manager) as three alternate directors.

Operating performance continues to be managed on a daily basis by the local Executive Team, under the guidance of Graham Edwards OBE, who constantly strive to ensure the committed RIIO-GD2 Price Control Deliverables are met.

Resilience and Sustainability

Our continued investment in the mains replacement programme, alongside the strengthening of our network assets, remains a fundamental part of our strategy. These efforts ensure the network operates safely while preparing it to support the transition to low-carbon fuels in the years ahead. At the year end, 84% of the low-pressure network and 77% of the medium pressure network had been replaced which significantly reduces the chances of fugitive emissions and makes the network more ready for hydrogen.

Fuelling the Future

The UK Government has established a target for the nation to achieve Net Zero carbon emissions by 2050. While a degree of uncertainty is expected to persist for some time regarding the precise approach that will ultimately be adopted, current indications suggest that gas - including methane, hydrogen, and biomethane - will continue to serve a significant long-term function within the energy system to 2050 and beyond.

Looking Ahead

We do not envisage any significant changes in the business operations of the Group in the last year of the RII0-GD2 price control ending on 31 March 2026 and expect to continue to safely maintain and develop the Gas Distribution Network for the benefit of stakeholders in accordance with the Gas Transporters' Licence granted by the Regulator. With a strong track record against key performance measures, in which standards have been achieved every year since formation, the Group aims to uphold these standards and sustain this position into the future.

Andrew Hunter – Chairman

Performance Summary

Our key deliverables for customers are set out below and discussed in further detail in the supporting sections.



The customer bill impact quoted is in 2018/19 prices (excluding SOLR and Exit Capacity)

Our Year Four Totex Performance

In year four we have out-performed allowances by £5.2m (2.0%). This includes £11.9m of assumed allowances related to the HSE Policy Reopener & Specified Streetworks Reopener on which Ofgem have recently issued draft determinations.

Given the close timing of these draft determinations to the RRP submission deadline (31st July 2025), this document has not been adjusted to reflect them.

Our key messages for our year 4 performance are:

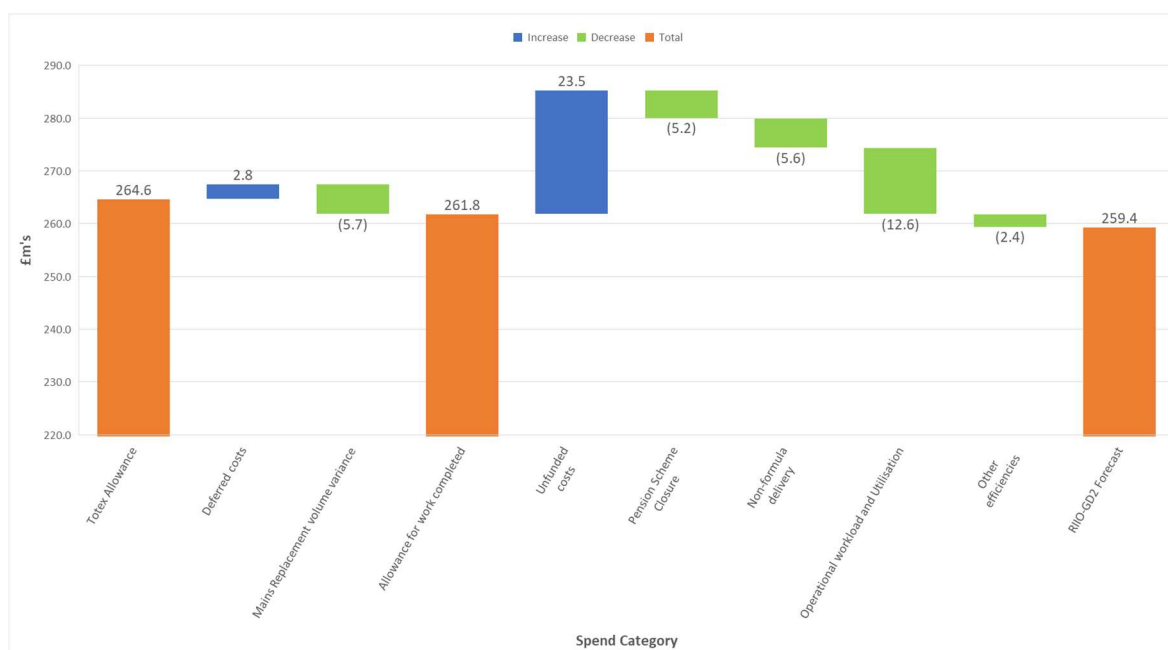
- We have the appropriate resources to continue to achieve our standards of performance and deliver our price control regulatory outputs
- Our Opex outperformance is supported by the utilisation of our workforce on non-formula work, benefitting customer bills by lowering our regulatory Totex spend
- Our Capex outperformance is largely driven by the phasing of costs between years along with operational efficiencies
- Underlying Repex costs continue to underperform due to insufficient allowances set at Final Determination, validating our appeal to the Competitions and Markets Authority (CMA).

£m 2018/19 prices	Actual	Allowance	(Out)/Under	%
Opex	91.2	105.9	(14.7)	(13.9%)
Capex	59.9	68.9	(9.0)	(13.1%)
Repex	108.3	89.8	18.5	20.6%
Totex	259.4	264.6	(5.2)	(2.0%)

Note: The allocation of allowances across Opex, Repex and Capex activities included in this document are as agreed with Ofgem, but adjusted for regulatory movements such as Price Control Deliverables (PCDs) and volume drivers. In this commentary we have aligned the categorisation of reopener application allowances to where the costs are actually incurred and reported to provide a clearer view of performance (*this will differ to the Price Control Financial Model where allowances are split across Totex on a pre-determined basis, which is different to where the actual/forecast cost is incurred and reported; an example of this is the pipeline diversions and development claims reopener*).

Our underlying position

The waterfall below shows our Totex position for year four; a £5.2m out-performance, including the full allowance request submitted for the HSE policy and Specified Streetworks reopeners offset by insufficient Repex allowances and phasing of spend between years.



Deferred costs (£2.8m), as reported in previous RRP commentaries, this represents costs incurred in year four where the associated allowances were in prior years. In particular, the global supply chain issues and purchasing lead times that impacted vehicle deliveries has now eased and our backlog of vehicle orders has been fulfilled.

(Ofgem category: *External factors 100%*)

Mains Replacement volume variance (£5.7m) due to a recruitment drive in year two and retention of resources through the price control, we are now cumulatively ahead of the average Mains Replacement workload required. As such, in year 4 we delivered 16km less than the average required, whilst still on track to deliver our five-year RIIO-GD2 commitments.

(Ofgem category: *Provision in the price control settlement 100%*)

Unfunded costs (£23.5m) represents specific areas of Totex spend that are outside of our Totex allowance. This includes:

- A significant adverse price variance on mains replacement given the price increases and cost pressures we have experienced, which are in excess of the allowances awarded, which were already insufficient. We have referenced these cost pressures in the next section.
- The cost we are now incurring for our revised property build strategy which was not part of our business plan. This ensures we have suitable operational depots as workload continues to move around the network and into our extremity, more sparsely populated and infrastructure served, regions.
- An increased cost base above allowances of delivering our strategic investment in IT.

(Ofgem category: Provision in the price control settlement 100%)

Pension Scheme closure (£5.2m) is the estimated savings of closing the Defined Benefit section of the pension scheme to future accrual in July 2021 with the existing Defined Contribution section of the scheme now operational across the organisation. This is an annual saving achieved for all 5 years of this price control (however we incurred costs in the first year of the price control to achieve this).

(Ofgem category: Efficiency 100%)

Non-formula delivery (£5.6m) represents non-formula work (metering and third party work) where we have targeted the productivity of our workforce, especially our Emergency First Call Operatives (FCOs) who are required to maintain a headcount sufficient to manage the demand of an emergency service, requiring sufficient FCOs to be employed to support “on call” availability 24/7/365 in case they are required to respond to an emergency at any point and at any time across our network, within our emergency standard response time obligations. FCOs are delivering metering work, Mains Replacement purge and relights and surveys to ensure the necessary but unproductive element of their role is utilised on value adding activities wherever possible. Third party contracts are short term and end within the RIIO-GD2 period.

(Ofgem category: Efficiency 100%)

Operational workload and utilisation (£12.6m) include cost reductions due to a milder winter experienced along with a continuation in utilising our workforce across all activities to reduce the expenditure and reliance on external contractors while ensuring we maintain an efficient and skilled workforce.

(Ofgem category: Efficiency 100%)

Other efficiencies (£2.4m) resulting from general cost reductions and efficiency improvements across the business in the year following a continued challenge by management.

(Ofgem category: Efficiency 100%)

Repex - cost drivers, cost pressures and mitigation

As can be seen from our Totex overview, Repex is the area of our business that continues to significantly underperform against allowances, due to insufficient allowances being awarded to compensate our efficient costs when the RIIO-GD2 price control was set.

In 2021 we appealed to the Competition and Markets Authority (CMA) inter alia over the insufficient Repex allowances set by Ofgem in the RIIO-GD2 Final Determinations. This followed recognition of escalating costs highlighted by the prices submitted by suppliers in our extensive external tender event, demonstrating that our Repex allowances were set too low. Our position remains unchanged; we continue to feel the impact of the price rises we set out in our CMA appeal, and in fact our CMA request did not go far enough in its request for equitable allowances given the ongoing challenges we continue to face. The following explains the areas that are causing our cost base to increase year on year, separated into (i) cost drivers, where the number and type of activities we need to undertake to complete the Repex work is changing and (ii) cost pressures, where the underlying cost of those individual activities within Repex is increasing; together with (iii) the available mitigating measures we're undertaking to minimise these increases.

It is noted that the Iron Mains Risk Reduction Programme (IMRRP), also known as the 30/30 programme, which drives the vast majority of the Repex work we undertake, is a mandatory programme directed by the HSE. Since the inception of the IMRRP in 2002 the HSE has changed the focus and prioritisation of that programme at successive controls, rightly re-focusing each control on the riskiest pipes. Many pipes in our network did not meet the required replacement criteria in place for those prior controls. They are therefore the residual lower risk pipes that are spread across our network that now need replacing by 2032. The pipes left to replace in the remaining programme are fixed and the result of those previous policy decisions and direction from the HSE.

Cost drivers are the attributes of the work that lead to more or less time spent to complete an activity and factors that can change the variable costs of an activity. Using Mains Replacement as an example, the number of excavations on a 100m length of main will determine time taken, materials required and associated New Roads and Street Works Act (NRSWA) costs such as duration of traffic management requirements, road closures and permit fee costs, and therefore drive the cost to complete the works; 10 excavations will be more material intensive, time consuming and therefore more costly than 1 excavation on a 100m main.

As we progress through GD2 we are seeing underlying cost drivers changing resulting in increased cost per metre of Repex completed.

These cost drivers include:

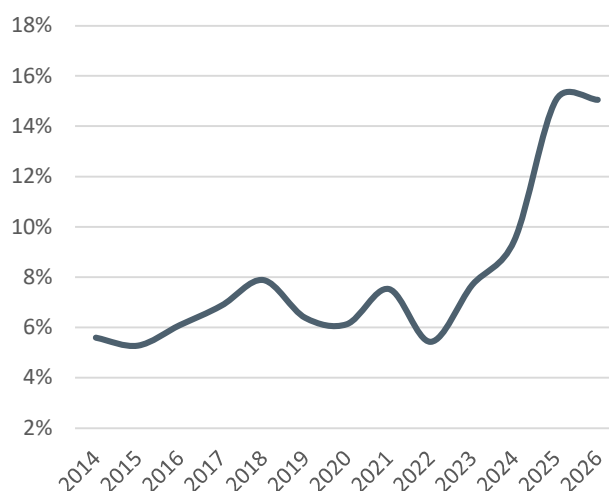
Technique:

'Insertion'; where a new pipe is inserted into the existing pipe. This requires an excavation at either end of the existing pipe length. The new pipe is then pushed through the old pipe from one excavation to the other.

'Open cut' is where a trench is required for the full-length of the replacement as the existing pipe is unable to be used for insertion. The open cut technique is far more expensive because it requires more time to dig, more materials to backfill holes, and a greater surface to reinstate to original condition.

We continue to experience a greater proportion of open cut works as we continue through RIIO-GD2 and as we head into RIIO-GD3. This is in part due to the residual pipes remaining, and as a result of the capacity constraints on the network from progressively replacing existing mains which now limits the ability to insert into existing pipes.

Mains Replacement Open Cut %

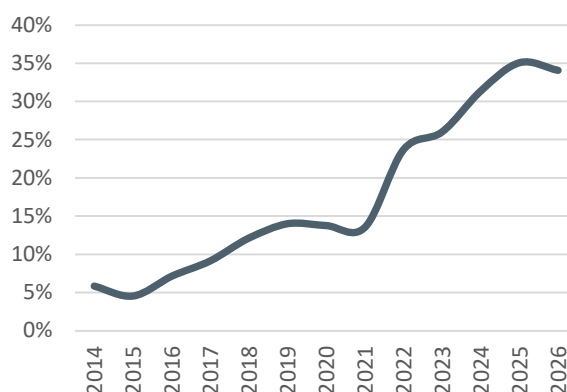


Material:

Whether the main is ductile iron as opposed to cast/spun iron. Ductile iron mains take longer to break open the existing main, requires specialist tools and larger excavations to work on the main.

As reported previously, we are experiencing a greater proportion of Ductile Iron as we continue through RIIO-GD2 and expect this to continue into RIIO-GD3. Ductile Iron pipes are not as prone to fracture in the same way as Cast and Spun Iron, so historically other mains scored more highly in all risk prioritisation regimes, these mains now form a greater proportion of the programme than in the past.

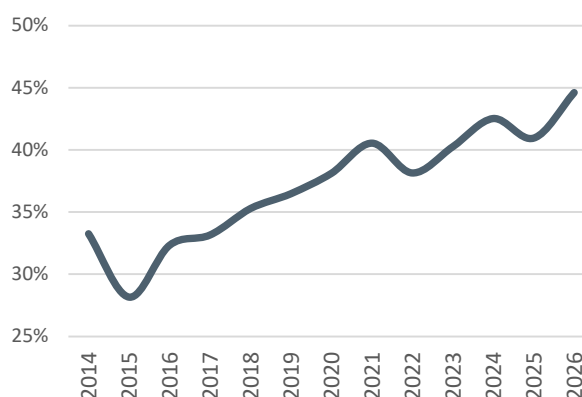
Mains Replacement Ductile Iron %



Location:

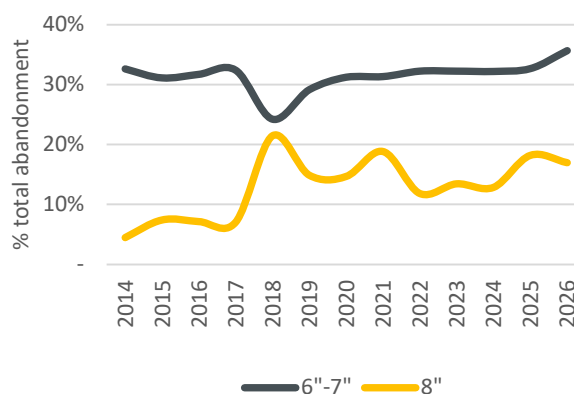
Whether a main is in the carriageway, footpath or verge impacts the activity required to replace that main (such as traffic management, reinstatement type, backfill and spoil requirements, site setup and ease of working environment) and the associated cost can differ drastically.

We are continuing to experience a shift to carriageway working which adds complexity; traffic management, road closures/noticing etc. These mains are further away from properties, so historically other mains scored more highly in all risk prioritisation regimes, but these mains now form a greater proportion of the programme than in the past.

% Mains Replacement in Carriageway**Diameter:**

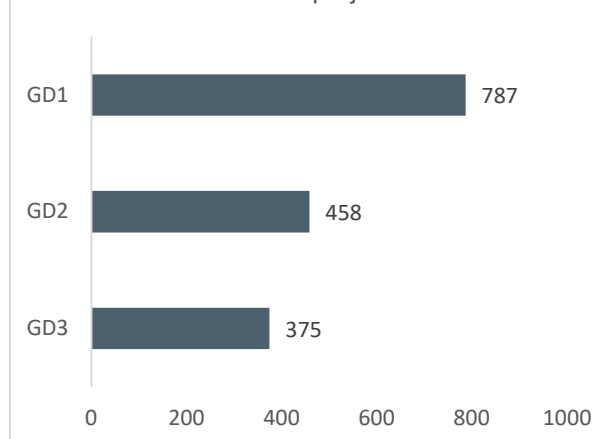
The diameter of the pipe being replaced affects costs. For instance, an 8" diameter main requires larger excavation sizes, more expensive pipe on a linear metre basis and more specialist plant and equipment compared to 4" diameter mains.

We are experiencing an increase in delivery of larger diameters as we progress through RIIO-GD2, particularly 8" Tier 1. This is the phasing across the control as we forecast to deliver total 8" Tier 1 length as per our Business Plan.

Larger diameter mains %**Size of projects:**

Smaller projects increase the unit cost on those schemes because of fixed project costs; these include more frequent mobilisation and demobilisation of sites, increased connection volumes, and more frequent noticing and consultation with Highway Authorities. They also incur more overall disruption during the project including greater travel time to and from depots.

The strict top-down risk reduction regimes of the first 10 years of the IMRRP (2002-2012) has contributed to many pipes being 'stranded'; short in length and isolated away from other replacement pipes. Following this, (2012-2026) direction has rightly been focused on risk

Size of projects

reduction. The programme being delivered through RIIO-GD2 and RIIO-GD3 is the result of those previous policy direction, making schemes smaller and less efficient.

We have shown the above as comparators across RIIO-GD1, RIIO-GD2 and future RIIO-GD3 because projects do not neatly fall into individual years.

Cost pressures are the price increases experienced on the individual activities we undertake to complete the Repex work. Using the same example as above, if the cost of materials required to backfill 2 or 10 excavations doubles, then the overall cost of that work doubles.

We continue to experience cost pressures across many of our key cost categories, with a particular impact on our Mains Replacement activities. These include:

- **Traffic Management and Streetworks** – Our traffic management costs have continued to increase, despite delivering a lower workload than year three. In year four we experienced the highest ever cost per metre of lay. These are uncontrollable costs with little to no efficiency opportunities due to the costs being driven by the demands from the highway authorities and permit conditions in place throughout our Network. Our forecast for year 5, as included in the Streetworks Reopener in September 2024 has already been surpassed.

We have experienced an 145% increase since 2021/22 (c.£1.8m p.a. increase). This includes price increases, but we also continue to experience external pressures, such as an increasingly onerous stance being taken by Highways Authorities on the requirement for manned traffic management lights, and having manually operated lights between 7am and 7pm, including weekends. This is across our network with a focus on areas with a permit regime in place, two thirds of our Network operate under permit schemes, with the costs for these schemes continuing to increase substantially year on year.

We are seeing more and more local authorities enforcing permit conditions which dictate the type of traffic management statutory undertakers must use to complete their work. Compliance with these permit conditions is mandatory and unavoidable. This impacts the direct cost of the traffic management that is required and restricts the way in which teams delivering works can efficiently operate.

We also continue to see streetworks costs significantly increasing in the tourist hotspots in our network, especially Devon, Cornwall and North Wales. The restrictions imposed on us in these areas are magnitudes higher than ever experienced or forecast, and they show no sign of abating.

- **Contract Labour** – contract labour now only constitutes around a quarter of our Build and Repair workforce following the insourcing of our primary Mains Replacement contractor workforce in 2021. Our contract partners are not only being approached by other GDNs who have significant recruitment drives underway to recover backlogs in their own work, but also by other industries (including nuclear, electric, water and telecoms). We also have an aging population of contractors, who are skilled and experienced but beginning to reach retirement. Their financial demands continue to increase particularly those that work along the M4 and M5 corridors or within commuting distance of the Hinkley Point C nuclear power station construction site. We continue to closely manage the risk of losing contractors, focusing on maintaining strong relationships with locally based contractors. As planned,

the delivery from these teams has been ahead of the average in year 3 and continued into year 4 particularly in Mains Replacement, putting us in a positive cumulative position heading into the final year 5 of the price control.

- **WWU industrial staff** – we experienced a 6.1% churn of industrial staff, down from 7% last year and a peak of 13% in previous years. This level of turnover in a skilled workforce that takes years to build competency, continues to be a skills-drain. Our agreed long-term five-year CPI-H linked pay deal provides us and our employees with certainty over pay for the whole of RIIO-GD2, acting as a mitigation to churn. However, this comes at a cost considering the efficiency challenge applied to our allowances (1% p.a. compounded).
- **Vehicles** – The global backlog of new vehicle availability as a result of the global pandemic and the Russian invasion of Ukraine has eased somewhat and we have seen vehicles on order being delivered throughout year three and four, however these are at a higher unit cost due to market prices increasing. Only towards the end of the year four and beginning of year 5 have we been able to start off-hiring the expensive vehicles that we have required in the prior years.
- **Pipe and fittings** – We continue to contract on a 12-month basis given the price fluctuations over the last few years. Following record increases in prices in 2021/22 and 2022/23, in 2023/24 there was a c.6% reduction in our contracted prices compared to the prior year with 2024/25 prices remaining flat; cumulatively the CPI-H and Real Price Effects (RPE) allowance adjustment mechanisms do not cover the increases experienced since the start of RIIO-GD2. There are very few pipe and fittings producers/suppliers, limiting our competitive opportunity to keep costs down.
- **Reinstatement** – The labour and material price increases incurred by our contractors continue from last year. Only 6 months after starting new contracts in year one of RIIO-GD2, we had to change the way in which we compensate our contractors for the work they deliver. We had to review cost increases outside of the contract mechanisms in place which include labour, materials (e.g. slabs, kerbs, edging, cement, sand) and tipping costs (e.g. hardcore, subsoil, tarmac); only now as inflation eases are we able to utilise existing contract arrangements, however the real price increase on the full cost base remains. We maintain a good commercial relationship with our reinstatement contractors and do not foresee operational risks as a result of these pressures.
- **Materials** – At the beginning of RIIO-GD2 the macroeconomic environment raw/building material costs have seen unprecedented increases, these above inflation increases have continued through to year four. In year 2 we experienced a year-on-year increase of c.16% cost per metre laid (inclusive of services) well in excess of inflation, in year 3 a 21% year-on-year increase and year 4 a 25% year-on-year cost per metre increase (inclusive of services), again well in excess of inflation and RPEs.

The key cost drivers identified above, being number of excavations including connections and service frequency, technique used, the diameter size and location of pipe all have a significant impact on the material cost per metre in addition to the underlying price increases.

Cost mitigation

These cost pressures continue to increase despite the significant steps we've taken over the price control to date to attempt to mitigate them, including:

- Full review and rationalisation of the organisational structure right across all areas: the back office, operational support and front-line management structures. For instance, a one-off voluntary redundancy scheme was carried out in the readiness for this tough price control, and the inclusion of best practice and compliance First Line Managers in the new operational organisational structure is providing tangible benefits.
- Transitioned to an in-house managed Mains Replacement programme. With a larger directly employed workforce and increased control of all spend categories, we now have greater visibility and flexibility to tackle issues as they arise. This also reduced the cost of contractor fees and associated costs by c.£4m per annum.
- The introduction of a financial incentive scheme across operations, focused on driving and rewarding our staff for incremental operational productivity and efficiencies.
- Agreed a CPI-H linked five year pay deal with the unions covering RIIO-GD2.
- Continued commercial retendering and negotiation of key contracts that drive our cost base including reinstatement, pipe and fittings, traffic management and plant hire. In the current adverse economic climate, we are only contracting for a maximum of 12 months at a time.

The net impact of the cost pressures, despite our ability to mitigate them where possible, is an increasing cost base above inflation consistently throughout years 1 to 4, and we anticipate this to continue into year 5.

Our RIIO-GD2 Totex Forecast

Many of the RIIO-GD2 outputs are deliverable over the five year period, and as such the cost and allowance forecasts for the full price control show the true underlying performance. This section sets out our forecast for the full price control. This includes the full £50.1m of allowances related to the HSE Policy Reopener & Specified Streetworks Reopener.

Given the close timing of these draft determinations to the RRP submission deadline (31st July 2025), this document has not been adjusted to reflect them.

Our key messages with this 5-year forecast are:

- We are well set to achieve our licence obligations and are on track to achieve all of our Price Control Deliverables.
- Repex under-performance of £62.0m reflects the insufficient allowances set at the outset.
- Opex outperformance illustrates the continuing focus and success of utilising the necessary down-time of our emergency workforce on non-regulated work. This has the effect of reducing Opex costs for consumer bills.

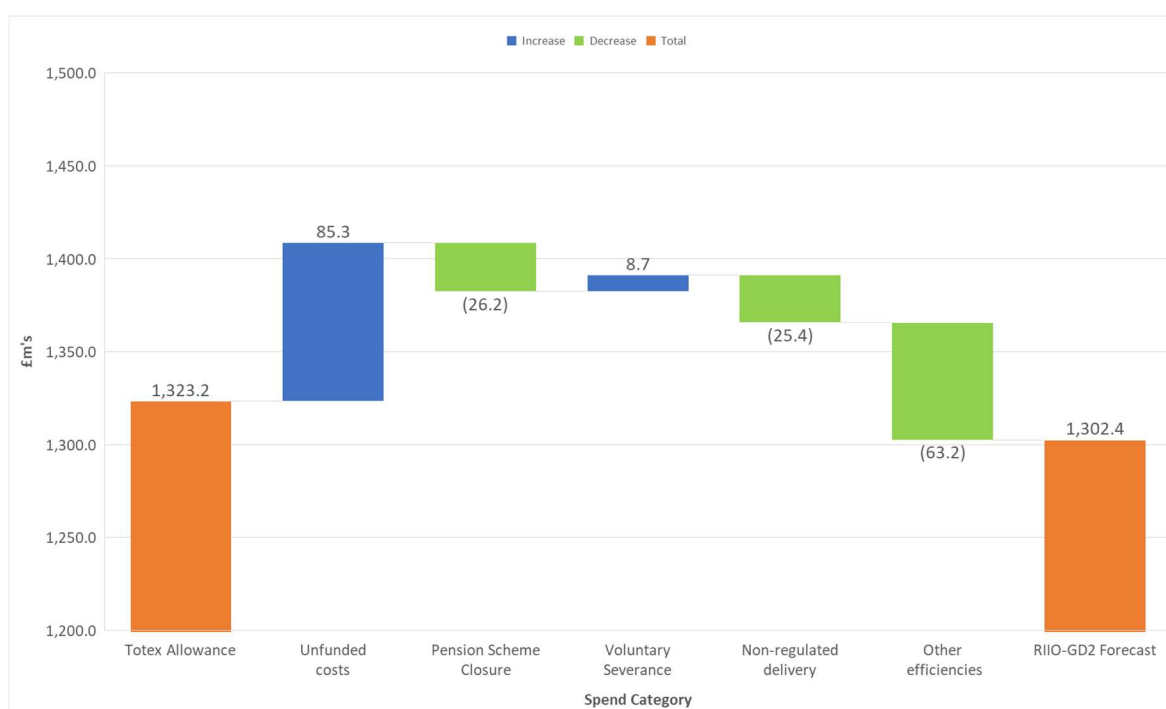
£m 18/19 prices		Actual 2021/22	Actual 2022/23	Actual 2023/24	Actual 2024/25	Forecast 2025/26	Total
Opex	Forecast	84.5	88.1	81.0	91.2	104.1	448.8
	Allowance	104.6	102.4	103.3	105.9	106.5	522.7
	Variance	(20.1)	(14.3)	(22.3)	(14.7)	(2.4)	(73.9)
Capex	Forecast	56.8	51.3	82.7	59.8	90.2	340.8
	Allowance	63.2	62.5	78.9	68.9	76.2	349.7
	Variance	(6.4)	(11.2)	3.8	(9.0)	14.0	(8.9)
Repex	Forecast	71.8	98.2	119.6	108.3	114.9	512.8
	Allowance	90.7	90.6	90.3	89.8	89.4	450.8
	Variance	(18.9)	7.6	29.3	18.5	25.5	62.0
Totex	Forecast	213.1	237.6	283.3	259.4	309.2	1,302.4
	Allowance	258.5	255.5	272.5	264.6	272.1	1,323.2
(Out)/Under Perf.		(45.4)	(18.0)	10.8	(5.2)	37.0	(20.8)
% Perf.		(17.6%)	(7.0%)	4.0%	(2.0%)	13.6%	(1.6%)

Costs are reported in the tables to 1 decimal place which can result in rounding differences

Allowances are reflective of the base allowances including RPEs adjusted for forecast performance on PCDs. Totex forecast and Allowances include Net Zero "Use it or Lose it".

The RIIO-GD2 forecast position is agreed in April each year in line with our assurance activities and therefore some changes may occur subsequent to this that may adjust the cost forecasts displayed within the PCD reports.

Below is an explanation of the main variances included in our 5 year forecast:



Unfunded costs (£85.3m) represents specific areas of Totex spend that are outside of our Totex allowances. This includes:

- A significant adverse price variance on mains replacement as allowances set in this price control are insufficient for the efficient costs we are incurring. This has been exacerbated by the cost driver changes and cost pressures we have experienced since GD2 Final Determinations. We have referenced these cost pressures in the section above.
- The cost of new property developments replacing aged existing sites

(Ofgem category: Provision in the price control settlement 100%)

Pension Scheme Closure (£26.2m) the estimated savings of closing the Defined Benefit section of the pension scheme to future accrual in July 2021 with the existing Defined Contribution section of the scheme now in place across the organisation. (however, we incurred costs in the first year of the price control to achieve this).

(Ofgem category: Efficiency 100%)

Voluntary Severance (£8.7m) the cost incurred in 2021/22 of carrying out a voluntary severance exercise, resulting in 126 employees leaving the business.

(Ofgem category: Efficiency 100%)

Non-formula delivery (£25.4m) represents non-formula work (Metering and third party work) where we have targeted the productivity of our workforce, especially our Emergency First Call Operatives (FCOs) who are required to maintain a headcount sufficient to manage the demand of a 24-hour emergency service, requiring FCOs to be on call 24/7/365 in case they are required to respond to an emergency at any point and at any time across our network. FCOs are delivering Metering work, Mains Replacement purge and relights and surveys to ensure the necessary, but unproductive element of their role is utilised on value adding activities where possible. Third party contracts are short term, not guaranteed contracts which end within the RII-GD2 period.

(Ofgem category: Efficiency 100%)

Other efficiencies (£63.2m) includes incremental cost reductions across Totex where we continue to utilise our workforce across all activities to reduce the expenditure and reliance on external contractors while ensuring we maintain an efficient and skilled workforce. It also nets the additional underlying cost we are experiencing from a reduction of connections work, which is leading to stranding of back-office resources.

(Ofgem category: Efficiency 100%)

Variant Allowances

The level of variant allowances in this price control is significantly higher than previous price controls. This section explains the variability under each regulatory mechanism; Reopeners and the associated PCDs, Volume Drivers & Base allowance PCDs.

Reopeners with associated PCDs - approved

Reopener	£m's	PCD type	PCD status*
Cyber Resilience OT Re-opener	23.1	Evaluative	Delayed
Cyber Resilience IT Re-opener	9.8	Evaluative	Delayed
Non-Operational IT Capex	20.0	Evaluative	On track to deliver reopener requirements
Physical Security	9.6	Evaluative	Delayed
New Large Load Connections	8.2	Evaluative	Delayed
Diversions and Loss of Development Claims	42.2	Evaluative	Partially delivered

*Status as at 31st July 2025 – could change up until end of the close out of the current control period on 31st March 2026.

Reopeners not yet approved

The below table summarises our current view of the areas where reopeners have been submitted (awaiting Ofgem decision) or we are likely to make future re-opener submissions. Any reopeners already finally determined by Ofgem are not in the table below.

Reopener	£m's	Submitted	Status
Specified street works	24.3	Sep -24	Draft Determination released 18 th July
HSE policy changes (including fatigue)	25.8	Sep -24	Draft Determination released 18 th July

Specified street works – as explained in the cost pressures section above, we continue to experience significant year on year increases in the costs of working on the roads within our network. These are driven by the enhanced requirements imposed upon us by Highways Authorities – in particular manned lights and weekend working. We submitted our reopener application to Ofgem in September 2024. The draft determinations were provided by Ofgem on the 18th July 2025 which allowed us £1.9m against the £24.3m requested. This appears to be a misunderstanding by Ofgem, who have only allowed costs in relation to schemes introduced during GD2, and not those that were initiated in GD1 but post the completion and submission of GD2 Business Plans.

HSE policy changes (including fatigue) – the HSE is currently reviewing working practices of the industrial workforce specifically in relation to fatigue management. Given the ongoing dialogue and consultation between the HSE and GDNs, we continue to assess the additional and more onerous

requirements that the HSE have, and expect to place on GDN workforces. We submitted our reopener application to Ofgem in September 2024. Draft determinations were provided by Ofgem on the 18th July 2025 which allowed us £24.7m against the £25.8m requested.

Volume Drivers

There are mechanistic price control deliverables dependant on the volume delivered. These are:

Volume Driver PCD	PCD Status
Fuel Poor Network Extension Scheme	Partially delivered
Domestic Connections	Partially delivered
Tier 2A Mains Replacement	Partially delivered
Tier 1 Mains Decommissioned	Fully delivered
Tier 1 Services Repex	Fully delivered

Fuel Poor Network Extension Scheme (FPNES) - with ECO4 not supporting new gas heating systems, and the end of the National Grid Warm Homes Fund, connections under the Fuel Poor Network Extension Scheme totalled just 49 in 2024/25 and we are forecasting continued low volumes across the rest of RIIO-GD2. We worked with Ofgem and agreed the FPNES will continue with a lower output with unspent allowances transferred to the Vulnerability and Carbon Monoxide Allowance (VCMA). The revised Ofgem target of 2,181 FPNES connections is unlikely to be met, missing by an estimated 617 connections, triggering the FPNES volume driver. The RIIO-GD2 downward adjustment to base allowances is £2.0m.

We are using the £13.2m of allowances transferred from the Fuel poor Network Extension Scheme to the VCMA in Licence changes, to do even more to tackle fuel poverty and support our most vulnerable customers during the remainder of RIIO-GD2. We expect to achieve the revised outputs agreed with Ofgem.

Domestic connections – the volumes of domestic connections continue to reduce year on year; requests for new connections to domestic properties were 19% down in 2024/25 compared to 2023/24. We forecast to see a steady drop in volumes through the remainder of RIIO-GD2 with current incentives for low carbon heating, and developers continuing to reduce the requirement for a new gas connection to new build homes. The allowances within this commentary already account for the allowance reduction resulting from the significantly reduced forecast volumes, therefore the risk to further allowance reductions is only if domestic connections reduce further. Due to the volume driver mechanism in place, we have already accounted for a £22.7m allowance reduction compared with those set at Final Determinations to reflect expected volumes.

Tier 1 and Tier 2A PCDs – we remain on track to deliver our price control deliverables within RIIO-GD2, details are included in the Repex expenditure section of this document.

PCD deliverables in base allowances

PCD in Base totex	£m's	PCD type	PCD status*
Capital Projects Price Control Deliverable	13.0	Evaluative	Delivered with alternative specification
Commercial Fleet PCD	2.6	Mechanistic	Partially delivered

Capital delivery

Please see the Capital expenditure section and the standalone PCD report for further information on this deliverable.

Commercial Fleet PCD

Last year we forecast a reduction to the Commercial Fleet variant allowance as there are currently no suitable electric alternatives to the majority of our diesel commercial fleet vehicles. This is largely because the current electric only vans available in the market have insufficient payload and/or range capabilities for our operational requirements and geographically sparse network. This position remains unchanged.

We continue to proactively review and test new vehicles as they become available and look for alternative solutions that would meet the operational demands on these vehicles (e.g. hydrogen fuelled vehicles), which we are trialling currently. Our current estimate is that we will fall short of the PCD target and will result in an allowance decrease of £1.8m over the price control.

Workload Forecast

As mentioned in the Totex annual performance section, all workload forecasts need to be looked at in conjunction with the 5 year workloads and deliverables - this section sets out that 5 year position.

Our key messages with this 5 year workload forecast are:-

- Our workload forecasts are broadly in line with our linked allowances which we plan to achieve for RIIO-GD2.
- Our in year delivery of Tier 1 mains length and services continues to deliver the work required to meet the PCD volume.
- We continue to see a reduction in service connections to new and existing housing, and the reduction in Fuel poor connections.
- We have the capacity and are well set to deliver against our licence obligations in the last year of RIIO-GD2, as we have each year.

	Unit	Actual 2021/22	Actual 2022/23	Actual 2023/24	Actual 2024/25	Forecast 2025/26	Total	Average
Mains condition reports	No.	4,105	4,541	4,482	4,640	4,442	22,210	4,442
Service condition reports	No.	5,779	5,803	6,397	6,797	6,194	30,970	6,194
No. of holders removed	No.	0	2	1	0	0	3	1
Mains reinforcement	Km	15.4	14.9	10.0	11.1	15.6	67	13.4
New housing services	No.	3,008	2,466	1,608	1,152	1,000	9,234	1,847
Existing housing services	No.	3,628	2,579	2,376	2,087	2,050	12,720	2,544
Fuel poor services	No.	1,177	245	63	49	30	1,564	313
Governor intervention	No.	5	3	4	2	2	16	3
T1 length decommissioned	Km	282.1	312.5	337.1	314.8	321.5	1,568.0	313.6
T2a length decommissioned	Km	2.5	0.0	0.3	0.3	0.0	3.1	0.6
T2b length decommissioned	Km	10.9	27.1	28.8	6.3	3.5	76.6	15.3
T3 length decommissioned	Km	0.1	1.8	0.1	2.8	0.0	4.8	0.9
Diversions decommissioned	Km	24.5	7.0	11.6	5.6	0.0	48.7	9.7
Steel length decommissioned	Km	58.6	72.9	73.2	62.6	61.1	328.4	65.7
Other length decommissioned	Km	33.8	23.8	41.7	19.4	8.0	126.7	25.3
No. of services transferred	No.	12,195	14,523	17,794	15,780	16,489	76,781	15,356
No. of services re-laid	No.	18,070	17,693	20,169	21,035	15,045	92,012	18,402

Outputs Summary

The following table sets out our view of delivery of outputs by the end of the price control.

Our key messages for the 5 year outputs forecast are:

- We are on track and forecasting to meet all outputs with the exception of Fuel Poor Connections (as agreed between Ofgem and GDNs).
- Our resourcing strategy, to largely run with an insourced model, employed since the start of RIIO-GD2 has ensured we are well resourced to meet our outputs.

Output	Output	RIIO-GD2 view
Meeting the needs of consumers and network users	Consumer vulnerability minimum standards	●
	Fuel poor connections (no.)	●
	Complaints metric	●
	Guaranteed standards of performance	●
	Emergency response - 97% controlled gas escapes	●
	Emergency response - 97% uncontrolled gas escapes	●
	Loss of supply – number of unplanned interruptions	●
	Loss of supply – duration of unplanned interruptions	●
	Loss of supply – number of planned interruptions	●
	Loss of supply – duration of planned interruptions	●
	Planned interruptions survey (score out of 10)	●
	Emergency response and repair survey (score out of 10)	●
	Connections survey (score out of 10)	●
Maintaining a safe and resilient network	Repex – tier 1 mains replacement	●
	Repex – tier 1 services	●
	Capital projects	●
	NARMs	●
Delivering an environmentally sustainable network	Shrinkage and environmental emissions	●
	Biomethane connections information	●
	Environmental action plan and annual environmental report	●
	Business Carbon Footprint (BCF) reporting	●
	Carbon monoxide awareness	●
	Introduce distributed gas entry standards (scmh connections)	●

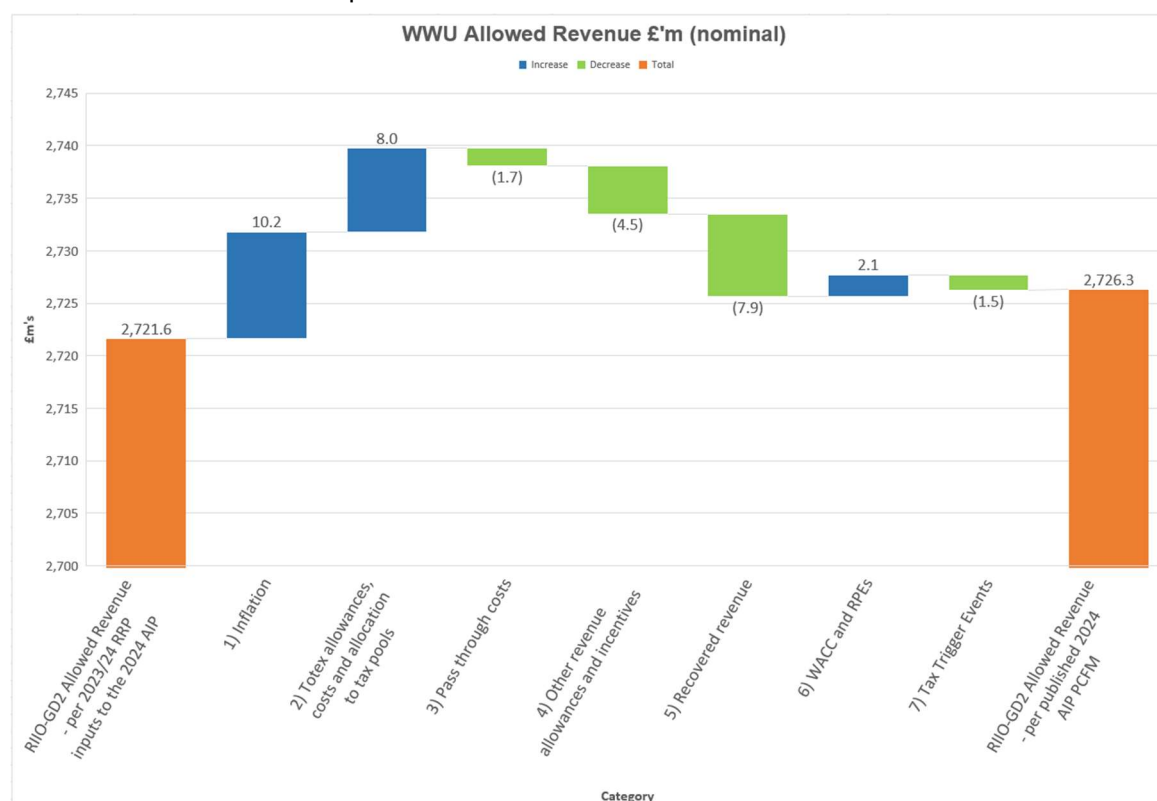
● On track ● At risk ● Not on track

Fuel Poor Network Extension Scheme (FPNES) – as noted previously, working with Ofgem, volumes have been revised downwards and allowances transferred to VCMA. Delivery of fewer services will be dealt with through the Volume Driver mechanism. We are seeing slightly lower services than the revised agreed volumes.

Financial Performance

Allowed revenue movements

Our Allowed Revenue performance for RIIO-GD2 is set out below. This shows the difference in RIIO-GD2 Allowed Revenue between the PCFM that was prepared based on the 2023/24 RRP inputs and the final published PCFM for the 2024 Annual Iteration Process (AIP). This shows a nominal increase in Allowed Revenue of £4.7m across the price control.



- Inflation** - £10.2m increase to Allowed Revenues arising following updates to the inflation assumptions; including actuals to June 2024 and revised Office for Budget Responsibility (OBR) predictions to March 2026.
- Totex** – Updates to Variant Totex Allowances, in respect of PCDs and Uncertainty Mechanisms (UMs), have increased Allowed Revenue (ARt) by £6.1m. Updates to Actual Totex has increased ARt by £1.9m. Cap Rate 1 Actual Totex has resulted in an increase in ARt of £7.5m partially offset by Cap Rate 2 Actual Totex decreasing revenue by £5.6m reflecting the updated forecasts of Actual Totex for baseline and re-opener claims since the 2023/24 RRP submitted in July 2024.

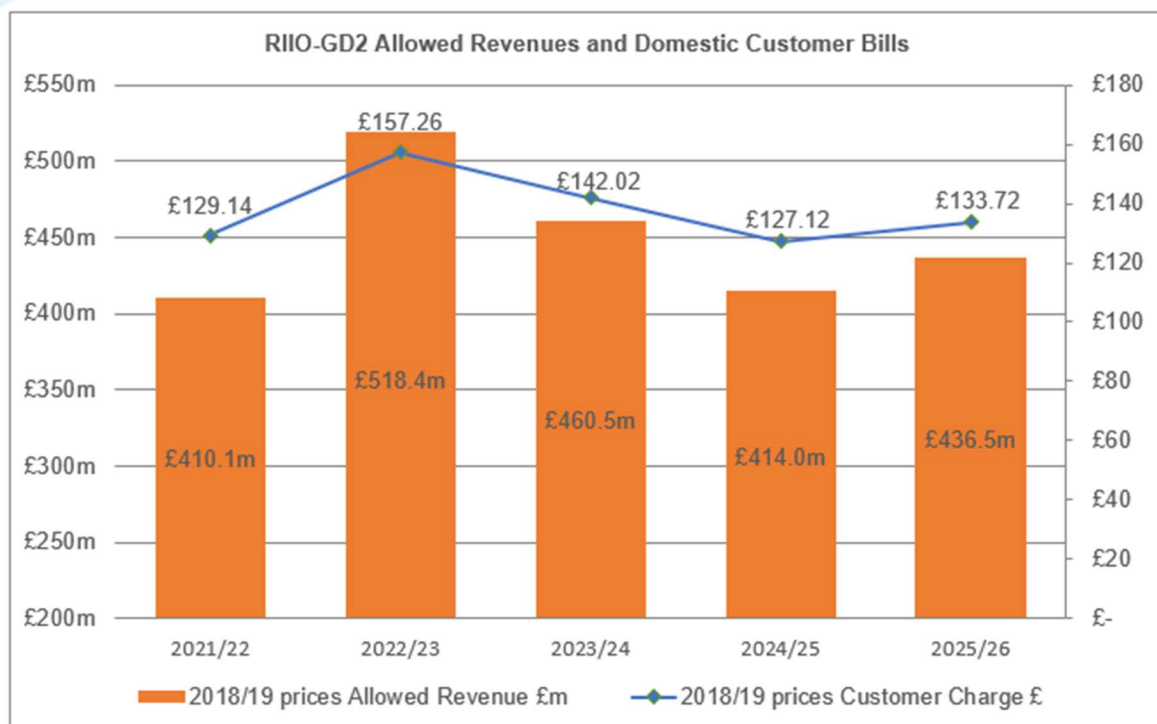
3. **Pass through costs** - £1.7m Allowed Revenue reduction in relation to pass through costs. This is largely due to reduced forecast Central Data Service Provider (CDSP) costs, resulting in a decrease in Allowed Revenue of £1.8m. Updated Exit Capacity bookings have also resulted in a reduction in ARt of £0.3m, along with a further reduction in ARt of £1.0m in relation to Supplier of Last Resort costs, updated to reflect Ofgem's finalised position for the 2025/26 year. These decreases are partly offset by an increase to ARt of £1.4m in respect of shrinkage costs to reflect increased forecast gas prices.
4. **Other revenue allowances (ORA) and Incentives** – Updates to ORAs have resulted in a decrease of £4.5m to ARt for 2025/26 compared with the RRP submission. This relates to Network Innovation Allowance (NIA) costs that have been re-forecast in light of projects anticipated to be delivered during the remainder of the RIIO-GD2 price control.
5. **Recovered Revenue** – Updates to recovered revenue have resulted in a decrease of £4.0m in relation to 2023/24 and £3.9m in relation to 2024/25. This represents revised forecasts for 2024/25 to reflect a projected over-recovery of Allowed Revenues. The over-recovery, including time value of money adjustments, arises due to bad debt recovery, additional Exit Capacity recovery since the first dry run, and higher than forecast recovered Commodity revenue due to weather conditions.
6. **WACC and RPEs** – An increase in ARt for 2025/26 of £3.7m following Ofgem's updates to the PCFM reflecting the revised RPEs for the GDN's. This is slightly offset by a decrease in ARt for 2025/26 of £1.6m following Ofgem's updates to the PCFM reflecting the revised WACC Allowance Model inputs.
7. **Tax Trigger Event (TTE)** – A reduction in ARt of £1.5m following updates to forecast TTE, representing the cumulative impact of both 2024/25 and 2025/26 additions to the regulatory general and special rate pools for enhanced capital allowances purposes and Opening Balance Adjustments (OBAs) for 2025/26 to true up the opening pool balances for 2024/25.

Inputting data from the 2024-25 RRP submission accompanying this commentary, ARt across RIIO-GD2 would have totalled £2,695.9m, a drop of £30.4m. The majority of this drop is due to improvement against forecast Totex predictions from the prior year.

Company view of customer bills

Customer bill movements fall into two elements; (i) changes in "Allowed Revenue" and (ii) changes in customer numbers and the aggregate capacity booked by Shippers. i.e., if there is an increase in the number of customers, then the revenue to be collected from each customer will decrease, all else being equal.

As customer numbers and consumption is expected to remain broadly consistent across RIIO-GD2, the change in estimated and actual customer bills is mainly due to changes in Allowed Revenue, largely from pass through, non-controllable items, such as changes in Supplier of Last Resort Payments, exit capacity costs, wholesale gas prices and legislation.



All values shown are in 18/19 prices

Customer bill estimates are forecast to increase by £6.60 from £127.12 to £133.72 between 2024/25 and 2025/26, before the effects of inflation. This represents an increase of £2.24 in respect of Supplier of Last Resort (SoLR) and Exit Capacity costs which are non-controllable. The balance, an increase of £4.36, is primarily driven by an increase in 2025/26 Allowed Revenues that have arisen because of small increases in other non-controllable costs combined with an increase in fast money and Regulatory Asset Value (RAV) depreciation relating to Totex.

Below is a walkdown of customer bills over the period excluding SoLR costs, Exit Capacity costs and before the impact of inflation.

Walkdown of domestic customer bills excluding SoLR and Exit Capacity (18/19 prices)	2021/22	2022/23	2023/24	2024/25	2025/26	RIO-GD2 Average
Total domestic customer bills	£129.14	£157.26	£142.02	£127.12	£133.72	£137.85
Exclude SoLR element	£0.00	£-24.78	£-7.29	£-0.23	£0.25	£-6.41
Exclude Exit Capacity costs	£-6.22	£-11.04	£-5.91	£-5.64	£-8.35	£-7.43
Customer bills excluding SoLR & Exit Capacity	£122.92	£121.45	£128.81	£121.26	£125.62	£124.01

Customers

This section covers our commitments to customers including our customer satisfaction scores, guaranteed standards of performance and progress under the Vulnerability and Carbon Monoxide Allowance.

Our key messages within this section are:

- Complaint volumes reduced by 18% compared to 2023/24 with 85% resolved within one working day.
- Our overall customer satisfaction score is once again over 9/10 (9.26) from surveying over 9,800 customers.
- Funding through the Vulnerability and Carbon Monoxide Allowance has allowed us to support over 500,000 people during the cost-of-living crisis in RIIO-GD2.
- We hold the Institute of Customer Service (ICS) "ServiceMark" accreditation with "Distinction" status for our customer service levels and were successful in retaining the ISO22458 Inclusive Service standard and Kitemark through the BSi.

Our year four performance scores

	Scored out of 10	Reward Threshold/Target
Connections	9.09	8.65
Planned	9.03	8.69
Emergency	9.65	9.43
Overall Score	9.26	N/A

Recognition for our Customer work

We are proud that the Institute of Customer Service awarded WWU the ICS "ServiceMark" accreditation with "Distinction" for our customer service levels.

We were also successful in retaining the ISO22458 Inclusive Service standard and Kitemark through the BSi, having been one of the first 9 organisations to obtain the new standard worldwide in 2022 and have successfully retained the standard in subsequent years with ongoing improvement and evolution noted by the BSi auditor.

Training and Innovation

We continue to invest in customer training for our customer facing staff and operational teams and managers with a combination of e-learning and face to face training modules.

We continued to innovate in the customer space with customers now able to submit enquiries and connections requests in short videos through the Vyntelligence platform. We have also introduced the LocalZ solution which sends customer alerts ahead of connections work and allows them to track their engineers' arrival and completion of works.

Complaints Metric

We received 1,084 (1,310 2023/24) complaints for 2024/25, which is 0.4% of total workload, a reduction of 17% compared with the previous year. 85% of complaints were resolved within one working day following receipt and there were no cases ruled against us by the Ombudsman. Our overall complaints metric score was 2.56.

To ensure continued compliance with the Consumer Complaint Handling Standards Regulations 2008, staff briefings, training and telephone audits have taken place on a regular basis and 100% of complaints have been audited.

Our performance for responding to complaints is 100% as defined by the GSoP Regulations.

Guaranteed Standards of Performance (GSoP)

We fully complied with Guaranteed Standards of Performance Regulations with all payments made automatically to customers.

The most significant improvement within this area was on the GSoP 2 failures. We increased the focus of our on-site engineering teams to request private reinstatement on the same day / next day to achieve the D+5 standard (D+3 for PSR customers).

We had a major incident impacting over 250 customers during the year. This was a third-party damage to an 18" main in Chippenham which resulted in the loss of gas to almost 1,000 homes on our network and an IGT site. Whilst 50% of the customers were back on gas within 24 hours, we still paid £48k to customers who were off for up to 48 hours. For 3rd party damages we seek to recover costs of incidents.

We experienced several longer unplanned interruptions due to leakage on internal risers in Multiple Occupancy Buildings (MOBs). A number of these have taken time to agree a solution with the Local Authority where the building is listed or in a conservation area. Payments of up to £4k have been paid to a small number of customers whilst others have accepted a buyout offer and we have paid to move them to electrical heating and cooking. A range of support services and interim payments of GSoP 1 were made to ensure the customers were kept safe and warm during the interruption.

As per our Licence requirements, we implemented the new annual CPI-h increase to the GSoP payments in April 2024 and again in April 2025

Vulnerability and Carbon Monoxide Allowance (VCMA)

2018/19 prices £m's	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	Total
Company Specific Project costs	0.8	1.3	2.1	5.0	4.8	14.0
Collaborative Project costs	0.2	0.4	0.5	2.5	2.8	6.4
VCMA Project forecast	1.0	1.7	2.6	7.5	7.6	20.4

The formal transfer of unspent allowances from the Fuel Poor Network Extension Scheme (FPNES) to the VCMA was confirmed in Licence changes in July 2023. This increased the WWU funding significantly from £7.2m to £20.4m (£25.8m in nominal prices). As of 31 March 2025, we had 77 projects in place across our network and in collaboration with the other GDNs.

We published our fourth annual report ([VCMA report 2024/25](#)) for the VCMA on 1 July and the annual GDN collaborative showcase event took place on 9th July 2025. A summary of VCMA Outcomes is shown below.

Outcome	2024/25	RIIO GD2 total
Number of people reached directly	229,105	511,300
Financial savings achieved (nominal prices)	£14.4m	£32m
People reached through campaigns (CO/PSR)	2.3m	15.2m
CO questionnaires completed	9,895	39,787
Free issue CO monitors	5,152	27,877
Priority Service Register referrals	15,392	55,293

Future of Energy, Innovation and Environmental Responsibility

Our ambition is to be trusted to expertly serve customers and communities with safe, reliable and affordable energy services today, whilst investing wisely to create a sustainable, greener future. Our innovation and delivery work on the energy system transition is focussed on achieving this ambition, by supporting progress against the targets we set in our Sustainability Strategy ([sustainability-strategy-2023.pdf](#)).

Our key messages within this section are:

- We are undertaking a range of activities and projects to deliver a Net Zero energy system and support customers through the transition.
- We participate in national programmes to support key activities such as research and trials of hydrogen for blending and potentially repurposing networks; support the ongoing development of biomethane; and deliver work focussed on low carbon options for the communities we serve.
- We work with partners across the industry and use our strategy and priorities to guide our activity, and ensure it delivers value for money.
- Our innovation portfolio has continued to expand through RIIO-GD2 to meet the expectations of our customers and stakeholders and is helping us understand new technologies and developments.
- We seek to implement learnings where we can and are acting today to connect green gas production, reduce greenhouse gas emissions and deliver more positive environmental outcomes.

Strategic Priorities

Delivering a safe, secure, decarbonised energy system will require a range of technologies deployed at scale. Our extensive gas network infrastructure will need to play a major role to deliver a net zero system in time to meet the Government's goals. As there is uncertainty on the mix of technologies that will be used in the long term, our innovation and net zero aims to help understand how our gas distribution network will change in the coming decades, and what this will mean for our customers. Our priorities for our energy system transition means we need to understand:

- How technology for producing green gasses is evolving, and how it can best connect to our network;
- The technical feasibility and economic and environmental impacts of changes to our network and operations; and
- How customer preferences and technological developments will change demands from our network.

Reducing emissions and improving environmental outcomes

We set long-term greenhouse gas reduction ambitions which are aligned with a science-based methodology.

In RIIO-GD2, we reduced total shrinkage from our network ahead of target: we delivered a 12.7% reduction in gas lost to atmosphere by 2024/25 compared to the start of the price control, and this is expected to continue to improve. We have exceeded our five year target in year four. Excluding shrinkage, our Business Carbon Footprint (BCF) has been impacted by changes to our business model.

Use of insourced rather than contracted labour for most of our mains replacement programme increased Scope 1/2 greenhouse gas emissions above our 2019-20 baseline. We forecast BCF will reduce in future due to the action we're taking now, for example reducing operational transport emissions through more efficient and lower emission vehicles.

We are pleased to have delivered a small reduction in emissions from operational vehicles in 2024-25. However there has been an increase in emissions from company cars, as a consequence of a 42% increase in the Defra GHG conversion factor for Plug-in Hybrid Electric Vehicle (PHEV), an increase in mileage (22%) and a small increase in the size of the company car fleet. The additional cars are all battery electric or plug-in hybrid vehicles. Overall, there are now only 4 petrol cars and 1 diesel in the company car fleet and 85% of the fleet is PHEV.

We are in the process of switching energy suppliers and are reviewing historic estimated bills with our energy broker. If this results in any revisions to historic use these will be incorporated into future reporting. In RIIO-GD3 we aim to install smart meters and reduce the need for estimates.

We are acting to improve environmental outcomes through our land management programme and taking action to support biodiversity. In 2024-25 we successfully completed main remedial works at our most complex RIIO-GD2 restoration project, Quakers Yard in South Wales. At our new Bristol Depot, we have dedicated an area of the site to biodiversity and measured a 19.2% increase in biodiversity units.

Connecting and managing green gas on our network

We are continuing to work with biomethane producers to manage green gas on our network and connect new sites. We connected one new site in 2024-25, which means we currently have 22 biomethane plants connected to our network, who are able to provide enough capacity to meet the annual demand of over 160,000 homes.

We are working with green gas producers in our network to explore and deliver options for expanding capacity to meet future demands. This includes facilitating using technologies such as reverse compression and smart pressure control which have been developed through our innovation activity, in collaboration with industry partners and other networks. We also work with partners to support the development of green gasses more widely.

Innovating and delivering for the energy system transition

In 2024/25, we:

- spent £4.9m across our innovation project portfolio, including £3.3m of NIA funded projects and the rest funded via the Strategic Innovation Fund (SIF),
- kicked off 36 new Network Innovation Allowance (NIA) projects, with 28 unique partners,
- worked collaboratively with other networks on 36% of our new projects,
- used Net Zero and Re-opener Development Fund use-it-or-lose-it allowance (NZARD UIOLI) to support the development of industrial clusters and demonstration projects,
- disseminated learning and sought new ideas through Innovation Zero and other industry events both locally and nationally.

Further information and case studies are provided in the Detailed Information section below, and a summary of our innovation activity for 2024/25 will be published in our annual innovation report, available on our website <https://www.walesandwest.co.uk/about-us/innovating-for-our-customers/>.

Our innovation governance approach, including collaboration with other network licensees and processes for avoiding duplication and sharing learning, is set out in the Energy Networks Innovation Process document on the Future Energy Network website: <https://www.igem.org.uk/resource/fenip-overview-and-governance-document.html>