

WESTERN POWER DISTRIBUTION - BUSINESS PLAN 2010 - 2015

The energy regulator Ofgem, requires all electricity distribution companies (DNOs) to prepare a business plan for 2010 - 2015 which must include a range of possible investment alternatives. As part of this process, the regulator stated that each DNO should seek the views of its regional and local stakeholders.

On 30th May 2008, WPD published a stakeholder consultation on its investment plans for 2010-2015 for the purpose of taking account of the views of stakeholders in preparing our final detailed investment proposals.

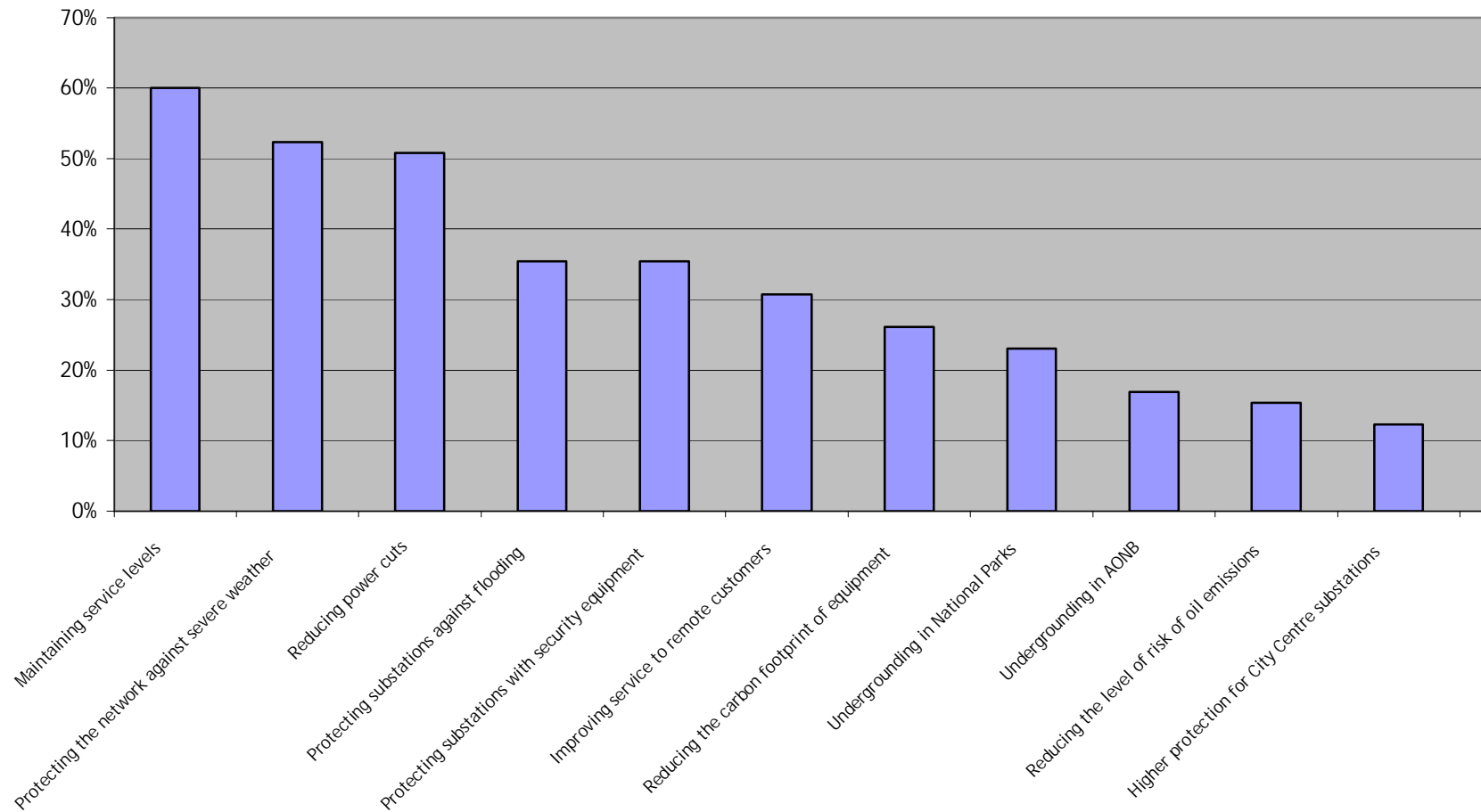
WPD were assisted in the consultation process by Green Issues, an independent company in the UK with extensive experience in the field of community consultation. Their report, which sets out the methodology used and analysis of the detailed feedback, may be viewed on WPD's website www.westernpower.co.uk.

In total we received 166 responses to the consultation. This paper summarises the results of the feedback and how we propose to incorporate the feedback into our business plan. We will be asking Ofgem to agree our spending plans during 2009.

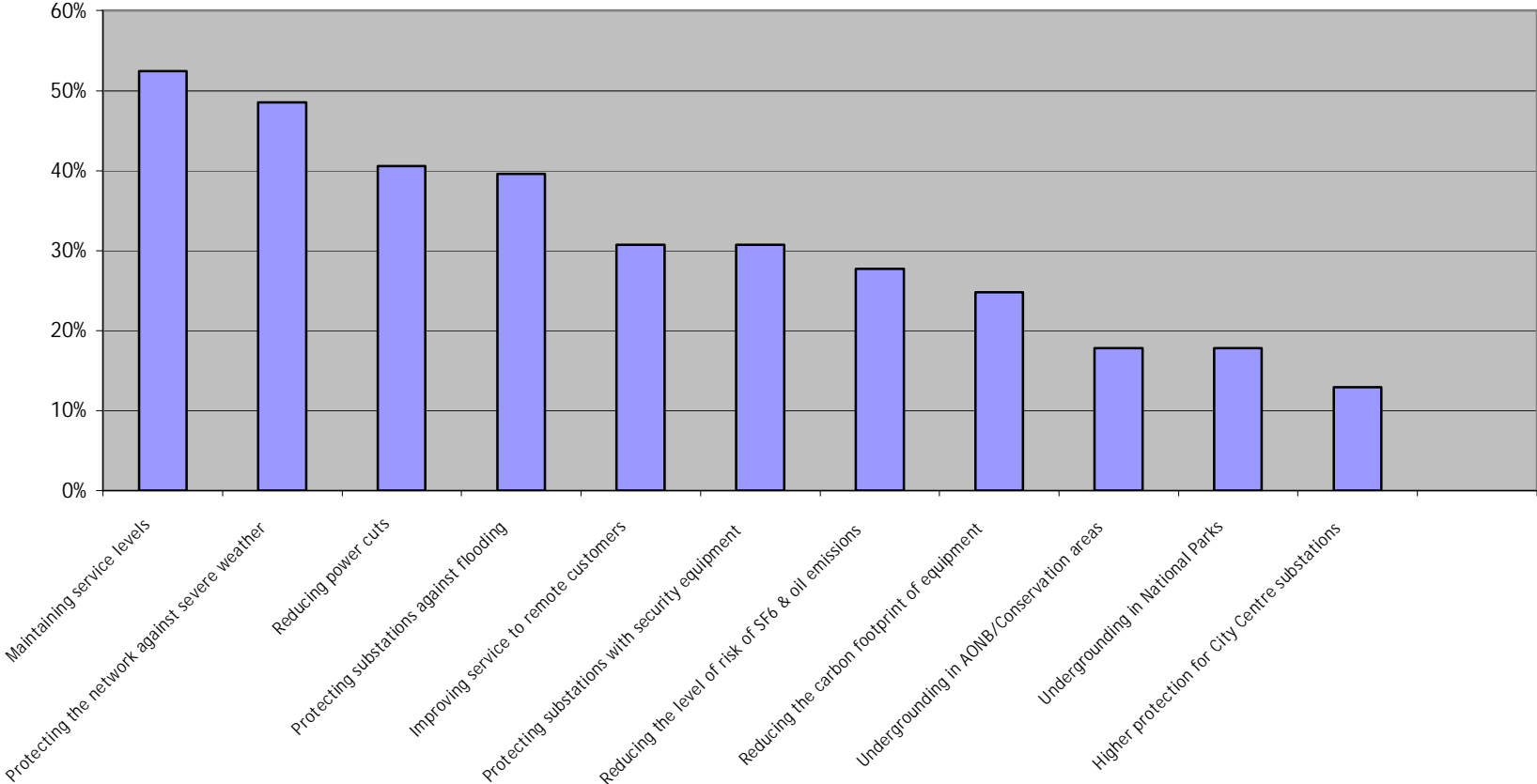
Attachments 1 and 2 show pictorially the percentage of respondents supporting each investment alternative.

Attachment 3 sets out the specific questions posed in the consultation document, a brief narrative in respect of each question and how we propose to incorporate the results of the feedback into our business plan.

WPD South Wales - percentage of respondents supporting each of the investment alternatives set out in the May 2008 consultation document



WPD South West- percentage of respondents supporting each of the investment alternatives set out in the May 2008 consultation document



Attachment 3

QUESTIONS POSED IN THE CONSULTATION DOCUMENT AND HOW WE PROPOSE TO INCORPORATE THE RESULTS OF THE FEEDBACK INTO OUR BUSINESS PLAN

1. Maintaining Service Levels

Maintaining service levels and complying with new legislation, in itself, represents a major challenge in resource management. The question in the consultation document asked - "Do you agree that WPD's investment programme should aim to maintain its current levels of service until 2015 and beyond?" The consultation document also explained our forecast levels of investment over the period 2010 to 2015 and how the aggregate figure translated into an average cost per domestic customer.

Almost 60% of respondents in south Wales and the south west felt that any deterioration in service levels would be unacceptable. One quarter of the respondents selected this as the top investment priority. Only 5% of respondents cited price/cost increases as their key concern.

Action: Expenditure on maintaining service levels will be a central feature of our 2010 - 2015 Business Plan. We estimate that we will need to invest an extra £90m to £150m over the next 5 years in WPD South West and an extra £60m to £120m over the next 5 years in WPD South Wales in order to maintain current service levels and comply with relevant legislation.

2. Protecting the Network against Severe Weather

One of our key objectives is to reduce the number of network incidents on the overhead system during severe weather. The question in the consultation document asked "how much should WPD spend so that supplies can be restored more quickly during severe weather?" A range of costed options were given.

50% of respondents supported this investment, making it the second highest priority after maintaining service levels.

There was concern about costs. In particular, it was noted that the highest level of potential spend did not appear to provide good value for money - and that a balance needs to be struck between minimising the impact of power cuts and increasing electricity bills.

Action: We have included £11m for WPD South West (Option 2) and £2.5m for WPD South Wales (Option 1) in our business plan for reconductoring our most exposed low voltage overhead lines over the period covered by the business plan.

3. Reducing Power Cuts - Network Reliability

A measure of supply reliability is the average number of times that a customer experiences a power cut in a year. WPD has made significant improvements over the past 6 years in the speed at which our customers' supplies are restored. However reducing power cuts remains one of our key goals. Accordingly, stakeholders were asked - "Do you agree that WPD should focus on reducing the overall level of power cuts? Which of the options do you support?" Two options per region were proposed representing a defined reduction in interruptions (south west 1 & 3%, south Wales 10 & 15%).

Respondents indicated that WPD maintained a good level of service. It was suggested that it may not be good value for money to seek further improvements (diminishing returns).

Over 40% of respondents supported investment aimed at reducing power cuts.

Action: Our business plan will incorporate the lower cost and percentage target improvement option for each region.

4. Improving Service to Remote Customers

Due to the high proportion of rural network, some customers in WPD's service territory experience a higher than average number of power cuts. We want to improve our service to these customers. Accordingly, we asked the question - "Do you agree that we should improve our service to our worst served customers? Which option do you support?" Options were given showing the number of customers expected to benefit and the associated cost.

Remote rural customers, parish councils and the NFU saw investment in improving service to remote customers as being very important. Some respondents recognised that investment to mitigate the effects of severe weather would also benefit remote customers. There were also a number of comments that investment should be targeted at rural vulnerable and fuel poor customers. Over 30% of respondents supported this option.

Action: Our business plan will include the highest cost option for each region.

5. Protecting Substations against Flooding

The floods of 2007 have led to a national review of the security of large substations and we are working with the Environment Agency to assess the degree of risk to our substations. Our consultation document posed the question - "Do you agree that we should protect our network against flooding (by protecting 85 key sites)?"

There was general support from customers and parish/community councils and County Councils for improvements in this area. Specifically the Environment Agency, Welsh Assembly, HSE, Dyr Cymru/Welsh Water, Public Health Service for Wales, Police and Fire Services all felt that this was an important priority for future investment.

Expenditure in this area will benefit both rural and urban customers. Overall Over 35% of respondents supported this as a priority area for further investment.

Action: We have set out a ten year programme of investment in measures to prevent substations against flooding. The business plan for 2010 to 2015 incorporates estimated costs for completing 50% of the programme.

6. Protecting Substations with Security Equipment

We have been working with Government and the police to understand how we can better protect our equipment from theft, vandalism and other security threats. The consultation document asked the question - "Do you agree that we should invest in substation security?"

Not unsurprisingly, stakeholders indicated a general level of support for improvements in this area. Specifically the Centre for the Protection of National Infrastructure, Environment Agency, Police Services, Welsh Assembly and HSE saw investment in this area as being important. Such investment will benefit both rural and urban customers. This area of potential investment was supported by over 30% of respondents.

Action: The business plan will include proposed expenditure to secure all of our major substations in south Wales and the south west.

7. Environmental Measures - Reducing the Risk of Emissions of SF6 and Oil and Reducing the Carbon Footprint of Our Equipment

Sulphur hexafluoride (SF6) is a man made and very powerful greenhouse gas and we recognise the importance of minimising the amount of SF6 released into the atmosphere from our electrical equipment. Additional questions were also asked in relation to fluid-filled cables and reducing the carbon footprint of network equipment.

Accordingly, the consultation asked "Do you agree that WPD should invest to reduce the risk of oil leaks from fluid-filled cables, to minimise the risk of SF6 emissions and to reduce the carbon footprint of WPD's equipment?"

Respondents indicated support for investment in such programmes. and stakeholder response mirrored Ofgem's latest customer research which indicates that customers are in favour of "lower polluting equipment".

Action: Our business plan incorporates appropriate expenditure on lower loss equipment, reducing the risk from fluid-filled cables and the replacement of switchgear posing an SF6 environmental risk.

8. City Centre Substations

WPD has a small number of substations serving commercial city centre areas which are subject to second circuit outage risk. The consultation asked if we should eliminate the risk of failure at such major substations.

There was very little support for this investment (around 10%), due to what is judged to be the very low risk.

Action: We have not included expenditure on this in the Business Plan

9. Undergrounding in National Parks

At the last regulatory review Ofgem allowed WPD to carry out a large scale programme of undergrounding in National Park areas during 2005-2010 and to seek recovery of the costs during 2010-2015 depending on certain conditions being met. WPD chose not to undertake this work due to the considerable cost and resource implications, and the uncertainty over being able to recover the costs. The consultation document stated WPD's position, namely that we do not support undergrounding in National Parks as a priority. Stakeholders were asked for their views.

For certain interest groups this is a very important matter. However, generally speaking there is little support for large scale expenditure from the wider customer community. Support from customers & parish councils for undergrounding is invariably parochial and manifests itself in requests for overhead cables in their particular village to be undergrounded. Others linked undergrounding to improved supply reliability and routine replacement programmes.

There was support for “carefully targeted resources” to selectively underground “iconic” sites that would contribute to tourism and “wellbeing”. It was also suggested that WPD consider multi-party schemes and seek the assistance of National Parks and AONBs in attracting grant-aid.

In summary feedback indicates that WPD should, in consultation with NP/AONB Groups, determine a list of criteria for special sites to be undergrounded at a modest cost per customer.

Action: Our business plan will include a reasonable level of investment to undertake specific projects arising out of the further consultation exercise referred to above.