Diversions and Loss of Development Claims policy Re-opener (DIV_t) Application

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Document Reviewers	
Grant Rogers	Asset Integrity Manager
Paul Millar	General Counsel and Company Secretary
Richard Pomroy	Regulation Manager
Neil Henson	Director of Finance and IT

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Point of Contact Information	
Name	Richard Pomroy
Position	Regulation Manager
Email	richard.pomroy@wwutilities.co.uk
Telephone number	07812973337

Note:

Parts of this document have been redacted. The redactions are for reasons of confidentiality and commercial sensitivity.

1 Table of contents

1 Table of contents 2
2 Introduction 3
3 Core Narrative 3
4 Definitions 7
5 Diversion Costs 8
6 Loss of Development Claims 11
7 Adverse Environmental Factors 13
8 Safety Considerations 15
9 Case Studies 16
10 Cost Information 21
Schedule A ..... REDACTED
Schedule B ..... REDACTED
Schedule C ..... REDACTED
Schedule D ..... REDACTED
Schedule E ..... REDACTED
Schedule F ..... REDACTED
Schedule G ..... REDACTED
Schedule H ..... REDACTED
Schedule I ..... pg. 23
Schedule J ..... REDACTED
Schedule K ..... pg. 30
Schedule L ..... REDACTED

2 Introduction

Scope of this application

2.1 In this application, for each claim under the Special Condition 3.20 policy Re-opener, we have specified which element of the scope the relevant claim falls into, namely whether it is a: -

a) Diversion Costs;

b) Loss of Development Claim; or

c) A claim arising from or connected to adverse environmental factors.

3 Core Narrative

3.1 This document has been prepared to provide a summary of the needs case for the expenditure incurred and to be incurred by Wales & West Utilities Limited ("**WWU**") in resolving Diversion Cost claims, Loss of Development Claims, and costs of diverting gas assets due to adverse environmental factors, previously notified to Ofgem as part of its submissions during the RIIO-GD2 Price Control consultations regarding the Special Condition 3.20 Re-opener condition in September 2020 and most recently in July and November 2023.

3.2 This paper sets out our formal application for claiming under Special Condition 3.20 Diversions and Loss of Development Claims policy Re-opener, to recover the costs incurred and to be incurred in RIIO-GD2 period in relation to issues and claims experienced in these areas. In particular, we are seeking to recover: -

3.2.1 the Diversion Costs incurred and forecasted, arising from or connected to Diversion Cost claims;

3.2.2 costs incurred and forecasted, arising from or connected to Loss of Development Claims; and

3.2.3 costs incurred and forecasted, arising from or connected to Adverse Environmental Factors,

as further particularised in this paper.

3.3 As part of RIIO-GD2, no baseline funding was provided for Diversion Costs and Loss of Development Claims, due to the high level of uncertainty around the volume and financial magnitude of the claims. Arrangements for the recovery of these costs are set out in Special Condition 3.20 of our licence. The quantum payable and number of Diversion Costs and Loss of Development Claims are difficult to predict and can be impacted significantly by individual claims, hence their inclusion as part of this uncertainty mechanism. Where we have avoided any costs that would have been funded under any baseline funding, we have reduced our claim accordingly. An example of this would be for where a Diversion means that Repex work is no longer required.

3.4 Diversion Costs and Loss of Development Claims must exceed the materiality threshold of £3.85m (2018/2019 price base) in aggregate by the end of the RIIO-GD2 period to trigger the requirement for cost recovery as part of the January 2024 Re-opener. Sums already incurred in dealing with pursued claims and claims received and forecast to be received by us by the end of RIIO-GD2, significantly exceed this amount.

3.5 The below table summarises the claims forming the basis of our application under Special Condition 3.20 Diversions and Loss of Development Claims policy Re-opener. We have included examples of anonymised case studies (referred to below in section 9 of this application), which are supplemented by separate Schedules (marked as confidential or public), providing further detail on each claim.

Table 1: Executive Summary – RIIO-GD2 Expenditure for Diversion Costs and Loss of Development Claims

Note: the table below displays costs in both nominal and 18/19 prices to allow Ofgem to easily trace between the two. The supporting Schedules reference costs in nominal prices.

Schedule	Type of claim	Status*	Total Cost	
			Nominal	18/19 prices
A.	Diversion Costs	Substantially Complete	[redacted]	[redacted]
B.	Diversion Costs	Substantially Complete		
C.	Diversion Costs	Ongoing		
D.	Diversion Costs	Ongoing		
E.	Diversion Costs	Ongoing		
F.	Diversion Costs	Ongoing		
G.	Diversion Costs	Forecast		
H.	Loss of Development Claim	Substantially Complete		
I.	Adverse Environmental Factors	Complete	£333,257	£282,430
J.	Adverse Environmental Factors	Ongoing	[redacted]	[redacted]
K.	Adverse Environmental Factors	Complete	£892,377	£718,556
TOTAL GROSS COST			[redacted]	[redacted]
[redacted]				
TOTAL CLAIM				

*Status Key**

- ***Complete*** *– means that all costs have been incurred;*
- ***Substantially complete*** *– means almost all the costs have been incurred but there are some remaining forecasted costs which will be incurred in RIIO-GD2;*
- ***Ongoing*** *– means that some or most of the costs have been incurred but there are forecasted costs which will be incurred by the end of RIIO-GD2; and*
- ***Forecast*** *– means that no substantive costs have been incurred to date, but costs are forecast to be incurred by the end of RIIO-GD2.*

[redacted]

3.8 [redacted].

3.9 [redacted]

3.10 [redacted]

3.11 [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

3.12 [redacted]

Conclusion

3.13 Pursuant to the Final Determinations for company allowances under the RIIO-GD2 price control, we have to demonstrate that we have carried out reasonable challenges on the basis for, and quantum of, the claims being submitted and that they are efficient. We rigorously challenge claims where we deem them to be unreasonable, unsubstantiated and/or our liability is unproven.

3.14 In line with this, we are applying for a direction from Ofgem to adjust the value of the DIV_t term in relation to additional costs covered by Special Condition 3.20 in the amount of [redacted] (18/19 pricing) as part of this Re-opener application, comprising the breakdown of costs and compensation which are more fully particularised in the relevant Schedule attached.

Reconciliation

3.15 Special Condition 3.20 requires the Re-opener application to be made in one window between 25 January to 31 January 2024 over two years prior to the end of the control. A number of the projects the subject of this application includes costs that we expect to be incurred as a result of the relocation of existing gas assets or in the settlement of loss of land development claims as provided for in the two relevant definitions of "Diversion Costs" and "Loss of Development Claim."

3.16 We refer to these costs as "forecast costs" in the various financial tables set out in the application and supporting documents and have provided breakdowns, options and justification wherever possible in line with the Reopener guidance. We appreciate that in some cases the actual incurred Diversion Costs and Loss of Development Claim costs maybe more or less than the amount claimed in this application and that, subject to any further direction Ofgem may make pursuant to Special Condition 3.20.5 (direction for later period), we suggest that we use the RIIO-GD2 price control close out process to reconcile the Re-opener application costs allowed against the actual efficient spend to ensure rebalancing where necessary.

4 Definitions

In this document the following defined terms have the meanings given below:-

"CPO"	means Compulsory Purchase Order;
"Deed of Grant"	means a legal agreement between the gas network ope Grantor providing a 'right of way' for the pipeline ove width;
"Diversion"	has the meaning given to it in Standard Special Cor (Definitions and Interpretation);
"Diversion Costs"	has the meaning given to it in WWU's Gas Transporte Special Conditions, Chapter 1: Interpretation and definit B: Definitions;
"GDN"	means gas distribution network operator;
"Grantor"	means the party (usually the landowner, occupier or c who is granting a right under the Deed of Grant;
"HSE"	means the Health & Safety Executive;
"Loss of Development	has the meaning given to it in Standard Special Cor (Definitions and Interpretation);
"LTS"	means Local Transmission System;
"LUP"	means land use planning zones; and
"WWU"	means Wales & West Utilities Limited.

5 Diversion Costs

Needs case

5.1 Diversion requirements and/or claims are identified through several means. We have over 35,000kms of pipeline network, including over 2,360kms of high-pressure LTS pipelines, with numerous Deeds of Grant having been entered into over many decades governing the placement rights exercisable and restrictions a landowner is subject to, in respect of, the pipelines. [redacted]

5.2 Notwithstanding this, we seek to be proactive where it is possible to do so and will consider potential developments which may be highlighted to members of the WWU Estates, Asset Management and/or Plant Protection teams through developer contact or local planning development knowledge, before a claim is made to it. Where possible, we monitor Local Authority Local Plans and engage at an early stage with planners and developers to review schemes and the impact. In some cases, Local Planning Authorities notify us when planning is applied for in an area where a high-pressure pipeline is located, however this does not happen on every occasion. In addition, our LTS pipeline network is patrolled fortnightly by helicopter to identify any works in the area of interest, this provides a further opportunity to identify potential development sites, areas of ground movement or erosion.

5.3 There are also restrictions recommended by the HSE which are applied by the local planning authority. HSE LUP zones provide guidelines on the type and scale of development within proximity to LTS pipelines due to their classification under the Pipelines Safety Regulations 1996 as Major Accident Hazard Pipelines. HSE will advise against planning consent to those applications which do not accord with the guidelines, however the Local Authority are not bound by this advice and may still grant planning permission often without any reference to the gas apparatus or GDN. The guidelines consider the operating pressure and wall thickness of the pipeline. Therefore, and subject to the terms of the development clause, the liability for Loss of Development Claims for LTS pipelines can, in a number of cases, extend hundreds of metres from the pipeline if the planning permission cannot be implemented or is denied due to the presence of the pipeline (in line with HSE LUP zones).

5.4 [redacted]

Diversions Process

5.5 [redacted]

5.5.1 [redacted]

5.5.2 [redacted]

5.5.3 [redacted]

5.5.4 [redacted]

5.6 This application covers where a Diversion is required, and Diversion Costs are incurred, or forecast to be incurred, by us, in the circumstances specified in section 5.5 and 5.7 of this application.

5.7 [redacted]

5.7.1 [redacted]

5.7.2 [redacted]

5.7.3 [redacted]

5.7.4 [redacted]

5.8 Below are two examples of the types of Diversions we encounter (which is not an exhaustive list):

Build Overs

5.8.1 This section considers the unauthorised build over of low pressure and medium pressure pipes through the development or extension by domestic householders or their builders.

5.8.2 [redacted]

5.8.3 Relatively frequently we encounter circumstances where householders build extensions to their premises and their builder builds over our gas pipes. [redacted] This situation also gives rise to potentially unsafe situations, particularly if mechanical stress is put on the pipeline as a result of the building or development works. If the pipeline is metal, it may be more prone to corrosion and therefore leakage. A potentially even more serious situation arises where a gas main (a pipeline which is feeding multiple properties) is built over. The mains are larger diameter and run at higher pressures and therefore the risks are greater should leakage occur.

5.8.4 Where we are made aware of a build over, or potential build over, (either by routine inspections, helicopter flyovers or via a third party) this is referred into the WWU build over process and the Estates, Asset Management, Plant Protection and Legal teams hold bi-weekly meeting to review and work on solutions to identified build overs.

Diversion vs Loss of Development Claim

5.8.5 Another example is where we elect to divert a pipeline in lieu of paying compensation under a Loss of Development Clause in a Deed of Grant. Where it is economically advantageous, is more efficient, the compensation payable is materially higher than the costs of a Diversion and/or removes future risks or threats to the network, we may elect to divert our pipeline rather than pay compensation to a landowner under a Deed of Grant, so long as the Deed of Grant allows us to do this.

6 Loss of Development Claims

Needs case

6.1 To provide the necessary rights for a GDN to lay pipelines in third party land, it is necessary for the GDN to acquire the right to lay and maintain a pipeline over a given width either by CPO or by negotiating a Deed of Grant. Deeds of Grant provide protection for a pipeline through land owned by a third-party landowner and provide covenants restricting activities and land use in proximity to a pipeline.

6.2 The CPO route is long, expensive and can be an uncertain process. As such, industry practice is to, where possible, acquire the rights by negotiating a Deed of Grant. However, this can give rise to the possibility of future claims.

6.3 Pipelines often run through third party land which may in the future have development potential. In such cases, rather than pay the Grantor consideration for a Deed of Grant based on the potential increased value of the land at some future date due to development (hope value), industry practice was (and remains) to agree a Loss of Development Clause which enables the Grantor, subject to satisfying key triggers, to claim for compensation for loss of development value of their land, if they secure planning permission for the land at a future date and the pipeline cannot be diverted in accordance with the terms of the Deed of Grant. Approaching the acquisition of Deeds of Grant in this way, enables GDN's to secure Deeds of Grant for more limited initial cost, where there is no immediate development potential for the land, for the benefit of consumers. This is because most land subject to a Deed of Grant with a Loss of Development clause does not realise any future development potential, the Loss of Development clause is therefore never triggered, and no additional sums are payable by the GDN under the Deed of Grant.

6.4 We have received several claims under this head, in respect of which the relevant landowner is claiming compensation from us, in lieu of us diverting our pipeline (where this option is available).

6.5 At present, only one Loss of Development Claim has progressed to a conclusion and is included within this Application at confidential Schedule H. [redacted]

6.6 [redacted]

Loss of Development Claims Process

6.7 The internal claims process for Loss of Development Claims that we follow has been provided to Ofgem previously and should be read in conjunction with this application. [redacted]

6.8 [redacted]

6.8.1 [redacted]

6.8.2 [redacted]

6.9 [redacted]

6.10 [redacted]

7 Adverse Environmental Factors

Needs Case

7.1 Claims in this area generally arise where: -

7.1.1 a Diversion is required due to adverse environmental factors such as riverbank erosion or land slippage due to adverse weather conditions; and/or

7.1.2 costs are incurred to rectify damage to a pipeline or related network assets, arising from adverse environmental factors, such as soil erosion or flood damage.

7.2 The title of the third limb of the Re-opener refers to the "*costs of diverting gas assets due to adverse environmental factors*", however, the detail states that the application must "*specify the Diversion Costs, Loss of Development Claims or costs of rectifying damage to Network Assets from soil erosion that have led to the application;*". Based on an email [redacted] from Ofgem to GDN's on 15 January 2024 which stated:

"*We have discussed internally, and our position is we will need to modify the licence scope to accommodate the points raised by Cadent (around more efficient alternatives to diversions and soil erosion/environmental factors, detailed in our email to the GDNs 19 December 2023) to allow these costs to be submitted under the re-opener. We can do these modifications alongside assessment/approval of submissions*.,"

we have included one scheme (Schedule K) in this application that falls under the general heading of diverting gas assets due to adverse environmental factors, but which is not due to soil erosion.

7.3 We may become aware of adverse environmental factors in several different ways, which mean that a Diversion is required, or costs are incurred to rectify damage to a pipeline or related network assets, arising from such adverse environmental factors.

7.4 We seek to be proactive in identifying any impact of adverse environmental factors on our pipelines by undertaking route walking, helicopter surveillance (for high-pressure pipelines), close interval potential surveys (CIPS), or 'Pigging' where a Pipeline Inspection Gauge runs through an LTS pipeline to carry out an internal inspection in accordance with the written scheme of examination required under the Pressure Systems Safety Regulations 2000. When walking and inspecting the pipelines, if it reveals any potential or actual environmental damage, works are planned to rectify the damage. In addition, WWU also undertakes checks of its pipeline in accordance with its annual maintenance programme, as well as monitoring of specific crossings over or under water courses and other potential environmental impacts.

7.5 In some circumstances outside the usual inspection and monitoring regime, we may also be notified by a landowner or third party of adverse environmental impacts to a pipeline which may, for example, have exposed the pipeline through soil erosion.

7.6 We have a statutory obligation under the Pipelines Safety Regulations 1996, Section 13, to ensure that a pipeline is maintained in an efficient state, in efficient working order and in good repair. Therefore, once the effects of any adverse environmental factors are brought to our attention, we must act efficiently to ensure the integrity and safety of the pipeline.

Adverse Environmental Factors Process

7.7 When erosion or land slippage is identified in the vicinity of a pipeline an assessment is made of the risk to the pipeline. Where there is little or no risk this may result in additional monitoring over time to ensure that no further mitigation is needed. Where the assessment identifies an imminent threat to the integrity of the pipeline, or following a period of monitoring it is determined that the risk is increasing, it may be possible to protect the pipeline by installing protective measures to slow or stop the erosion or ground movement, subject to permission from the relevant authority, e.g. Natural Resources Wales, or the Environment Agency. Where permission is not received, or where the threat cannot be adequately mitigated by such monitoring or protective measures, or where a pipeline is already exposed, or has been damaged, there may be no alternative other than to divert the pipeline away from the area of erosion or land slippage, to ensure the long-term integrity of the pipeline and the security of downstream supplies.

7.8 In these circumstances pipeline Diversions are designed and routed in accordance with least whole life cost principles, balancing the extent of the Diversion against the risk of future risk of erosion or land slippage, often involving consultation with specialists in geomorphology.

8 Safety Considerations

8.1 The presence of any enclosed structures or buildings over or in close proximity to the pipeline or within the building proximity distance of a pipeline (which varies depending on the material, diameter, and pressure tier of a pipeline) is a serious health and safety risk. High pressure gas pipelines are designated as `Major Accident Hazard Pipelines' by the HSE. Accordingly, specific regulations exist, including the Pipelines Safety Regulations 1996 (the "Pipeline Regulations"), which amongst other things set out provisions to control the activities of third parties in the vicinity of such pipelines and to prevent any damage to a pipeline. If the integrity of a pipeline is affected in any way, it can lead to the failure of the pipeline. If any failure did occur, it could have (as mentioned above) severe hazardous consequences for individuals and property in the vicinity of the damaged pipeline.

8.2 We follow the strict industry recommendations set out in the Institution of Gas Engineers & Managers published standards, for example:-

<u>High Pressure:</u>

"IGEM/TD/1". Edition 5, Steel Pipelines and Associated Installations for High pressure Gas Transmission" (the "**TD1 Standard**"). This is the TD1 Standard to which the whole of the UK gas industry operates their Major Accident Hazard Pipelines. The requirements are set out in section 6.7 of the TD1 Standard, which deals with the issue of buildings in proximity to pipelines. For example, the TD1 Standard requires that where a pipeline is laid in heavy wall near a building which is normally occupied a building proximity of at least 3 metres should be applied.

<u>Other</u>

"IGEM/TD/3" Edition 5, steel and polyethylene (PE) pipelines for gas distribution (the "**TD3 Standard**"). This is the TD3 Standard that the whole of the UK gas industry operates a recognised gas engineering standard for the industry sets out the minimum proximities to normally occupied buildings to which different types of gas mains should be positioned. For example, the TD3 Standard requires that an occupied building should be no closer than three metres from the edge of the building to the gas main [redacted]

8.3 If a pipeline has been bult over, or enclosed by a building, and a gas leak occurs, for example through a defect or damage to the pipeline or its coating, then any released gas could be trapped and buildup very quickly to a flammable or explosive concentration, causing an unacceptable safety risk and potential for hazardous consequences. Leaking gas could enter the fabric of a building including cavities and voids which is very dangerous and could lead to ignition or explosion. Any leak in confined spaces or voids may be undetected by smell. Any building works over gas pipework puts people and property at an unacceptable risk.

9 Case Studies

9.1 The below case studies set out anonymised examples of claims dealt with by us in relation to Diversion Costs, Loss of Development Claims and a claim arising from or connected to adverse environmental factors.

Diversion Costs Case Study

9.2 The case study below demonstrates the process followed by WWU for Diversions and where Diversion Costs are incurred or are to be incurred.

Case study 1 – Mid-Glamorgan, Wales
Diversion Cost: [redacted]
This case study evidences where we had to divert a pipeline under a Deed of Grant that contained a "lift and shift" clause. If the conditions of the "lift and shift" clause were met, WWU were required, at its costs, to either: 1. remove, divert or strengthen the pipeline; or 2. to pay the sums due under the terms of the Deed of Grant to the landowner. Notice was served by the landowner in late [redacted] triggering the "lift and shift" clause. We explored all options, and we determined that the only viable option was to divert the pipeline partly through the public highway and partly through private land where new Deeds of Gart were required and secured. In discussions with the landowner, we were able to significantly reduce the length of pipeline to be diverted. This in turn meant that the overall cost of the Diversion was reduced, minimising the impact on consumers of the Diversion works and ensuring the costs incurred were efficient.

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Loss of Development Grouped Case Studies

9.3 The grouped examples below demonstrate the process followed by us for a typical Loss of Development Claim received from a landowner/developer.

Case study 2 – [redacted]
Claims: Loss of Development Claim(s)
Estimate quantum of the claims: £Confidential

Given the contentious nature of Loss of Development Claim(s), we have provided the full detail of the one Loss of Development Claim submitted in this Application, in confidential Schedule H. To be fully transparent in this application we have set out, in general terms below, the types of Loss of Development Claims that we are currently monitoring and managing, and which may crystalise in RIIO-GD2.

The most common scenario is where a landowner has: -

1. secured planning permission for the land and the development under the planning permission cannot be carried out due to the presence of the pipeline, whether in a different position on the land or in an alternative form to the development under the planning permission which is of equivalent value; or
2. been refused planning permission for the land, due to the presence of the pipeline.

In most cases, the landowner can mitigate its potential losses by re-configuring its proposed development or varying the planning permission to avoid or reduce the impact of the presence of the pipeline. We engage with landowners wherever possible to discuss this and potential measures that can be made to mitigate a landowner's position.

Where a resolution cannot be achieved, we will challenge the Claim i[redacted] and, as part of this, it is sometime necessary to engage legal specialists, Counsel and experts to assist with our challenge to a Claim and/or reach a settlement. Where a valid Claim is presented and a settlement cannot be reached with the landowner, we will attempt to settle the case in independent mediation.

We are currently managing one materially progressed Loss of Development Claim. [redacted]

[redacted] We will continue to manage efficiently, robustly challenge and monitor any developments with these potential Loss of Development Claims, assess their merits and obtain any legal or expert advice required to defend the potential Loss of Development Claims.

Adverse Environmental Factors Case Study

9.4 The case study below demonstrates the process followed by us where adverse environmental factors, such as soil erosion, require us to undertake a Diversion.

Case study 3 – Mid-Wales
Diversion Cost: £333,257
This case study identifies where we had to divert a pipeline due to adverse environmental factors from soil erosion. We own and operate an intermediate pressure pipeline in mid-Wales. The pipeline was commissioned during the early 1970s and was largely installed in a dismantled railway line and embankment that is no longer maintained. In late 2020 we became aware that there had been some landslip and movement in the railway embankment. We attended the area to undertake a further inspection in October 2021, where we discovered that further erosion of the embankment had taken place, which was uncovering a large part of the pipeline present in the embankment, leaving the pipeline suspended at approximately 10m above the ground, without support. Our Capital Delivery Team reviewed the position and determined the cause was due to extensive water run-off on the embankment and that further erosion of the embankment would occur, leaving more of the pipeline exposed and suspended without support, and the pipeline was at considerable risk of failure. Given that the pipeline provided the only supply of gas to 250 properties, action was required to remediate the problem to ensure the safety of the pipeline and to maintain the continuity of supply to these communities. WWU considered the options available and the possible alternative routes to divert the pipeline into more stable ground. After investigations, it was clear that there were no alternative route options within the embankment, so alternative solutions were considered to relocate the pipeline. The most efficient option identified to divert the pipeline was to separate the existing IP pipeline network into two sections with the installation of a link between them on private land. This allowed WWU to abandon 650m of the IP pipeline, part of which had been suspended in mid-air by the erosion of the embankment.

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Efficient Case Study Examples

9.5 The case studies below demonstrate how we challenge a claim, defend our position, and offer a commercially acceptable solution.

Case study 4 – Southwest England

Diversion Cost: [redacted]

This case study involves land which was owned by [redacted]. We originally held a Deed of Grant entered into in [redacted] for an intermediate pressure pipeline through the land. The pipeline supplies the low-pressure network for a town in Southwest England, supplying approximately 15,000 customers. The Deed of Grant contained a "lift and shift" clause that, on the landowner securing planning permission which satisfied the requirements of the Deed of Grant, required WWU to either: -

1. divert the pipeline through the land at its own cost; or
2. if a diversion of the pipeline was not possible, to pay compensation in accordance with the terms of the Deed of Grant.

The landowner secured planning permission for the land which satisfied the conditions of the Deed of Grant and notified WWU of the same. [redacted] considered all engineering options to divert the pipeline. Due to the nature of the pipeline (an intermediate pressure pipeline) and the nature and use of the surrounding land, it was possible to divert the pipeline. We agreed with the landowner that: -

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]
5. [redacted].

We commenced work on the Diversion in [redacted] and it is due to be completed in [redacted].

We worked with the landowner to reach an efficient agreement and removed any existing or future liability of WWU to further divert or pay compensation as a result of the presence of the pipeline.

Case study 5 – Southwest England

Estimated initial claim: [redacted]

Estimate settlement figure: [redacted]

We held a pipeline through land under a Deed of Grant entered into in [redacted]. The Deed of Grant contained a Loss of Development clause.

We received a letter of claim from a land agent acting on behalf of the landowner, seeking compensation under a Loss of Development Claim. After reviewing the claim [redacted] we robustly challenged the claim, principally on the basis that there was insufficient evidence to show the conditions of the Loss of Development Clause had been met and therefore it had not been validly triggered.

The landowner subsequently dropped their claim and elected to pay for a Diversion of the pipeline. Upon completion of the Diversion, the [redacted] Deed of Grant was released, and a new Deed of Grant was entered into, without a Loss of Development Clause, removing any future risk of a second claim from the same landowner in respect of the same land. We successfully and efficiently defended the claim and removed any existing or future liability.

Case study 6 – Mid-Glamorgan, Wales

Diversion Cost (HP Main): [redacted]

Diversion Cost (LP Main): [redacted]

We held two pipelines through land, under Deeds of Grant. One low pressure pipeline, laid under a Deed of Grant dated [redacted] and one high pressure pipeline, laid under a Deed of Grant dated [redacted].The [redacted] Deed of Grant contained a Loss of Development Clause, and the [redacted] Deed of Grant contained a "lift and shift" clause.

We were contacted by a developer in late [redacted] regarding their proposals to redevelop the land and requested that the high-pressure pipeline be diverted. We considered possible diversion options within the land, which the landowner had to accommodate in order to invoke the "lift and shift" provision. After engaging with the landowner and the HSE, we were able to agree with the landowner: -

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]

The Diversion of the low-pressure pipeline was completed in [redacted]. [redacted]

10 Cost Information

10.1 Under licence Special Condition 3.20 we are applying for a direction from Ofgem to adjust the value of the DIVt term in relation to additional costs covered by Special Condition 3.20 in the amount of [redacted] (18/19 pricing) for funding for Diversions and Loss of Development Claims, concerning sums incurred and forecast to be incurred during the RIIO-GD2 period. This application has set out, in the main body and individual confidential and non-confidential Schedules, the robust and proportionate process that WWU follows to challenge all claims submitted to it and to deal with all claims efficiently, in order to protect the interest of consumers.

10.2 Within this submission the actual and forecast costs have been provided for by splitting the Claims into each of the following categories: -

a) Diversion Costs;
b) Loss of Development Claims; and
c) costs arising from or connected to adverse environmental factors.

10.3 The following table provides a summary of the Re-opener financial request.

Re-opener financial request breakdown

- Actual costs incurred to date: [redacted]
- Forecast costs 2023 - 2026: [redacted]
- The total cost (and forecasted cost) of claims over RIIO-GD2: [redacted]

This amount is over the materiality threshold (per the 2018/2019 price base) as specified in the licence.

Table 2: RIIO-GD2 Expenditure for Diversion Costs and Loss of Development Claims

	Actual				Forecast			
£m (in 18/19 base price)	**GD1**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	**Total RIIO-GD2**	**Total Claim**
Diversion Costs	[redacted]							
Loss of Development Claims	[redacted]							
Adverse Environmental Factors	[redacted]							
Total Value	[redacted]							
[redacted]	[redacted]	[redacted]						[redacted]
Total CLAIM	[redacted]							

10.4 RIIO-GD2 output: In settling any Diversion Costs or Loss of Development Claims, WWU will demonstrably challenge as far as is reasonable regarding both the basis of the claim and the quantum of the compensation being sought and will deal with the claim efficiently.

[redacted]

SCHEDULE A - H - REDACTED IN FULL

Schedule I - Land south of Afon Llynfi, Talgarth, Brecon

PUBLIC, MAY BE SHARED OR PUBLISHED

Document Control	
Document Reference	**Special Condition 3.20 – Schedule I**
Document Title	Schedule I – Land south of Afon Llynfi, Talgarth, Brecon
Owner	Grant Rogers - Asset Integrity Manager
Document Classification	Public

1. Introduction

This Schedule sets out how WWU effectively managed and resolved a Diversion project necessitated by adverse weather conditions. The sums claimed under this Diversion have been incurred in RIIO-GD2. This Schedule is a summary of the Diversion project undertaken to relocate a 3" diameter steel ("**ST**") intermediate pressure ("**IP**") gas pipeline due to adverse environmental factors.

2. Publication

This Schedule will be published on WWU's website.

3. Core narrative

WWU owns and operates a 3" diameter ST IP pipeline, which is known as IP117 Talgarth to Llanfihange. The pipeline was commissioned during the early 1970s and was largely installed in a dismantled railway line and embankment that is no longer maintained. The pipeline provided the sole supply of gas to the villages of Llanfihangel and Llangors, in Brecon.

Following a walking survey, WWU identified that there had been some landslip and movement in the railway embankment. WWU attended the area to undertake a further inspection in October 2021, where it discovered that further erosion of the embankment was taking place, which was uncovering a large part of the pipeline present in the embankment, leaving more and more of the pipeline suspended mid-air at approximately 10m above the ground, without support.

WWU's Capital Delivery Team reviewed the position and determined the cause to be the extensive water run-off from the embankment. It was also determined that further erosion of the embankment would occur, leaving more of the pipeline exposed and suspended without support, resulting in the pipeline being at considerable risk of failure. Given that the pipeline provided the only supply of gas to at least 250 supply points, mainly domestic, in order to ensure the safety of the pipeline and to maintain the continuity of supply to these communities, action was required to remediate the problem.

WWU considered the options (see below) and the possible alternative routes to divert the pipeline into more stable ground. After investigations, it was clear that

there were no alternative route options within the embankment, so alternative solutions were considered to relocate the pipeline.

4. Needs case

The pipeline was the single feed to the villages of Llangors and Llanfihangel, providing the sole source of gas to 250 supply points. Part of it was installed within a railway embankment which, through natural water erosion, had started to slip, exposing the pipeline and leaving approximately 10m of the pipeline suspended and without any support.

WWU assessed the stability of the area and determined that the pipeline was under serious risk of failure, due to the erosion of the bank leaving at least 10m of the pipeline exposed and unsupported, increasing the pressure on the pipeline. For these reasons, an intervention was necessary to protect the pipeline and ensure gas continued flowing to the customers it feeds. Available options to undertake a Diversion of the pipeline were identified by WWU.

The most efficient option identified to divert the pipeline required the separation of the existing IP pipeline network into two sections with the installation of a link between a 180mm High Density Polyethylene ("**HDPE**") pipeline and the 3" ST IP pipeline on private land, prior to it running through the former railway embankment. This allowed WWU to abandon 650m of the ST IP pipeline and remove the section which had become suspended in mid-air by the erosion to the embankment.

The costs set out in the table below, provide a breakdown on the estimated costs (nominal prices) in delivering Diversion Option 1, detailed above and below.

	GD1	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	
nominal prices	**Actual**	**Actual**	**Actual**	**Act/Fcst**	**Forecast**	**Forecast**	**Total**
Labour	-	-	38,224.00	-	-	-	38,224
Materials	-	-	256,856.00	-	-	-	256,856
Bought in Services	-	-	38,177.00	-	-	-	38,177
Contingency	-	-	-	-	-	-	-
Total	**-**	**-**	**333,257.00**	**-**	**-**	**-**	**333,257.00**

5. Options Selection

Preferred option

Option 1 – Separate the existing IP pipeline network (IP117) into two sections with the installation of a link between a 180mm HDPE pipeline (IP98) and the 3" ST IP pipeline (IP117). The link would allow for 650m of pipeline, part of which was

unsupported by the railway embankment, to be abandoned. This was the preferred and most efficient option, as it is being the least cost option and will entirely remove the current risk posed to the pipeline.

Discounted Options

Option 2 – Undertake a localised Diversion around the landslip area by laying approximately 100m of 3" ST IP pipeline and to abandon 100m of 3" ST IP pipeline which is in part currently unsupported by the embankment. This option was discounted as this would have moved the pipeline a maximum of 3m away from the embankment edge, leaving open the future risk of further subsidence and erosion issues which could lead to a further Diversion being required. Utility checks confirmed that there was also a sewer main installed in the dismantled railway line, which could render the proposed Diversion route operationally unworkable. In addition, the costs associated with this option were higher than those to deliver Option 1, which WWU estimated to be £376,000.

Option 3 – Rebuild the embankment to repair the eroded area of land and to re-bury the exposed pipeline providing it with support. This option was considered with a civil engineering firm. A site visit was undertaken and the this confirmed that a new access road would be required to transport approximately 4,000 tonnes of stone to rebuild the embankment. The high-level estimated cost for just undertaking the works was £400,000 (excluding legal and third-party costs). This option provided no guarantee that it would be a permanent solution for the life of the asset. Adverse weather could cause a later erosion event. Equally, this required the landowner consent to the works and would expose WWU to future liability for the work undertake to the embankment, if this later failed and caused issues to other utility apparatus present. This option was therefore not feasible.

Option 4 - Do nothing. This option was discounted due to the risk of pipeline failure and loss of supply to approximately 250 supply points.

Conclusion - Given all of the factors outlined above, particularly the safety risk to the pipeline if a Diversion is not carried out, the most proportionate and efficient method of addressing this Diversion claim is to implement Option 1.

6. Project delivery

Project Start Date: May 2022
Project Completion date: May 2023

Project Milestone	Date	Project Deliverable
Investment approval	May 2022	Approval to spend from our executive
Procurement	N/A	N/A
Design	N/A	N/A
Project Commencement	May 2022	Reconfigure network to allow for abandonment
Project closure	November 2022	Abandon at-risk pipeline

Financial Close	May 2023	Reconciliation of costs

7. Stakeholder engagement

Our progress in RIIO-GD2 to date and our plan for the remainder of the period is driven by the needs and requirements of stakeholders.

This investment by WWU maintained the integrity of pipeline and the supply to approximately 250 supply points.

Key outputs being delivered by this project are:

- Safety and reliability of the gas network;
- Efficiency of resolution;
- Maintain integrity of supply to the consumers serviced by this pipeline; and
- Customer satisfaction.

8. Cost information

Summary of Re-opener allowance sought:

	GD1	21/22	22/23	23/24	24/25	25/26	
	Actual	**Actual**	**Actual**	**Act/Fcst**	**Forecast**	**Forecast**	**Total**
Nominal price	£0	£0	£333,257	£0	£0	£0	**£333,257**
18/19 price	£0	£0	£282,430	£0	£0	£0	**£282,430**

In line with the above WWU will be seeking to recover **£282,430** (18/19 prices) as part of its formal Re-opener application comprising the Diversion Costs.

9. Ensuring Value for Money and Efficient Costs

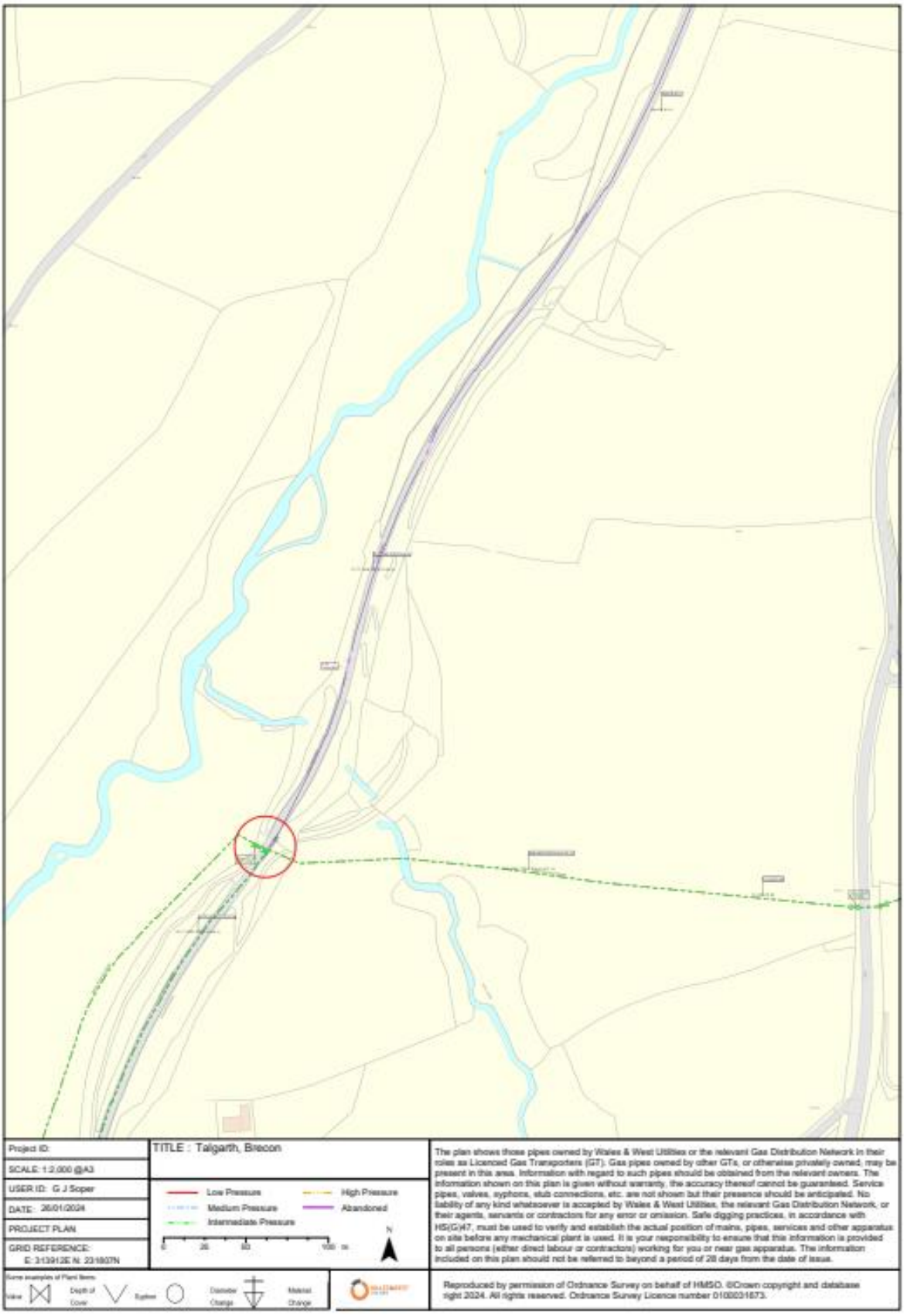
This work was managed and delivered by internal WWU labour team with reliance on suppliers and specialist contractors on WWU's Approved Vendor List. Due to the specialist nature of the project and the types of tees required, there are only two companies can supply and install them and only one provided us with a cost for the good and services.

10. Project Breakdown and Delivery Management

The project has been completed and has been tracked and governed through our Business Performance Development Committee. Members include our CEO, Executive Team and the relevant asset, Procurement, Estates, Finance, and delivery senior managers. A dedicated project manager was appointed oversee the diversion works.

11.Annex

Project Plans:




Project ID:
SCALE: 1:2,000 @A3
USER ID: G J Soper
DATE: 26/01/2024
PROJECT PLAN
GRID REFERENCE:
E: 314054E N: 232102N
TITLE : Talgarth, Brecon
Low Pressure
Medium Pressure
Intermediate Pressure
High Pressure
Abandoned
0
25
50
100 m
N
The plan shows those pipes owned by Wales & West Utilities or the relevant Gas Distribution Network in their roles as Licenced Gas Transporters (GT). Gas pipes owned by other GTs, or otherwise privately owned, may be present in this area. Information with regard to such pipes should be obtained from the relevant owners. The information shown on this plan is given without warranty, the accuracy thereof cannot be guaranteed. Service pipes, valves, syphons, stub connections, etc. are not shown but their presence should be anticipated. No liability of any kind whatsoever is accepted by Wales & West Utilities, the relevant Gas Distribution Network, or their agents, servants or contractors for any error or omission. Safe digging practices, in accordance with HSG(G)47, must be used to verify and establish the actual position of mains, pipes, services and other apparatus on site before any mechanical plant is used. It is your responsibility to ensure that this information is provided to all persons (either direct labour or contractors) working for you or near gas apparatus. The information included on this plan should not be referred to beyond a period of 28 days from the date of issue.
Some examples of Plant Items:
Valve
Depth of Cover
Syphon
Diameter Change
Material Change
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SCHEDULE J - REDACTED IN FULL

Schedule K - River Crossing, Brook Street, Porth, Rhondda Cynon Taf

PUBLIC, MAY BE SHARED OR PUBLISHED

Document Control	
Document Reference	**Special Condition 3.20 – Schedule K**
Document Title	Schedule K – River Crossing, Brook Street, Porth, Rhondda Cynon Taf
Owner	Grant Rogers - Asset Integrity Manager
Document Classification	Public

1. Introduction

This Schedule sets out how WWU effectively managed and resolved a Diversion project necessitated by adverse weather conditions. The sums claimed under this Diversion which have been incurred in RIIO-GD2. This Schedule is a summary of the Diversion project undertaken to relocate a 8" diameter steel ("**ST**") intermediate pressure ("**IP**") pipeline in Porth, Rhondda Cynon Taf located in Abergavenny, Monmouthshire.

2. Publication

This Schedule will be published on WWU's website.

3. Core narrative

WWU owns and operates an 8" diameter ST IP pipeline, which is known as IS601 Porth Branch. The pipeline was commissioned during the 1987 and is a single feed to more than 5000 supply points in the towns of Porth and Tonypandy. The pipeline included an above ground crossing, supported by a diamond plate girder pipe bridge, over the River Rhondda in Porth.

In February 2020 WWU became aware that the pipeline bridge had impacted by floating debris during two severe storm events (Storms Ciara and Dennis) which had resulted in record water levels in a river channel through the town of Porth. The impact and the load on the structure from the fast-flowing River Rhondda resulted in the pipeline bridge and the 8" IP pipeline being significantly deformed.

A structural survey was carried out by specialist consultants which determined that the above ground crossing and the supporting structure would need to be replaced or diverted to another location to restore the integrity of the pipeline and ensure continuity of the gas supply.

WWU considered the options and the possible alternative routes to divert the pipeline around surrounding streets and over a road bridge, replacement under the river by Horizontal Directional Drilling ("**HDD**") was also considered. However, following detailed assessment of these alternatives and their estimated costs, it

was concluded that replacement with a new above ground crossing installed at an increased height above the water course was the most viable option.

4. Needs case

The pipeline crossing is the single feed to an extensive medium pressure and low pressure networks to the south of the River Rhondda in the areas of Porth and Tonypandy, in excess of 5000 supply points.

A structural survey, carried out by specialist consultants which concluded that the integrity of the above ground crossing had been substantially compromised by the impact damage and the deformed structure may fail under its own weight or if it was impacted by a future flood event.

For these reasons, a short length diversion, replacing the section of pipeline with an elevated crossing was necessary to restore its integrity and provide security of the gas supply to customers downstream.

This final cost of the Diversion is **£892,376.72** (nominal prices) made up of the sums set out in the table below for option 1.

	GD1	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	
nominal prices	**Actual**	**Actual**	**Actual**	**Act/Fcst**	**Forecast**	**Fcst**	**Total**
Labour	-	-	-	-	-	-	-
Materials	-	3,456.00	113,702.78	76,832.56	-	-	193,991
Bought in Services	-	-	13,422.26	684,963.13	-	-	698,385
Contingency	-	-	-	-	-	-	-
Total	**-**	**3,456.00**	**127,125.03**	**761,795.69**	**-**	**-**	**892,376.72**

The project was managed by the CDT Technical Manager and was carried out directly by a contractor leading to an overall cost saving for the works.

5. Options Selection

Preferred option

Option 1 – Install a new 33m 200mm IP steel above ground crossing, 6m downstream of the damaged crossing and at an increased elevation. Install two short-length below ground sections of 200mm IP steel to tie back into the existing below ground pipeline, a total diversion length of 63m. Commission the new crossing then abandon and demolish the original 44m 8” steel crossing. This was the preferred and most efficient option which mitigated the risk of damage from floating debris based on predicted future flood levels.

Discounted Options

Option 2 – Install a diversion of circa 900m of 200m IP steel by open cut along the public highway, including two road bridges, one over the river Rhondda and a second over a Transport for Wales rail line and abandon 175m of 8" IP steel pipeline. This option was discounted after it was confirmed there was inadequate depth of cover in the bridge structure to accommodate the pipeline.

Option 3 – Install a diversion by HDD under the river Rhondda near to the existing above ground crossing, this was discounted following no returns being received to a tender event. Discussion with the potential HDD contractors confirmed the lack of response was due to significant engineering difficulties anticipated, including access constraints, the depth of the river channel from the surrounding ground, and the local geology. These presented significant likelihood of any HDD attempt failing and no contractor was prepared to accept these risks.

Option 4 - Do nothing. This option was discounted due to the risk of pipeline failure and loss of supply to approximately 5000 supply points.

6. Project delivery

Project Start Date: June 2023
Project Completion date: September 2023

Project Milestone	Date	Project Deliverable
Investment approval	October 2022	Approval to spend from our executive
Procurement	April/May 2023	Achieving best price for the works
Design	Oct/Nov 2022	Design of new above ground crossing and tie-ins
Project Commencement	June 2023	Install and commission new above ground crossing
Project closure	September 2023	Abandon and demolish damaged above ground crossing
Financial Close	October 2023	Reconciliation of costs

7. Stakeholder engagement

Our progress in RIIO2 to date and our plan for the remainder of the period is driven by the needs and requirements of stakeholders.

The successful completion of this project resulted in improving the reliability of the network by reducing the risk of critical damage to the network and widespread loss of supplies in Porth and Tonypandy.

Key outputs being delivered by this project are:

- Safety and reliability of the gas network;

- Continued provision of gas to the 5000 supply points serviced by the pipeline; and
- Customer satisfaction.

8. Cost information

Summary of Re-opener allowance sought:

	GD1	21/22	22/23	23/24	24/25	25/26	
	Actual	**Actual**	**Actual**	**Act/Fcst**	**Forecast**	**Forecast**	**Total**
Nominal price	£0	£3,456	£127,125	£761,796	£0	£0	**£892,377**
18/19 price	£0	£3,186	£107,736	£607,634	£0	£0	**£718,556**

9. In line with the above WWU will be seeking to recover **£718,556** (18/19 prices) as part of its formal Re-opener application comprising the Diversion Costs.

10. Ensuring Value for Money and Efficient Costs

This work was managed by WWU's Capital Delivery Team and delivered by a specialist contractor following competitive tender.

The process followed WWU's Procurement Policy that is in place to meet its commercial goals, business objectives and legislative compliance by maximising value for money for WWU.

11. Project Breakdown and Delivery Management

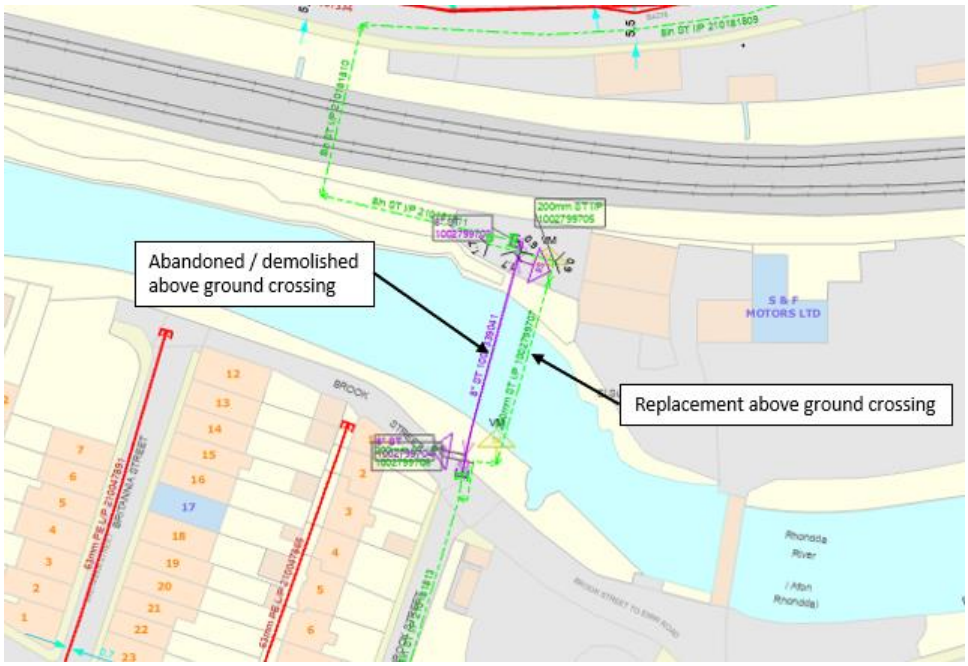
The project has been completed and has been tracked and governed through our Business Performance Development Committee. Members include our CEO, Executive Team and the relevant asset, Procurement, Estates, Finance, and delivery senior managers. A dedicated project manager was appointed oversee the diversion works**.**

12. Annex

(CONTINUED ON NEXT PAGE)

Damage photographs

Project Plan



New Crossing

SCHEDULE L - REDACTED IN FULL