Future arrangements for domestic infill developments – final proposals

Introduction

1.1 Chapter three of the Final Proposals for the Regulation of Independent Gas Transporter Charging sets out the basis for future charges to new housing developments and I&C consumers. This annex sets out final proposals for the future regulation of charges to existing domestic properties, known as infills.

1.2 The draft proposals[1] suggested that relative price regulation may not be appropriate for infill consumers. Extensions to the gas network to serve existing properties tend to be more expensive than extensions to serve new housing developments. Amongst other things, this is because they involve excavation and reinstatement of existing highways and structures, rather than laying pipelines through green-field sites. Connection costs per infill household tend to be higher still since fewer properties connect. It is unusual for new housing developments to not have access to the gas network - take-up rates are often one hundred per cent. Infill projects however do not have the advantage of a developer co-ordinating new connections and initial take-up rates can be as low as thirty per cent.

1.3 The higher cost of providing gas distribution services to infill consumers has appeared to act as a significant barrier to expansion of the gas network. This is evidenced by the relatively small number of infill schemes carried out to date despite the future cost savings that a gas connection brings – the domestic infill market currently accounts for less than two percent of those consumers connected to IGT networks.

1.4 Given the increased cost of infill developments and the benefits that expansion of the gas network brings, it may be appropriate to allow additional transportation charges to be levied in respect of infill developments.

[1] The Regulation of Independent Gas Transporter charging – Draft Proposals; December 2002 87/02

Benefits in connecting to the gas network

1.5 There are significant net benefits in connecting many of the non-gas consumers that are relatively close to the existing gas network. For most households, gas will be by far the cheapest means of heating. Annual savings of between £200 and £400 can be expected when compared to other fuel types.

1.6 Given that around thirty per cent of non-gas consumers are currently thought to be fuel poor, then connecting more infill properties would be expected to significantly reduce their fuel bills, moving some of them out of fuel poverty.

1.7 There are also significant environmental benefits in connecting more consumers to the gas network: among other benefits, carbon emissions from an average household using gas are around a third of those from a household with oil-fired heating.

Final proposals for domestic infill developments

1.8 In view of the benefits associated with an economic expansion of the gas network, the proposed approach for domestic infill developments is to allow transportation charges to exceed Transco-equivalent charges. The allowed supplement over and above the Transco charge will be capped at a level of ten pence per therm for a period of twenty years. This supplement reflects the increased cost of infill developments and makes the more economic of such schemes viable.

1.9 While this proposal should help facilitate expansion of the gas network and bring about significant social and environmental benefits, it is important to ensure that such an expansion occurs on an economic basis. In particular, Ofgem will monitor closely developments in the domestic infill sector in the future and the scope for potential abuse of monopoly position. As such, the size of the supplemental charge will be subject to ongoing review. The outcome of any future review will not however be expected to have a retrospective effect on charges set prior to any such review.

The way forward

1.10 It will be necessary to modify the GT licence to formalise the measures proposed in this annex. These matters are discussed in more detail in chapter seven of the final proposals paper. A brief summary of the process is given below:

- following publication of this annex Ofgem will produce a draft licence modification in consultation with GTs that sets out the treatment for infill properties;
- the final draft of the licence modifications is expected to be published in November 2003. Following a statutory consultation period, Ofgem will consider any representations and should then be in a position to modify the GT licence; and
- the modifications are planned to take effect on January 1st 2004.