

Appendix 1 - Response Template

1.1. As set out in Chapters 4, 6 and 7, we are consulting further on certain areas of the Scheme and we would welcome your views. We raise 7 questions throughout this paper which we have consolidated in this Appendix. Thank you for taking the time to respond to our questions. We hope all the questions are clear, but if you have any difficulties please let us know.

1.2. Once you have completed the questionnaire please send it by email to rupika.madhura@ofgem.gov.uk You need to return the completed response template (word version published alongside this paper) to us by 18 June 2015.

1.3. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. *If you would like to discuss the contents of this paper please call Rupika Madhura on 020 7901 7091, or email rupika.madhura@ofgem.gov.uk*

Part 1 - About you

Question	Your response
<i>What is your name?</i>	Steven J Edwards
<i>What is your position?</i>	Head of Regulation and Commercial
<i>What are your contact details?</i>	Steven.J.Edwards@wwutilities.co.uk 02920 278836 07976727786

Part 2 - About your business

Question	Your response
<i>What is your company's name?</i>	Wales & West Utilities
<i>What is the nature of your company's business? Please state if this involves Fuel Poor Network Extensions Scheme, or Fuel Poverty related work.</i>	Gas Transporter providing funding to eligible customers for the gas mains and services in compliance with the Fuel Poor Network Extension Scheme approved by Ofgem
<i>What areas of the country does your business operate in?</i>	Wales and the south west of England

Part 3 – FPNES review questions

Q1 – How do you think the voucher calculation should be amended for funding DH schemes? From which party would the future gas transportation revenue be recovered?

Funding for DH schemes should be applied in a consistent manner to the way funding is currently established for individual gas fuel poor connections. If a fuel poor calculator is developed across the sector, this should cover DH and gas fuel poor connections.

The calculation of the maximum value of a district heating voucher should be established through the economic test model which is consistent with existing scheme rules.

The future transportation revenue should be recovered from the customer via a supplier who has the contract for the gas passing through the communal meter. In most cases, we assume the tenants will pay a sum to the landlord as a part of their rent to cover the heating costs rather than being individually metered for the heat.

Q2 – What calculations and assumptions should be made for:
1. the gas consumption of the CHP unit and for the individual DH connected households.
2. asset life over which the connection costs are recovered.
Please provide detailed suggestions in your response.

1. For the design we ask for the maximum gas input load for the CHP unit to be provided by customer. This is the value we should use.
2. We use the Economic test on this value to establish the allowable investment assuming all properties benefiting are fuel poor. This applies in IMD Top 25% areas.
3. As the asset lifetime of a district heat network will be in excess of 30 years we do not propose any change to the 45 year asset appraisal period for the gas mains and services supplying the district heating system.

Q3 – Do you think the partnership eligibility criteria for the Scheme should be amended to support the inclusion of DH and if so, how? Please provide detailed suggestions in your response.

We would use the existing partnership arrangements to establish the eligibility of households. However, partners may not always have access to funds in this case to support the wider DH system costs. We are therefore currently exploring new partnership opportunities.

Q4 - In addition to the current arrangement, how can the Scheme be modified to better enable gas connections for eligible households that are located adjacent to an iGT network?

The Gas Networks have been working with the IGTs to develop a process flow for IGTS to notify the GTs of a proposed scheme and the process to agree the voucher value for the CSEP and to pay the value upon completion of the project (including the commissioning of the heating systems). The detailed process will be submitted by ENA on behalf of the GDNs and by the AIGT group.

We would ask Ofgem to confirm that they approve the GDNs to make the voucher payment to the IGTs upon completion of the individual connections or community projects. If payments cannot be reconciled until the end of the RIIO-GD1 period this will increase the IGTs risk and reduce the number of connections.

We feel it is important for transparency and consistency that the Ofgem Fuel poor calculator is able to calculate the maximum value of the GDN voucher for a given LDZ and also the CSEP voucher value. This will allow the IGTs to assess the funding they will obtain from the GDN without the initial referral and associated delay.

One IGT is actively looking for schemes to provide network extensions whereas the others are only looking to facilitate statutory connections along the approach main to their development area or properties within those developments not supplied with gas in the original scheme.

Q5 What is your view on our proposal to introduce changes to the partnership approval process and the obligations of the partner organisations?

We broadly agree with the changes to the partner approval process. The principal

that the partner has access to funding for other in house measures is one that is becoming increasingly difficult as government funding schemes are tightened. We are trying to develop new innovative partnerships and funding arrangements that help to mitigate this.

Our main concern is the practicality and consistent application of the test to demonstrate that gas is the best cost option for that household. We are currently working with partners to establish a model which will show the NPV whole life costs for different solutions. We would look to assess this over a 15 year period. The model would need to work for single properties and to be able to assess a community scheme. We will develop this under our NIA funding. However, different network and different partners may use their own models with different factors meaning a property qualifying in one area would not qualify in another. We will work with the other GDNs to share thinking and see if we can develop a consistent approach.

Another concern is that this test will require more work to assess the energy rating of a home and this will push up the cost of the vouchering process from a basic admin exercise in many cases to a full home assessment.

We would require clarification on what would happen where a customer insists they want a gas supply even though the model shows that another technology would provide a better whole life solution. Rather than refusing to issue a voucher in this case and ask the customer to pay in full we would propose that it would be sufficient to provide the customer with a report showing the comparative costs and the customer is therefore progressing with the gas connection in full knowledge of the future costs. We would welcome the Ofgem view on this issue.

The consultation is also unclear on if existing partners will need to be re-approved from April 2016 and if there is any ongoing assessment required. It is vital that there is no period where a network does not have an approved partner if re-assessment is required.

The overall conclusion is that the partner approval process will become more onerous and therefore put off prospective partners rather than encouraging them.

Q6 What is your view on our proposal to use the medium gas Typical Domestic Consumption Value, published and updated periodically by Ofgem, as the average gas consumption number in calculation of the fuel poor voucher?

We support the proposal to use the medium gas Typical Domestic Consumption value to calculate the maximum value of the fuel poor voucher. This change supports the principal that the scheme is self-funding and there is no surplus on the voucher value

However, Stakeholders have raised concerns with us that this change which reduces the maximum value of the voucher will make gas an uneconomic option and reduce the number of larger infill schemes that are viable.

Q7 We welcome your views on the fuel poor output incentive mechanism.

We are broadly supportive of the fuel poor output incentive mechanism but we would need to see further detailed mechanics to ensure there were no unintended consequences for issues that are outside of our control. In line with the Asset health incentive, it would be sensible to have a review mechanism in place before any penalty is incurred for falling below a challenging target as a result of circumstances outside of our control.

In our FPNES Information request submitted to Ofgem on the 11th may 2015, we summarised our stakeholder engagement strategy and our assumptions in putting together a workload forecast.

The figures we provided are based upon those assumptions. For example, Welsh Government have indicated that they are applying for European money to fund Phase 3 of their ARBED Community Energy efficiency scheme. They have stated they will look to undertake gas mains extensions where they offer the best value for that community and that they hope to be able to utilise the FPNES funding. We have therefore factored in 300 services into our numbers. If this assumption is proved to be wrong then we risk being penalised for factors outside of our control.

A second example is the DECC fund of £25m for new heating systems in England. We have again made assumption that the funding is enduring through RII0-GD1 plugging an existing funding gap. However, as only Local Authorities can bid for the funding we can only influence via supporting the Local Authorities. If the funding is not available and the Local Authorities do not bid or are unsuccessful in their bids we again risk being penalised.

Conversely, we have made the assumption that we will only see low levels of connections in Cornwall (100 per annum). This is following our experience of almost four years of working with British Gas to engage with Cornwall Council and the social housing providers in the county. We had identified around 17,000 properties that could economically be connected to the mains infrastructure. If Cornwall Council decide to undertake a major fuel switch project, potentially partly funded by European Regional funding we could see up to 2,000 connections per annum. This would earn us a small incentive but our main concern would be having the flexibility in our allowances to deliver the work under the FPNES rather than having to set a limit on the number of connections per annum.