

Samuel Taylor  
Ofgem  
Millbank  
London

Wales & West House  
Spoooner Close  
Celtic Springs  
Coedkernew  
Newport NP10 8FZ

Tŷ Wales & West  
Spoooner Close  
Celtic Springs  
Coedcernyw  
Casnewydd NP10 8FZ

Telephone/Ffôn: **0800 912 29 99**  
Fax/Ffacs: **0870 1450076**  
Email/Ebost: [enquiries@wwutilities.co.uk](mailto:enquiries@wwutilities.co.uk)  
[www.wwutilities.co.uk](http://www.wwutilities.co.uk)

21 July 2017

## Reference: FPNES review

Dear Samuel,

Thank you for your email of the 17th July requesting further information on the proposed changes to the Fuel Poor Network Extension Scheme as outlined in the Ofgem letter of the March 2017.

In your email you asked the following questions:

*'We are still considering the options around the proposal. While we haven't yet formed a formal view, in order to evaluate the impact of the options we would be grateful if you could:*

- *confirm whether there are any absolute barriers that would prevent you from implementing the previously proposed change to the criteria;*
- *what those barriers are;*
- *why they are insurmountable;*
- *whether they are short term barriers which can be resolved by providing sufficient time for implementation; and*
- *if so what those timescales are and why. '*

## Barriers

The majority of properties connected through the FPNES are under the IMD Top 25% criteria. This makes the assessment and the issue of the voucher a quick process with no requirement to gather information from the customer on income and benefits. This is an important factor when these customers also score us on our Connections Customer satisfaction survey.

It is estimated that having to individually assess each case would require at least one more person at a cost of £25k per annum.

The IMD criteria also allows to us identify the boundaries of qualifying areas and to quickly match this with information about off gas housing stock belonging to RSLs or to

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identify areas close to the gas network where extending the network is economic. This also offers clarity to the RSL how much of the total cost of a scheme will be funded by the FPNES and for them to assess if that scheme is economic once the cost of heating systems are added.

The removal of the IMD criteria is not an absolute barrier. We can still identify opportunities within IMD areas but the assessment of what we can fund under the FPNES requires much more work. Under the revised scheme we would need to demonstrate eligibility under the HHCRO criteria for ECO2T and for RSLs also confirm the Energy Efficiency rating of the home. Alternatively we need to assess against the 10% test in Wales or the LIHC measure in England. This puts an administration burden and cost onto the RSL and or our fuel poor partner.

We do not currently have access to the Department of Work and pension's database. If we were able to access this it would help the assessment process but my understanding is that the customer's name and date of birth is required to perform a check. We do not generally have that at the quotation stage of a scheme. An RSL may be able to provide this but we may see some reluctance under the Data Protection Act to share this information. For private households we would need to develop data sharing agreements to obtain this information and to use for this purpose.

## **New approaches**

We currently work with fuel poor partners who either have direct access to ECO money or have partnerships with those who do. This may result in some connections although the low funding towards the cost of a heating system will remain a barrier.

We will continue to develop our relation shops with Local Authorities and RSLs who are keen to tackle fuel poverty in their areas. We welcome the announcement of the £150m Cadent fund of which part is allocated to new heating systems. We are looking for partnership opportunities with these parties in the same way we did for the DECC CHF. Being able to offer a joined up package of the funding for the service via the FPNES and for the heating system is key to targeting individual households and private landlords.

In Wales, we continue to work closely with the Welsh Government NEST team. They will be retendering the scheme later this year with the current scheme closing in April 2018. We therefore expect our current level of 150 connections per annum to fall for a period until the new scheme is in place. We are also working with the ARBED team and have identified a number of potential infill areas. We are awaiting confirmation that our FPNES vouchers can be applied to these schemes alongside the European funding. Of those schemes, some are IMD top 25% areas but as each household will be assessed against the ARBED scheme criteria, there is the opportunity to gather the personal details required for assessment under the FPNES.

We are exploring various means of promoting the FPNES direct to the public and private landlords. We don't have the same opportunity as the energy suppliers to

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promote ECO as part of their billing to customers so we are trialing putting people on the ground working alongside the local authorities to identify opportunities as well as promotions at local community events.

We are also looking at opportunities to work closer with private landlords who have the worst housing stock in terms of energy efficiency. We anticipate the need to employ a number of staff via our partners to aid the local authorities, possibly supported by local volunteers, at a cost of £40k per head allowing for living wage, overheads, travel and support. This will amount to around £400k over the remainder of RIIO-GD1.

### **Timescales**

With regard to timescales, we would need to resubmit our 4B Charging statement to you for approval and also to redesign our fuel poor literature and to re-print. The timescale for this is partially dependent on your timescales to approve the 4B Charging statement but is achievable in 2 months.

We would also want to contact all of the councils, housing associations and politicians to advise them of the changes - again achievable within 2 months.

We will have issued quotations to customers which highlight the eligibility under the IMD criteria. We would request that any quotes issued before the implementation date are allowed to run their course - i.e. 90 days for the customer to accept the quotation and then up to 270 days to allow us to complete the work from acceptance.

### **IMD workload 2017/18**

I have attached a file showing the postcodes of the properties that qualified for a fuel poor voucher in 2017/18 based upon the IMD top 25% criteria.

Our partner warm Wales has reviewed the files they have for these connections and where data was available on the application form relating to income and benefits, they have drawn conclusions on whether the property would have qualified under the revised criteria.

Of 317 cases reviewed where the customer had a voucher under the IMD criteria, only 89 qualified under the revised criteria. The majority of these did not meet the criteria of spending 10% of income on heating in Wales or where determined to be in High Income High Cost or High Income Low Cost rather than Low Income High Cost.

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## Conclusion

The removal of the IMD criteria will make assessment of eligibility more complex and increase the costs for our partners. Our best estimate of the additional costs of changing our engagement strategies and endeavoring to meet our Output target commitments is in the region of £500k.

Whilst we can change our partnerships and methods of working, we do not believe that we will be able to achieve the same number of connections as forecast with the removal of the IMD criteria. We seek the opportunity to undertake a full stakeholder consultation as we did in May 2015 to fully understand the impact of this change and to provide a re-forecast of our 8 year Output target

If your final decision is to remove the IMD eligibility criteria, we believe we could achieve this in three months but quotations issued should be allowed the 90 day period to be accepted and accepted jobs should be given time to be completed with a period of 270 days aligning to our Terms and Conditions.

Yours sincerely

Nigel Winnan  
Connections Manager  
Wales & West Utilities

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