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27th October 2017

Consultation on Potential Change to the Fuel Poor Network Extension Scheme

Dear Pete,

Wales & West Utilities is a licensed Gas Distribution Network (GDN) providing gas transportation services for all major shippers in the UK. We cover 1/6th of the UK land mass and transport gas to over 2.5 million supply points.

We have previously responded to Ofgem's proposals to remove the IMD Top 25% criteria. Our position remains unchanged. We have attached our previous response for reference.

The recent report from the Committee on Fuel Poverty highlighted a number of priorities to tackling the fuel poverty issue in the UK. We believe that the Fuel Poor Network Extension Scheme is a valuable tool in helping the government achieve its target of improving the energy efficiency of homes to Band E by 2020 and Band D by 2025. It also helps to address the issue of cold damp homes which contribute to 25,000 excess winter deaths each year, and also supports the new private landlord's obligations to upgrade the energy efficiency levels of the homes they rent from 2020.

Please see the ENA consultation response from the GDNs for a more detailed assessment of the impact of this change.

Question 1: Do you agree with our proposed approach for the FPNES? Please state why or why not.

We believe that the IMD proxy is appropriate and allows us to bring gas into deprived communities for the first time. Whilst not every household may qualify if individually assessed, the IMD proxy allows schemes to be efficiently designed and delivered and gives households and landlords assurances around costs in order to build business cases for the fuel switch to gas. Without this, costs will be uncertain, the individual households and landlord will need to contribute more towards the scheme resulting in the scheme not happening at all.

To illustrate the impact on a community, we have put together a worked example showing the certainty the IMD criteria brings when developing a scheme compared to the need to individually assess and qualify each household.

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We have engaged with a number of Stakeholders who support the retention of the IMD eligibility criteria.

Question 2: Are there any consequences that we have not appropriately considered in our proposal?

On page 3 of your consultation, you state in an IMD Top 25% area, only 25% of homes are in fuel poverty and just 11% in England. This statement ignores the fact that the IMD Top 25% areas are generally well served by the gas network. It does not take account of the fact that homes that are not connected to the network will have a lower EPC rating and will be paying on average £450 more to heat their home than if they had a gas central heating system.

This proposal means that those homes may now not be eligible for support from our scheme. It is also a short sighted policy that just looks at the circumstances of the current owner or tenant. This misses the point that the area is deprived and the next owner or tenant may be in a worse situation and benefit from the gas central heating system.

Question 3: Is there any other evidence we should consider in making our decision? If so, please provide it.

Analysis has been undertaken by our Fuel Poor partner Warm Wales on 317 properties that previously qualified under the IMD criteria. The evidence from households they had was incomplete but allowed them to make an assessment of the Low Income High Cost (LIHC) test in England, or the 10% of income test in Wales (FP). This showed that 30% of homes would qualify in the IMD areas. There was insufficient evidence to assess the eligibility for HHCRO but it is likely this would have further increased that figure. This is a much higher figure than the 13% in England and the 25% in Wales figures quoted in our consultation document.

Question 4: Do you consider 1 April 2018 to be an achievable timescale for the eligibility criteria to change?

If the IMD criteria is to be removed, then the 1st April allows time to change publications and communication updates to stakeholders.

Question 5: Do you consider a transition period to be appropriate? If so, do you agree with our proposed timescale?

Under our terms and Conditions, Quotations are valid for 90 days. Once accepted, the customer has 180 days to agree any required consents and legal agreements and typically work should be completed within 1 year of the acceptance. Therefore the changes should allow works to be completed up until April 2019.

Question 6: Are there any other transition elements we should consider?

In order to fill the gap that the removal of the IMD criteria would create, it would be important that the GDNs are able to access Government data to identify homes that are on low income or benefits under the provisions of the Digital Economy Act 2017. This would enable us to combine this data with our own data of off gas homes so we could target communities and individuals that are economic to connect.

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The challenge of linking up funding for heating systems will continue through the ECO2T period. We will continue to support the increased focus on tackling fuel poverty in ECO3 and lobby that the calculations of carbon and lifetime energy savings for the household that will make the funding of full heating systems a reality for the most vulnerable. Only then can we be able to approach homes with a joined up package of measures.

Without these changes we foresee our administration costs rising steeply as we chase lots of household for a small number of connections in an attempt to meet our RIIO-GD1 Output targets. We firmly believe that the scheme costs should be used to deliver projects and benefits for homes and not be spent on administration.

Wales & West Utilities welcome the Eco Flex eligibility that can be applied by Local Authorities to help target ECO funding. We would propose a form of ECO Flex be available to the GDNs and their customers. This could take the form of moving back to the IMD Top 20% in April 2018 and then reducing this by 5% per year so by the end of the RIIO-GD1 period, only the IMD Top 5% areas would be eligible. This would allow us to continue to build efficient and economic schemes but tailored to the most deprived areas.

The revised RIIO-GD1 Output for the number of Fuel poor connection was revised in 2015 at your request. We were asked to reforecast our fuel poor connection numbers based upon the changes to the scheme proposed at that time. We did not instigate that reforecast and believe we are entitled to provide a new forecast of our Output once the revision to the scheme are agreed. However, we can assure you that we will continue to work with all of our current partners and relevant new partners to maximise the number of connections we make before March 2021.

Yours sincerely,



Steve Edwards
Director of Regulation and Commercial
Wales & West Utilities

Attachments:

Response to July open letter
Worked example of funding for a scheme

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