

## Governance

Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document (Draft V1.1) Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document

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As part of our continued focus on consumers in Vulnerable Situations, we have implemented a vulnerability and carbon monoxide awareness use-it or lose-it allowance (UIOLI) within RIIO-GD2.

This document is the Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document referred to under Special Condition 5.4 of the Gas Transporter Licence. The purpose of this document is to set out the regulation, administration and governance of the Vulnerability and Carbon Monoxide Allowance, and to obligate the Gas Distribution Networkss to hold an annual showcase event.

It is the responsibility of each Network Licensee to understand the provisions of this Governance Document and how those provisions apply to it. This Governance Document comes into effect on 1 April 2021.

Governance – (Draft Gas Network Vulnerability and Carbon Monoxide Allowance
(VCMA) Governance Document(Draft V1.1) Gas Network Vulnerability and
Carbon Monoxide Allowance (VCMA) Governance Document

This document is version 1 of the Gas Network Vulnerability and Carbon

Monoxide Allowance (VCMA) Governance Document referred to under Special

Condition 5.4 of the Gas Transporter Licence. Gas Network Vulnerability and

Carbon Monoxide Allowance (VCMA) Governance Document change control log

Version	Date published	Summary of document
<u>V1</u>	26 February 2021	Existing Gas Network VCMA Governance Document which is currently in force.
<u>V1.1</u>	20 July 2023	This draft updated Gas Network VCMA Governance Document issued for consultation.

Governance – (Draft Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document(Draft V1.1) Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document

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#### 1. Introduction

- 1.1 The Vulnerability and Carbon Monoxide (CO) Allowance (VCMA) provides use-it-or-lose-it (UIOLI) funding for <u>Gas Distribution Networks (GDNs)</u> to utilise on VCMA Projects focused on vulnerability and CO safety initiatives that go beyond activities that are funded through other price control mechanisms or required through licence obligations.
- The allowance is set at £60m171m¹. Of that £60m171m, 25% is ring-fenced for eCollaborative VCMA Projects between Gas Distribution Networks (GDNs). The remaining 75% is split between each network based on the forecast number of GB domestic gas customers served² and can be used either individually or in collaboration with other GDN's.
- 1.21.3 Each network's proportion of the total VCMA allowance is set out within its Gas Transporter Licence (Special Condition 5.4).

#### The VCMA Governance Document

- 1.31.4 This document is the VCMA Governance Document. It sets out the regulation, administration and governance of the VCMA.
- 1.41.5 It also includes obligations for GDNs to hold an annual showcase event to present their VCMA Projects and other key vulnerability metrics to stakeholders.
- 1.51.6 In this document, we use the terms 'Ofgem' and 'the Authority' as well as the terms 'we', 'us' and 'our' interchangeably. Ofgem is the Office of the Gas and Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of non-executive and executive members.

#### **Compliance**

- 1.61.7 GDNs are required by the VCMA Licence Condition to comply with this document.
- 1.71.8 This document in no way relieves affected parties, including GDNs and Project Partners, from their responsibility to ensure ongoing compliance with legislation

¹ The original allowance was set at £60m at the time of RIIO-2 Final Determinations. A decision to modify the Gas Transporter Licence Special Condition for Gas Distribution, which takes effect from 31 July 2023, increases the total allowance to £171m:

https://www.ofgem.gov.uk/publications/decision-modifications-price-control-financial-instruments-and-licence-conditions-gas-transmission-gas-distribution-and-electricity-transmission

<sup>&</sup>lt;sup>2</sup> See RIIO-2 Final Determinations - GD annex Table 2: <a href="https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator">https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator</a>

including competition, data protection, environment and consumer protection laws.

#### **Review**

1.81.9 Ofgem may from time to time revise this VCMA Governance Document by direction in accordance with the VCMA Licence Condition.

## 2. VCMA Projects

2.1 The policy intent of the VCMA is to fund VCMA Projects aimed at supporting consumers in Vulnerable Situations and addressing CO safety issues.

#### **Project portfolio**

- There is no requirement for a GDN's project portfolio to contain a specific percentage split between different types of VCMA Projects. However, the GDN must ensure that its portfolio of VCMA Projects covers a range of activities and is not solely limited to either consumer vulnerability or CO safety initiatives.
- 2.22.3 GDNs are responsible for ensuring that their programmes of work are tailored to the needs of their customers. The portfolio of VCMA Projects should align with the GDN's vulnerability strategy, which we expect to be maintained and updated within the RIIO-GD2 period, and should be developed through stakeholder engagement and in conjunction with third party organisations to ensure efficient and effective delivery.
- 2.32.4 There is no minimum size for a VCMA Project. However, GDNs must ensure that collectively, VCMA Projects fall within their maximum allowed expenditure cap. GDNs may wish to provide additional funding for a VCMA Project outside of the allowances provided within the RIIO-GD2 price control (eg-e.g. shareholder funded pots).

#### **Collaborative VCMA Projects**

- 2.42.5 To encourage knowledge sharing across the GDNs, 25% of the VCMA is ring-fenced for eCollaborative VCMA Projects. Collaborative VCMA Projects must involve at least two GDNs at a company level. Companies with more than one network must share learning across all of their networks, as appropriate, through their Company Specific VCMA Project allowance.
- 2.52.6 The VCMA for Collaborative VCMA Projects that has been provided to each company is set out in the table below.

Company	2021/22	2022/23	2023/24	2024/25	2025/26	Total <sup>4</sup>
Cadent total	1.49	1.49	<del>1.49</del> 6.09	<del>1.49</del> 6.09	<del>1.49</del> 6.09	<del>7.44</del> 21.25
EoE	0.55	0.55	<del>0.55</del> 2.25	<del>0.55</del> 2.25	<del>0.55</del> 2.25	<del>2.74</del> <u>7.83</u>
Lon	0.31	0.31	<del>0.31</del> 1.26	<del>0.31</del> 1.26	<del>0.31</del> 1.26	<del>1.53</del> 4.38
NW	0.37	0.37	<del>0.37</del> <u>1.50</u>	<del>0.37</del> 1.50	<del>0.37</del> 1.50	<del>1.83</del> <u>5.22</u>
WM	0.27	0.27	<del>0.27</del> 1.09	<del>0.27</del> 1.09	<del>0.27</del> 1.09	<del>1.33</del> 3.81
NGN	0.34	0.34	<del>0.34</del> <u>1.41</u>	<del>0.34</del> <u>1.41</u>	<del>0.34</del> <u>1.41</u>	<del>1.72</del> 4.92
SGN total	0.81	0.81	<del>0.81</del> <u>3.33</u>	0.813.33	<del>0.81</del> <u>3.33</u>	<del>4.06</del> 11.61
Sc	0.25	0.25	<del>0.25</del> 1.03	<del>0.25</del> 1.03	<del>0.25</del> 1.03	<del>1.26</del> 3.59
So	0.56	0.56	<del>0.56</del> 2.30	<del>0.56</del> 2.30	<del>0.56</del> 2.30	<del>2.81</del> <u>8.02</u>
WWU	0.36	0.36	<del>0.36</del> <u>1.46</u>	<del>0.36</del> <u>1.46</u>	<del>0.36</del> <u>1.46</u>	<del>1.78</del> <u>5.09</u>
Total	3	3	<del>3</del> 12.29	<del>3</del> 12.29	<del>3</del> 12.29	<del>15</del> 42.86

- 2.62.7 The share of the VCMA for Collaborative VCMA Projects set out in Table 1 is for administrative purposes only. During a Collaborative VCMA Project, a GDN can, as appropriate, transfer some, or all, of its share to other GDNs to fund the Collaborative VCMA Project, providing there is a benefit to gas consumers on all the networks involved.<sup>5</sup>
- 2.72.8 The GDNs must decide collectively how the collaborative VCMA should be spent.

  The GDNs must ensure that the collaborative VCMA is spent proportionally across the participating network regions.

#### **Eligibility Criteria**

Eligibility criteria for company specific projects (other than condemned essential gas appliance repair and replacement)

2.82.9 In order tTo qualify as a VCMA Project, a project must:

<sup>&</sup>lt;sup>3</sup> Allowances per year do not have to be spent within each year and can be rolled over.

<sup>&</sup>lt;sup>4</sup> Subtotals may not add up to sum of line items due to rounding.

<sup>&</sup>lt;sup>5</sup> Please note that a transfer in this context does not mean an adjustment to allowed revenues.

- a) have a positive, or a forecasted positive, Social Return on Investment (SROI) and Net Present Value (NPV) including for the gas consumers funding the VCMA Project (GDNs should use a common SROI model<sup>6</sup>);
- b) either:
  - i. provide support to consumers in Vulnerable Situations and relate to energy safeguarding, or
  - ii. provide awareness of the dangers of CO, or
  - iii. reduce the risk of harm caused by CO;
- c) have defined outcomes and the associated actions to achieve these;
- d) go beyond activities that are funded through other price control mechanism(s) or required through licence obligations; and
- e) not be delivered through other external funding sources directly accessed by a GDN, including through other government (national, devolved or local) funding.<sup>7</sup>

#### **Installation of energy efficiency measures**

- 2.92.10 The installation of energy efficiency measures is not eligible as a VCMA Project.
- 2.102.11 For the avoidance of doubt, the provision of income, debt and energy efficiency advice is permitted, subject to it meeting the eligibility criteria set out in this document.

#### Eligibility criteria for company specific essential gas appliance servicing

2.12 To qualify as a VCMA Project, essential gas appliance<sup>8</sup> servicing must meet the following criteria:

<u>a)</u>

i. a GDN has had to isolate and condemn an essential gas appliance
following a supply interruption or as part of its emergency service role; or

ii. a GDN or its Project Partner has identified an essential gas appliance which has not been serviced in the last 12 months in the owner-occupied home of a customer in a Vulnerable Situation where an occupier of the property

<sup>&</sup>lt;sup>6</sup> At the time of publication GDNs have indicated that a common SROI model will be available by 1 October 2023. GDNs are expected to provide Ofgem with a copy of the common SROI model, and inform it of any changes to it, as soon as practicable.

<sup>&</sup>lt;sup>7</sup> If part, but not full, funding is available through an external funding source for an eligible project, VCMA funding can be used for the remaining amount.

<sup>&</sup>lt;sup>8</sup> Essential gas appliances are gas fuelled heating systems (including gas boilers and gas fires), and gas cookers.

suffers from a permanent or temporary health condition<sup>9</sup> that makes them more vulnerable to health risks associated with cold homes; and

- b) the household cannot afford to service the essential gas appliance through their own financial means, as assessed through the Energy Company Obligation (ECO4) Eligibility Requirements Form<sup>10</sup> (see Appendix 1); and
- c) sufficient funding is not available from other sources (including a social or private landlord, national, devolved, or local government funding) to fund the essential gas appliance service.

## Eligibility criteria for company specific essential gas appliance servicing, repair and replacement

- 2.112.13 <u>In order tTo</u> qualify as a VCMA Project, unsafe pipework and essential gas appliance<sup>11</sup> servicing, repair or replacement must meet the following criteria:
  - a) a GDN has <u>had</u> to isolate and condemn unsafe pipework or an <del>an</del> essential gas appliance following a supply interruption or as part of its emergency service role; and
  - b) the household cannot afford to service, repair or replace unsafe pipework or the essential gas appliance, as assessed through the Energy Company Obligation (ECO4) Eligibility Requirement Form; and
  - sufficient funding is not available from other sources (including national, devolved or local government funding) to fund the unsafe pipework or the essential gas appliance servicing, repair or replacement.

#### Eligibility criteria for **c**Collaborative VCMA **p**Projects

2.122.14 In order tTo qualify as a €Collaborative VCMA Project, a project must:

- a) meet the relevant requirements set out in paragraphs 2.9-to 2.<del>12</del>13;
- b) have the potential to benefit consumers on the participating networks; and
- c) involve two, or more, gas distribution companies.

#### **Project Registration**

2.132.15 Before starting a VCMA Project, the GDNs must ensure it they meets the eligibility criteria and produce a Project Eligibility Assessment (PEA). In the PEA,

<sup>9</sup> These health conditions include cardiovascular conditions, respiratory conditions, mental health conditions, disabilities, older age (of State Pension age), and young children under the age of 5.
10 https://www.ofgem.gov.uk/sites/default/files/2022-10/ECO4%20Eligibility%20Requirements%20Form%20v1.0.pdf

 $<sup>^{11}</sup>$  Essential gas appliances are gas fuelled heating systems (including gas boilers and gas fires), and gas cookers.

- GDNs must demonstrate that the VCMA Project meets the relevant eligibility criteria set out in paragraphs 2.9 to 2.<del>13</del> 14 above. For eCollaborative VCMA Projects, participating GDNs can choose to produce an individual or joint PEA.
- 2.142.16 If an individual VCMA Project expands into a eCollaborative VCMA Project, the eCollaborative VCMA pProject should be registered as a new project by producing an updated PEA.
- 2.152.17 The PEA should be signed by the senior person responsible for implementing VCMA Projects and published to on the company's website or a central website shared by the GDNs. GDNs must notify Ofgem each time it registers a project by sending an email to vcma@ofgem.gov.uk.
- 2.18 The information a GDN must provide in the PEA is set out in Table 2 below.

Table 2: Information required for the registration of VCMA Projects

Information required	Description		
Project title			
Funding GDN(s)	The GDN(s) which register(s) the project		
New / Updated (indicate as appropriate)	GDN to state whether this is a new or updated PEA		
For Collaborative VCMA Projects: Role of GDN(s)	The specific role(s) of GDN(s) participating in a collaborative VCMA Project		
Date of PEA submission	This needs to be the initial date of a first project submission.		
VCMA Project contact name, email and number			
Total cost (£k)			
Total VCMA funding required (£k)			
Problem(s)	This should outline the problem(s) which is/are being addressed by the VCMA Project.		
Scope and Objectives	The scope and objectives of the VCMA Project should be clearly defined including the benefits which would directly impact customers on the participating GDNs' network(s), and where the benefits of the VCMA Projects lie.		
Why the Project is being funded through the VCMA	This should include an explanation of why the VCMA Project meets the VMCA eligibility criteria, and how it aligns with the GDN's VCMA strategy.		

Information required	Description		
Evidence of stakeholder/customer support	This should provide information of the customer engagement that has taken place in the development of VCMA Projects where appropriate. If there is no evidence of stakeholder engagement or customer support, this should justify why it was not appropriate to engage with stakeholders and customers.		
-Outcomes, -associated actions, and success criteria	Details of the VCMA Project outcomes and the associated actions to achieve these, interim milestones and how the Funding Licensee will evaluate whether the project has been successful. Each action should have a proportion of the funding allocated.		
Project Partners and third parties involved	Details of Project Partners or third party involvement.		
Potential for new learning	Details of what the GDN(s) expect(s) to learn and how the learning will be disseminated.		
Scale of VCMA Project and SROI calculations, including NPV	The Funding Licensee(s) should justify the scale of the VCMA Project – including the scale of the investment relative to its potential benefits. As part of this, it should provide the SROI calculation, including NPV.		
VCMA Project start and end date	Detail start and end date of the VCMA Project and, where relevant, the VCMA Project that		

- 2.19 GDNs must submit an updated PEA if material changes are made to the project.

  The updated PEA will include rationale for the material change to the project along with all relevant updates to the project (e.g. costs, start/end date, objectives etc.)
- 2.20 GDNs will share updated VCMA spend tracker for company specific and collaborative projects with Ofgem, on a quarterly basis.
- 2.21 For a VCMA Project with a total VCMA funding requirement of over £1m, the GDN must send Ofgem the project information 10 working days before the senior

- person responsible for implementing VCMA Projects signs off the VCMA Project. The project information provided should be consistent with the requirement in Table 2 which is reasonably available at the time.
- 2.22 The Registration process does not involve Ofgem approving projects, and the VCMA Projects will be registered when the GDN publishes the PEA on its website or a central website shared by the GDNs. In the event that Ofgem finds that a registered VCMA Project does not meet the Eligibility Criteria or any other requirements set out in this document, we reserve the right to claw back the associated funding through the use it or lose itUIOLI mechanism.

<del>2.16</del>—

#### **Annual reporting obligations**

- The GDN must produce an annual report on its use of the VCMA and the progress of the VCMA Projects.
- 2.182.24 The GDN must send a copy of the annual report to Ofgem and make it available publically publicly on its website by 1 July each year.
- 2.192.25 The annual report should include an overview of VCMA use. This should outline how much of the VCMA has been spent, how much is remaining, a breakdown of VCMA Projects funded and an overview of how the GDN has engaged with its stakeholders on the use of the allowance.
- 2.26 We expect this document to be brief and to refer to where further detail on VCMA Projects can be found.
- 2.27 GDNs should use a standardised report template and common terminology in the annual report where possible. The annual report should include as a minimum:
  - Overview of GDN's VCMA details: This should include information on the current spend level, full 5-year allowance, actual and forecast spend, commitments and outcomes.
  - VCMA strategy progress: This should describe the general progress of the GDN's VCMA strategy and link the VCMA Project covered by the annual report to the high-level group/themes set out in the GDN's VCMA strategy.
  - Project summary for the reporting year: This should include a project summary table which details all VCMA Projects covered by the annual report, status, partners, high-level group/theme, SROI and spend. Links to the PEA documents published on the GDN's website and to the relevant VCMA Project section in the annual report (where applicable) should be provided.

- Plan for the remaining years: This should describe the GDN's plan on VCMA
   Projects for the remaining years of RIIO-GD2 period.
- <u>2.20</u>2.28 <u>The annual report should also include</u>, <u>Ff</u>or each VCMA Project carried out in that Regulatory Year, the annual report should include:
  - Summary of VCMA Project progress: This should describe the general
    progress of the VCMA Project against the interim milestones set out in the PEA,
    any notable outcomes or actions achieved in the relevant period, and any
    problems encountered. If a VCMA Project has been completed, this must be
    indicated clearly.
  - **Funding update:** The GDN(s) should report on expenditure (incurred and expected).
  - Update on outcomes and associated actions: This should describe the VCMA
     Project progress or delivery against the outcomes, -associated actions and
     success criteria set out in the PEA<sub>7</sub> and outline any challenges the GDN may face
     in achieving these.
  - **Details on any learning and stakeholder engagement**: This should describe any new learning(s) achieved, how the learning(s) have been disseminated (if appropriate) and details of what stakeholder engagement on the VCMA Project has taken place where appropriate.
  - **Remaining timescales:** This should outline how much time is remaining for the VCMA Project.
- 2.212.29 The GDN can choose to report on Collaborative VCMA Projects individually or through a joint GDN report, which complies with the requirements set out in this section.

#### **Unspent allowances**

- 2.222.30 In the event that the full VCMA is not spent by the end of RIIO-GD2, the unspent proportion of the allowance will be returned to customers via the mechanism set out in Special Condition 5.4 of the GDNs' Gas Transporter 

  ↓Licence. If funding has been transferred as part of a ←Collaborative VCMA Project, this must go back to the original GDN first.
- 2.232.31 In the event that any funding claimed for an eligible VCMA Project is not spent by the end of the project, it must return to its VCMA.

#### 3. Annual showcase event

- 3.1 The GDNs must collectively, with other GDNs, organise an annual showcase event. The event is for interested stakeholders including chartiescharities, local innovators, GDNs, Project Partners and Ofgem. -The GDN must highlight the key outcomes that have been achieved since the previous annual showcase event. It is also an opportunity for GDNs and stakeholders to showcase work and present ideas including, but not limited to, future projects to support consumers in Vulnerable Situations.
- 3.2 The annual showcase event should be a national event, held in a different network region each year. We also encourage GDNs to carry out smaller events for their regional stakeholders. Due to the disruption caused by Covid-19, events can be held online if necessary.
- 3.3 The GDNs must present on the following areas at a minimum at the annual showcase event:
  - a) progress and outcomes of VCMA Projects;
  - b) how they have supported Priority Services Register (PSR) needs\_in the previous year, including outlining the current:
    - i. PSR reach by needs code; and
    - ii. number and type of services provided to PSR customers;
  - c) how they have targeted fuel poor households for the purposes of FPNES; and
  - d) what they have done to improve CO safety and awareness.
- 3.4 GDNs can use collaborative VCMA funding to cover the efficient cost to the Licensees' of organising the conference. They do not need to register a PEA for this, but should report on spend through the Regulatory Reporting Pack (RRP).
- 3.5 GDNs will be responsible for the format of the annual conference. However, when organising the annual conference, the GDNs must engage with stakeholders, including but not limited to Citizens Advice and Citizens Advice Scotland, on the agenda, format and arrangements to ensure that it effectively shares best practice and learnings.
- 3.53.6 In consultation with stakeholders, the annual showcase event and the smaller events for regional stakeholders can be held online if it best serves the purposes set out in paragraphs 3.1 to 3.5.

## 4. Glossary

#### **Project Partners**

means a third-party organisation that makes a contribution which is related to the success of the VCMA Project.

#### **Regulatory Year**

means a period of twelve months commencing on 1 April at 05:00 and ending on the following 1 April immediately before 05:00.

#### **VCMA Projects**

means projects that meet the eligibility criteria set out in the VCMA Governance Document.

#### **Vulnerable Situations**

has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).

# <u>Appendix 1 – Energy Company Obligation (ECO4)</u> <u>Eligibility Requirement Form</u>

#### Purpose of the form in the context of VCMA Projects

A1.1 When assessing the eligibility of VCMA funded essential gas appliance servicing or unsafe pipework and gas appliance repairs and replacements, the GDN (or its VCMA delivery partner) will apply the latest ECO4 Eligibility Requirement Form criteria when assessing a customer in Vulnerable Situation's ability to afford essential gas appliance and unsafe pipework repairs, replacements, and servicing. The ECO4 Eligibility Requirement Form criteria in force as at the date of publication of this document is provided below<sup>12</sup>.

Type of	Number of children or qualifying young persons				
claimant	<u>1</u>	<u>2</u>	<u>3</u>	<u>4+</u>	
Single claimant annual income	Equal to or less	Equal to or less	Equal to or less	Equal to or less	
	than £19,900	than £24,800	than £29,600	than £34,500	
Member of a Couple combined annual income	Equal to or less	Equal to or less	Equal to or less	Equal to or less	
	than £27,500	than £32,300	than £37,200	than £42,000	

#### **Definitions and Supporting Information**

#### "Couple" means:

- a) Two people who are married to, or civil partners of, each other and are members of the same household; or
- b) Two people who are not married to, or civil partners of, each other, but are living together as a married couple.

"Children" and "qualifying young persons" means persons under the age of 16 (or under 20 if they are in approved education or training). A person shall be treated as responsible for children or qualifying young persons who are normally living with them or paying at least the same amount as Child Benefit (or the equivalent in kind) towards

<sup>&</sup>quot;Single claimant" means a person who is not a member of a Couple.

<sup>&</sup>lt;sup>12</sup> More information can be found by visiting the full Energy Company Obligation (ECO4) Eligibility Form: https://www.ofgem.gov.uk/sites/default/files/2022-10/ECO4%20Eligibility%20Requirements%20Form%20v1.0.pdf

<u>looking after them. More detail can be found on the government website for Child Benefit.</u>

"Income" means annual gross income from all sources, including housing-related benefits, before tax. This should be determined based on the preceding annual tax year which runs from 6th April to 5th April of the following year.