



Making a positive difference
for energy consumers

Gas Distribution and
Stakeholders

Direct Dial: 020 7901 7415

Email: vcma@ofgem.gov.uk

Date: 20 July 2023

Update on the RIIO-2 Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA), and consultation on an updated VCMA Governance Document

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.

The VCMA provides UIOLI funding for Gas Distribution Networks (GDNs) 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 VCMA allowance was set at £60m at the time of RIIO-2 Final Determinations¹.

As per the Gas Transporter Licence (Special Condition 5.4), the VCMA Governance Document sets out the regulation, administration, and governance of the VCMA.

Re-purposing unspent Fuel Poor Network Extension Scheme (FPNES) allowances to the VCMA

At RIIO-2 Final Determinations we provided baseline allowances for the GDNs to deliver the forecast volume of FPNES connections included in their RIIO-2 Business Plans. The FPNES was set up to help tackle fuel poverty by supporting off-grid, fuel poor households to connect to the gas network.

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_-_gd_annex_revised.pdf

The FPNES Governance Document sets out the eligibility criteria that FPNES connections must meet and the requirements for the administration and delivery of the FPNES. GDNs are required to comply with the FPNES Governance Document when administering and delivering the FPNES.

Under the terms of the FPNES, GDNs must ensure that eligible households intend to install a First Time Central Heating (FTCH) system. Funding for FTCH has largely been secured through schemes such as the Energy Company Obligation (ECO), the National Grid Warm Homes Fund, Arbed and Home Energy Efficiency Programmes for Scotland (HEEPS). Those schemes have now either ended or are due to end shortly as government and local authorities focus on decarbonisation. This means that funding opportunities for FTCH have become increasingly limited and the number of FPNES connections that GDNs can deliver has reduced significantly.

At a meeting with Ofgem in November 2022, all four GDNs agreed that they no longer consider the FPNES viable and that the cost to continue running and administering the scheme now outweighs the consumer benefit delivered by it. Given the acute pressures facing consumers at the moment, the GDNs proposed that unspent FPNES allowances should be re-purposed towards other measures to help vulnerable consumers.

We accepted the GDNs concerns and that the discontinuation of FTCH funding meant that remaining allowances under the FPNES would not be spent and GDNs would not be able to deliver their forecast number of connections. We had since considered how remaining allowances under the FPNES should be treated and agreed with the GDNs' proposal to re-purpose unspent FPNES allowances to support vulnerable consumers.

Update

We consulted in April 2023 to modify the Special Conditions of the Gas Transporter Licence to re-purpose a licensee's unspent FPNES allowances into the licensees' VCMA. For the avoidance of doubt, the FPNES remains open to support off-grid, fuel poor households to connect to the gas network where the funding for FTCH system can be secured and eligibility criteria be met. Subsequently, we made the decision² to re-purpose £111m of unspent FPNES allowances to the VCMA on 5 June 2023. As a result, the Licence Modifications, which will give effect to the re-purposing of £111m unspent FPNES allowances to the VCMA, will take effect on 31 July 2023.

² <https://www.ofgem.gov.uk/publications/decision-modifications-price-control-financial-instruments-and-licence-conditions-gas-transmission-gas-distribution-and-electricity-transmission>

The policy intent of the additional VCMA is primarily to support customers living in fuel poverty, consistent with the FPNES. CO safety initiatives can still be integrated as part of a holistic service provision but are not expected to be the primary driver of the VCMA Project delivered by the additional VCMA.

Following our decision to re-purpose £111m of unspent FPNES allowances to the VCMA, we are proposing changes to the VCMA Governance Document to:

- Widen the eligibility criteria
- Improve details and transparency in GDNs' reporting and strategies
- Ensure appropriate level of governance to reflect the additional allowance available.

We are consulting on the proposed changes to the VCMA Governance Document. Our decision on these proposals will be informed by the responses to the consultation.

Recent VCMA working group meetings on proposed changes

Three working group meetings for GDNs and consumers bodies were held in May and June 2023 to discuss draft proposed changes to the VCMA Governance Document. The meetings covered a range of topics, including eligibility criteria, GDNs' VCMA strategies, common methodologies for demonstrating project benefits, improved governance process and standardised reporting. Each meeting provided an opportunity to discuss, refine and explore the changes proposed to the VCMA Governance Document. Feedback received via the working group helped inform and further develop the changes being proposed.

Proposed changes to widen eligibility criteria, improve governance and ensure more transparent reporting

Our proposed changes to the VCMA Governance Document focus on widening the eligibility criteria to support more consumers in Vulnerable Situations, whilst adhering to the GDNs' role in addressing vulnerability as set out in the RIIO-2 Sector Specific Methodology³ that it should be related to their existing areas of competence, activity and consumer interaction. The proposed changes will also improve governance of the VCMA and ensure more transparent reporting from GDNs.

We have proposed changes which would allow more vulnerable consumers to benefit from essential gas appliance servicing. The proposed changes would enable GDNs to fund and/or deliver further essential gas appliance servicing in the homes of customers in Vulnerable Situations. These works will be restricted to households where it is the obligation of the occupier (and not a landlord) to service the essential gas appliances, and the customer is

³ https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/riio-2_sector_specific_methodology_decision_-_gd.pdf

unable to afford the costs of regular essential gas appliance servicing through their own financial means. This will be achieved by enabling a GDN or its Project Partner to identify an essential gas appliance due for servicing in the home of a vulnerable consumer with a health condition that makes them more vulnerable to health risks associated with cold homes.

We have also proposed changes to ensure the increased funding in VCMA will be used to serve the best interests of consumers. The GDNs should use a common Social Return on Investment (SROI) model to demonstrate that their VCMA Projects will achieve positive social impact. The GDNs are currently working with the Energy Networks Association and network companies of other sectors on a common SROI model and have indicated that a common SROI model will be available by 1 October 2023. GDNs will be expected to provide Ofgem with a copy of the common SROI model, and inform us of any changes to it, as soon as practicable. Moreover, when assessing a vulnerable customer's ability to afford essential gas appliance and unsafe pipework repairs, replacements, and servicing, the GDNs will apply the latest ECO4 Eligibility Requirement Form criteria. Furthermore, the GDNs will also be required to send Ofgem the project information in respect of a high value project (over £1m) 10 working days before the senior person responsible for implementing VCMA Projects signs off the VCMA Project. These changes will further ensure that GDNs apply a consistent approach when creating VCMA Projects in compliance with the requirements as per the Governance Document.

Note: To protect consumers, it remains the case that Ofgem reserve the right to claw back the associated funding through the UIOLI mechanism if a registered VCMA Project does not meet the requirements set out in the Governance Document. Also, funding will be automatically returned to consumers if GDNs do not use it.

Additionally, we have proposed changes to include further standardised reporting structure to the GDNs' VCMA annual report. The annual report will include an overview of the GDN's VCMA details, strategy progress, project summary, and plan for the remaining years of RIIO-GD2 period. Together with the other proposed changes, this will enable a transparent and consistent review of each GDNs' VCMA Project.

Lastly, we have proposed changes to formalise the potential for the annual showcase event to be held online, removing the reference to the disruption caused by Covid-19. We expect GDNs to consult with their stakeholders on the agenda, format, and arrangements to ensure that the annual showcase event will best serve its purposes of "showcasing work and presenting ideas including, but not limited to, future projects to support consumers in

Vulnerable Situations". Hence, if holding the event online could best serve its purpose, it should remain an option.

Timing of an updated VCMA Governance Document

We aim for the updated VCMA Governance Document to come into force in August 2023. We acknowledge this will mean a short period of time between the Licence changes to re-purpose the unspent FPNES allowances to the VCMA taking effect and the updated Governance Document being in force. As any proposed changes, such as changes to the eligibility criteria, do not take effect until the updated Governance Document is formally in force, we will work to minimise any delay between the end of consultation and the publication of our decision that follows.

Items published alongside this letter

Alongside this consultation, we have published:

1. A draft VCMA Governance Document with all proposed changes incorporated in tracked changes
2. The consultation questions listed below

Consultation questions

1. Do you agree with the proposed amendments to the VCMA eligibility criteria to allow an expanded scope for essential gas appliance servicing?
2. Do you agree with the introduction of a common SROI model?
3. Do you support the additional requirements for GDNs to provide project information in respect of high value projects to Ofgem prior to internal sign-off?
4. Do you support the potential for the annual showcase event to be held online if GDNs' consultation with their stakeholders shows that such format best serves the purposes of "showcasing work and presenting ideas including, but not limited to, future projects to support consumers in Vulnerable Situations"?

Next steps

Stakeholders are invited to respond to this consultation no later than 17 August 2023.

All responses to this consultation should be sent to vcma@ofgem.gov.uk.

The annex to this letter details our approach to handling consultation responses and explains that respondees can request their response, or part of their response, be kept confidential.

As noted above, and subject to our consideration of stakeholder responses to the consultation on the proposed changes, we aim to publish a decision on this consultation and the updated VCMA Governance Document in August 2023 (alongside any non-confidential responses to this consultation).

Yours sincerely,

Kevin Tse
Head of Price Control Monitoring and Response

For and on behalf of the Authority

Annex: Your response, data, and confidentiality

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk