

17th August 2023

Kevin Tse
Head of Price Control Monitoring and Response
Ofgem
10 South Colonnade
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London
E14 4PU



Dear Kevin,

Cadent response to the consultation on modification to the Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document

This letter outlines Cadent's company-specific response to Ofgem's consultation on the proposed amendments to the Vulnerability and Carbon Monoxide Allowance (VCMA) governance document, published on 20th July. Although focussed on the specific views of Cadent and its stakeholders, the response has been developed in collaboration with the other gas distribution networks (GDNs) and there is consistency of thinking across all four network companies.

Our response to the consultation comprises of answers to the questions listed in the VCMA governance letter, as well as wider comments that we would encourage Ofgem to consider as part of their final decision.

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?

Cadent are supportive of the proposed amendments to the VCMA eligibility criteria that permit an expanded scope for essential gas appliance servicing.

We believe there are significant health and safety, energy efficiency and wider societal benefits from the proposed expansion to the VCMA eligibility criteria.

Prior to the consultation, the governance document only enables GDNs to intervene following the condemning and isolating of an essential gas appliance as part of a network's emergency/supply interruption role. Resultingly, vulnerable households must first navigate an outage and the associated risks of exposure to gas and carbon monoxide (CO) before a VCMA-funded solution is in scope.

Data from Cadent's Services Beyond the Meter (SBTM) programme has identified that a lack of maintenance and servicing is a significant contributory factor to a household's risk of experiencing a gas emergency. For instance, 17% of the appliances encountered by SBTM engineers on an East Midlands



project in 2021-2022 were deemed *at risk* or *immediately dangerous* due to a lack of servicing.

The proposal to permit gas appliance servicing in the homes of customers proactively identified and assessed by GDN charitable partners would protect vulnerable households from experiencing exposure to natural gas and CO leaks, and a subsequent supply interruption through a GDN's initial emergency response.

Alongside the above health and safety benefits, an expansion to the gas appliance servicing eligibility criteria would enable a greater number of vulnerable households to enjoy energy efficiency improvements.

Servicing is designed to ensure both the safety and efficient operation of gas appliances, resulting in potential energy bill savings for customers in vulnerable situations that receive this type of support through the VCMA.

The expansion of the eligibility criteria to permit GDN charitable partners to proactively seek vulnerable households in need of a gas appliance safety check would also create additional benefit.

For instance, health and safety improvements would lead to wider secondary benefits e.g. reduced pressure on health services in treating carbon monoxide related illness (4,000 A&E visits in England each year). Additionally, the expansion of the eligibility criteria would enable GDN partners to reach a greater number of vulnerable households, offering networks broader customer engagement opportunities through which to promote Priority Services Register registration, CO safety and wider services.

Cadent's support for the expansion of the VCMA eligibility criteria has also been shaped by stakeholder engagement, ensuring that the views of customers and the industry are represented. We have attached an appendix that details the supporting insights obtained through our 2023 engagement.

In terms of the proposed use of the latest ECO4 Eligibility Requirement Form criteria to assess a household's eligibility for VCMA-funded essential gas appliance repairs, replacement, and servicing, further thinking is required, rather than simply mimicking the ECO scheme documentation.

It is Cadent's view that the amended governance document should permit the GDNs to work together to create a proforma more applicable to the VCMA, but be based on the health and income criteria within the ECO4 Eligibility Requirement Form. This GDN-created proforma could be subject to Ofgem approval prior to implementation.

Additionally, it is Cadent's view that the extended criteria relating to essential gas appliances should explicitly permit works on appliances that "are the obligation of the homeowner/tenant to maintain." This subtle change in wording would account for scenarios such as works on gas cookers in rented properties, where the appliance is the property (and subsequent ownership of maintenance) of the tenant.

2. Do you agree with the introduction of a common SROI model?

Cadent are supportive of the introduction of a common SROI model to evaluate the forecasted and actual social value of VCMA initiatives. As discussed during the Repurposing of FPNES working groups, it is our view that the social value framework being produced through the Energy Networks Association (ENA) coordinated project will create a consistent and robust mechanism for measuring SROI across VCMA initiatives and wider activities.

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Cadent have been a key member of the project's core working group from an early phase, ensuring that the framework has been designed with a VCMA focus from the outset.

As well as the creation of a common SROI model across GDNs, distribution network operators, and transmission, the project will also provide sector specific rule books, providing additional consistency, robustness, and assurance to stakeholders. The rule books will ensure that groupings of energy networks (such as GDNs) apply the common SROI model consistently, particularly in terms of manual assumptions that are required to operate the model.

With regards to the application of the common SROI model once available, it is Cadent's view that GDNs should not be required to retrospectively forecast the SROI of initiatives that have been formally registered with Ofgem (e.g., PEA published to GDN website and version shared with Ofgem).

Finally, the GDNs would be happy to facilitate a September meeting between Ofgem and the model's developers (SIRIO) to demonstrate the framework and receive feedback/comments.

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?

We are broadly supportive of Ofgem's proposal relating to the additional requirements for GDNs to provide information on high-value projects prior to internal sign-off as it provides assurances on the effective investment of the VCMA to GDNs (delivery), Ofgem (oversight and regulation), and in turn customers (as ultimate funders).

However, Cadent's support for this proposal is caveated with the following points that we would encourage Ofgem to consider as part of their final decision:

- A. Certainty of engagement from Ofgem. Cadent would like to approach Ofgem for comment on VCMA initiatives valued >£1mil at the earliest opportunity, but at least 10 working days in advance of the Project Eligibility Assessment (PEA) being developed. Furthermore, Cadent will prioritise early engagement with Ofgem on potential VCMA initiatives that it feels challenges the governance document eligibility criteria.

It is our view that the proposed amendment to the governance document that obliges GDNs to conduct early engagement with Ofgem on high value initiatives, only provides optimum benefit if Ofgem provide a response to the GDN. Our thinking is that there is little added benefit on top of the existing PEA process without this certainty of engagement.

It is our view that GDNs should be permitted to proceed with delivery of high value VCMA initiatives where Ofgem elect to not provide acknowledgement and/or a response. We believe that existing factors such as formal approval of GDNs' updated strategies, evidence of stakeholder/customer support, a positive SROI, and the PEA process provide assurance that future VCMA initiatives will provide benefit to consumers.

Furthermore, it is our view that the clawback mechanism should not be considered appropriate where Ofgem have elected to not provide acknowledgement and/or comment on early engagement conducted by the GDNs, providing that the network adheres to the agreed SLA within the governance document.

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- B. Prior to the consultation process, Ofgem, the GDNs and key stakeholders attended several workshops to discuss proposals for amendments to the VCMA governance document. As part of this process, the GDNs shared a breakdown of their historic individual VCMA initiatives' costs – this in turn informed the proposed >£1mil threshold for early Ofgem engagement.

Due to the positive ambition of the repurposing from the Fuel Poor Network Extension Scheme (FPNES) into the VCMA, the GDNs have been awarded significant increases to their allowances (from £29.76mil to £85.01mil for Cadent alone).

As a result, we believe it is reasonable to expect a shift in strategy from the GDNs and higher value programmes may be prioritised to effectively spend the total repurposed allowance. Therefore, a higher frequency of VCMA initiatives may exceed the proposed £1mil threshold, resulting in a greater demand of Ofgem's resource to review and provide comment.

Linked to our comments on certainty of engagement, it is our view that increased funding will lead to a larger proportion of VCMA initiatives being high value, and as such, the GDNs would benefit from certainty of engagement over a larger portfolio of work.

- 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"?**

Cadent is supportive of the proposal to formalise the potential for the annual VCMA showcase event to be held online, providing that there is clear support from stakeholders.

Cadent's portfolio of VCMA delivery partners includes grassroots charities, through to national organisations. The views and input from each type of organisation is equally as valuable and it is Cadent's view that an online showcase event offers greater inclusion and accessibility.

The first two annual VCMA showcase events have been held online, with strong stakeholder representation and positive feedback on each occasion. Furthermore, Cadent is mindful of its use of VCMA funding on supporting activities such as the annual showcase event. Online events are less expensive to administer and allow a greater proportion of the VCMA to reach end consumers.

Cadent will continue to seek the views of its stakeholders to shape future annual VCMA showcase events, ensuring that partners continue to realise value and have the opportunity to provide feedback.

Additional comments on the consultation

In addition to the above answers to the consultation questions, we would encourage Ofgem to consider the following points as part of their decision:

- The recently announced repurposed FPNES funding provides GDNs with a significantly increased ability to support customers through the VCMA. As such, it is reasonable to expect an increase in the number of VCMA initiatives and subsequently, PEAs be created to register the investment.

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As a result, it is Cadent's view that the "Remaining Amount in the Allowance at Time of Registration" field of the PEA could become unmanageable and not provide value to the reader.

As an alternative, we would encourage Ofgem to consider an amendment to the PEA and governance document that instead obliges GDNs to provide a six-monthly summary of actual and committed VCMA spend from both the company-specific and collaborative pots – this six-monthly summary would not be subject to the same RRP DAG processes.

- The consultation letter states that the GDNs will be required to send Ofgem "project information" on VCMA initiatives valued >£1mil. Cadent would welcome the opportunity to engage with Ofgem and the other GDNs to more clearly define what details constitute "project information", ensuring a consistent approach across all networks.
- We believe that the inclusion of a table within the amended governance document that outlines company specific VCMA funding allocations would be beneficial to stakeholders, allowing greater understanding on the totality of funding and split between collaborative and company specific allowances.
- In terms of annual reporting, we are supportive of the position that Ofgem indicated throughout the VCMA working groups in relation to the continuation of the current structure (e.g., a company specific and collaborative annual report). We do not recognise a need to separate the VCMA into "pot one" and "pot two" for the purpose of reporting and instead believe that it will be possible for GDNs to articulate the benefits realised for customers through the additional funding in a single document; however, we would welcome clarity on what "VCMA details" constitutes as referenced in the annual reporting paragraph of the consultation letter.

In summary, we are broadly supportive of all of Ofgem's proposed amendments to the governance document and feel that consideration of the above views (that are shared by the other networks) will result in an improved VCMA that delivers benefit to vulnerable consumers through to March 2026.

Yours faithfully,

Edward Allard

Social Programmes Manager

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