



Making a positive difference  
for energy consumers

Gas Distribution Networks and  
Stakeholders

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### **Decision to update RIIO-2 Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document**

1. 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 (UIOLI) allowance within RIIO-GD2.
2. The VCMA provides UIOLI funding for Gas Distribution Networks (GDNs) to use on VCMA Projects focused on vulnerability and carbon monoxide (CO) safety initiatives that go beyond activities that are funded through other price control mechanisms or required through licence obligations. The total VCMA allowance is £171m<sup>1</sup>.

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<sup>1</sup> We consulted in April 2023 to modify the Special Conditions of the Gas Transporter Licence to re-purpose a licensee's unspent Fuel Poor Network Extension Scheme (FPNES) allowances into the licensees' VCMA. Subsequently, we made the decision to re-purpose £111m of unspent FPNES allowances to the VCMA on 5 June 2023. The Licence Modifications took effect on 31 July 2023. <https://www.ofgem.gov.uk/publications/decision-modifications-price-control-financial-instruments-and-licence-conditions-gas-transmission-gas-distribution-and-electricity-transmission>

## **Our consultation to update the VCMA Governance Document**

3. We consulted from 20 July 2023 to 17 August 2023 on proposed changes to the VCMA Governance Document. The policy intent of the additional VCMA is primarily to support customers living in fuel poverty, consistent with the Fuel Poor Network Extension Scheme (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. Hence, our proposed changes focus on:
  - a. 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 RIIIO-2 Sector Specific Methodology<sup>2</sup>. The support provided by GDNs to vulnerable consumers should be related to their existing areas of competence, activity, and consumer interaction.
  - b. Improve details and transparency in GDNs' reporting and strategies.
  - c. Ensure appropriate level of governance to reflect the additional allowance available.

## **Update following the consultation**

4. In total we received nine separate responses to the consultation from GDNs, consumer bodies, charities, energy companies and consultancies. Of these responses, seven commented on the consultation questions we issued, while two provided general feedback and comments.

## **We asked the following four questions:**

5. Do you agree with the proposed amendments to the VCMA eligibility criteria to allow an expanded scope for essential gas appliance servicing?
6. Do you agree with the introduction of a common Social Return on Investment (SROI) model?
7. 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?
8. 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"?

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<sup>2</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final\\_determinations\\_-\\_gd\\_annex\\_revised.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_-_gd_annex_revised.pdf)

9. For each of the consultation questions, the following section includes our proposed position, a summary of the responses received, and our decision with supporting rationale.
10. We also note that some responses included feedback and comments on other aspects of the VCMA Governance Document which were not covered by our consultation questions. We have noted this feedback, and as part of this document, we have also summarised and considered these overarching areas of feedback.

**Q1: Do you agree with the proposed amendments to the VCMA eligibility criteria to allow an expanded scope for essential gas appliance servicing?**

*Our consultation position*

11. We 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. The proposed changes 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 unable to afford the costs of regular essential gas appliance servicing through their own financial means. The policy 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.

*Consultation responses*

12. All but one of the consultees that responded agreed on the proposed changes. One response (NEA) highlighted that it would allow a greater number of vulnerable customers to access the service and avoid life-threatening situations.
13. NEA also stated that they believed that the eligibility criteria for company specific essential gas appliance servicing, repair and replacement should be altered, and should reflect the proposed expanded eligibility criteria for gas appliance servicing projects.
14. Citizens Advice expressed concern that by only expanding the scope of essential gas appliances servicing (but not repair and replacement) may mean leaving customers without a working essential gas appliance (and waiting for another organisation or source of funding to repair or replace it). Other stakeholders shared similar concerns.

15. GDNs questioned Ofgem on two points: The first raised what would happen to the customer if a partner highlighted an issue with the essential gas appliance after servicing (which might have condemned the appliance) and the partner could not access any other funding to repair or replace the appliance.
16. Secondly, they would like to confirm that the scheme would be accessible to those who were responsible for the maintenance of essential gas appliance as they were aware of situations where the gas cookers were the responsibility of the tenant who could be a vulnerable customer.
17. Similar to the point raised in paragraph 16, Cadent proposed that the extended criteria relating to essential gas appliances should explicitly permit works on appliances such as gas cookers that the tenant is responsible for the maintenance.

### *Decision*

18. After reviewing the responses received, we have decided to go ahead with the proposed changes of the eligibility criteria to allow an expanded scope for essential gas appliance servicing. We will also amend the eligibility criteria slightly to ensure they cover vulnerable customers who are tenants with responsibility for the maintenance of an essential gas appliance (such as a gas cooker) in the rental property. However, we do not agree with the suggestion to further expand the scope to include repair and replacement of essential gas appliances unrelated to a supply interruption or emergency call-out.

### *Rationale*

19. We consider that by allowing an expanded scope for essential gas appliance servicing will support more consumers in vulnerable situations to stay safe with the use of gas at homes and this is supported by stakeholders.
20. We also understand that in some cases, tenants are responsible for the maintenance of essential gas appliances e.g., when tenants opt to use their own gas cooker. Expanding the eligibility criteria to cover such a situation is consistent with the spirit of the proposed changes to allow an expanded scope for essential gas appliance servicing.
21. However, we do not agree with the suggestion to further expand the scope to include repair and replacement of essential gas appliance unrelated to a supply interruption or emergency call-out<sup>3</sup>. As we explained in our consultation letter, our proposed changes to the VCMA Governance Document focus on widening the eligibility criteria to support

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<sup>3</sup> The current VCMA Governance Document allows essential gas appliance repair and replacement if a GDN has had to isolate and condemn unsafe pipework or an essential gas appliance following a supply interruption or as part of its emergency service role. This remains unchanged.

more consumers in vulnerable situations whilst adhering to the GDNs' role in addressing vulnerability as set out in the RIIIO-2 Sector Specific Methodology<sup>4</sup>. That means the activities and support should be related to the GDNs' existing areas of competence, activity, and consumer interaction. We do not currently consider the use of VCMA to replace gas appliance unrelated to a supply interruption or emergency call-out consistent with the GDNs' existing areas of activity and consumer interaction.

## **Q2: Do you agree with the introduction of a common Social Return on Investment (SROI) model?**

### *Our consultation position*

22. We proposed changes to ensure the increased funding in VCMA would be used to serve the best interests of consumers. The GDNs should use a common SROI model to demonstrate that their VCMA Projects will achieve positive social impact. The GDNs are currently working with the Energy Networks Association (ENA) and network companies of other sectors on a common SROI model and have indicated that a common SROI model would be available by 1 October 2023 (GDNs have since advised the common SROI model would be available after November 2023 instead). 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.

### *Consultation responses*

23. All responses were supportive of this change. Some responses stated that using a common SROI model would allow for more effective benchmarking of VCMA Projects.
24. Cadent considered that GDNs should not be required to retrospectively forecast the SROI of initiatives that had been formally registered with Ofgem.
25. Cadent, WWU, NGN and SGN shared that they had been working on a SROI model with their consultant SIRIO to develop a collaborative social value framework and proxy bank.
26. Citizens Advice added that Ofgem should consider mandating a minimum SROI for projects in future price controls once a common metric is established. They also suggested that Ofgem should ensure that the SROI is given as a forecast number on GDN's Project Eligibility Assessment (PEA) submissions, as currently many PEA forms only state that the SROI is positive.

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<sup>4</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/riio-2\\_sector\\_specific\\_methodology\\_decision\\_-\\_qd.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/riio-2_sector_specific_methodology_decision_-_qd.pdf)

### *Decision*

27. We will proceed with the introduction of use of a common SROI model, and we will include the requirement to provide a forecast number of SROI on GDNs' PEA submissions.

### *Rationale*

28. All stakeholders were supportive of the proposed introduction of use of a common SROI model. A common SROI model will enable and ensure more effective benchmarking of VCMA Projects. We consider that this change will improve the estimation of social impact at the planning stage of VCMA Projects and ensure effective utilisation of the VCMA to support vulnerable customers.

### **Q3: 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?**

#### *Our consultation position*

29. We proposed changes that would require GDNs 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 on it.

#### *Consultation responses*

30. Stakeholders broadly supported the proposed changes but commented on the importance of feedback from Ofgem upon the receipt of the project information of high value projects. All the GDNs agreed that the £1m threshold set for high value projects was reasonable. However, GDNs considered the current proposal that required them to provide Ofgem with information 10 working days before the companies signed off on the VCMA Project would not add value unless Ofgem committed to provide feedback before the PEA form was completed and a contract entered into with GDNs' project partners.

31. Cadent further stated that existing factors such as formal approval of GDNs' updated strategies, evidence of stakeholder/customer support, a positive SROI, and the PEA process provided assurance that future VCMA initiatives would provide benefit to consumers.

### *Decision*

32. We will proceed with our proposed changes with amendment to the process which requires GDNs to provide us with information of the high value projects prior to their

internal sign-off of the VCMA Project. The new process will require GDNs to provide Ofgem with information of the VCMA Projects that exceeds the £1m threshold at least 30 working days before their internal sign-off, and Ofgem will pose questions where applicable 15 working days after receiving the information. GDNs will then have 5 working days to respond to the questions where applicable.

#### *Rationale*

33. We encourage GDNs to engage with us to ensure that the VCMA is used in the best interests of consumers. We understand that GDNs would like a formalised timeline to receive feedback from us about their high value projects. Hence, we will include a response stage from Ofgem in the new process that requires GDNs to provide us with information of the high value projects prior to their internal sign-off stage. This formalises the engagement process for high value projects which exceed the £1m threshold.
34. It should, however, be noted that it remains the responsibility of the GDNs to ensure that a VCMA Project is at all times compliant with all the requirements as stated in the VCMA Governance Document. To protect consumers, it remains the case that Ofgem reserves 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 VCMA Governance Document.

#### **Q4: 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"?**

##### *Our consultation position*

35. We 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, we consider that it is sensible for it to remain an option.

##### *Consultation responses*

36. Stakeholders agreed on holding the annual showcase event online as beneficial, as it removed the travel burden for some and in turn encouraged a greater level of attendance and engagement. An online event also helps keep the event costs down.

37. Citizens Advice stated that Ofgem should consider whether the showcase event offers the best chance of scrutinising what and how GDNs spend on projects.
38. Co-Gas Safety stated that a showcase event held online was not ideal, adding that there should be a live event at some stage, at least every other year. Co-Gas Safety would like to be given the opportunity to hear the experiences of survivors/victims and families with the GDNs at an in-person event.

#### *Decision*

39. We have decided to change the VCMA Guidance to permit the annual showcase event to be held online.

#### *Rationale*

40. Ofgem agrees with the majority of the stakeholders that there are benefits in having the annual showcase event as an online event. We believe that this makes attendance more convenient which in turn will encourage attendance and engagement from stakeholders. For the avoidance of doubt, a live event remains an option. GDNs should consult with their stakeholders on the agenda, format, and arrangements to ensure that the annual showcase event will best serve its purposes.
41. Some GDNs hold their own local events to meet with partner organisations on a regular basis to offer in-person interactions. We encourage all GDNs to consider organising local events that meet the specific interests and needs of their stakeholders.
42. We will continue to evaluate the effectiveness of the annual showcase events to ensure that they serve their purposes.

#### **Other feedback and comments on the VCMA Governance Document**

43. Some stakeholders also commented on other proposed changes and element of the VCMA Governance Document.

#### *Application of Energy Company Obligation (ECO4) eligibility criteria to assess affordability*

44. NEA asked Ofgem to provide clarification on how the ECO4 Eligibility Requirements Form should be used.
45. All four GDNs suggested that the amended VCMA Governance Document should permit the GDNs to tailor the form used to assess affordability based on the criteria set out in the ECO4 Eligibility Requirements Form, so that the form aligns to the scope of the VCMA and captures relevant information only.
46. Ofgem notes the concerns expressed by stakeholders that our proposed changes did not make clear how in practice the ECO4 Eligibility Requirements Form should be used for the purpose of assessing affordability related to VCMA Projects. We also note that the



ECO4 Form in Appendix 1 did not capture all the information intended as only part of the form was attached to it.

47. We have now clarified in changes to the VCMA Governance Document that it is the eligible criteria in the ECO4 Guidance: Delivery<sup>5</sup> document that we want GDNs and their project partners to base their assessment of affordability on. To facilitate an affordability assessment by the GDNs and their partners, we accept the suggestion from GDNs to allow GDNs to work together to create their own proforma based on the criteria as set out in the ECO4 Guidance: Delivery document in a format more applicable to the VCMA.

#### *Discretion in accessing eligibility by partner organisations*

48. A couple of comments were related to the ECO4 Flex<sup>6</sup> principles. Some stakeholders commented that the proposed eligibility criteria (the use of ECO4 eligible criteria to assess a vulnerable customer's ability to afford essential gas appliance and unsafe pipework repairs, replacements, and servicing) may at times be too restrictive. They suggested amendments to give VCMA partner organisations discretion in assessing eligibility, taking on the principles of ECO4 Flex such as including households on a low income, or comprising people living with severe or long-term ill-health as a stand-alone eligibility criterion, as opposed to a package of criteria that must all be met.

49. There are differences between the aims of VCMA and ECO4 schemes. The VCMA Governance Document sets out eligibility criteria to ensure the VCMA is used in the best interests of consumers. While we consider the core ECO4 eligibility requirements are suitable to be applied in assessing VCMA Project eligibility, any move to permit the exercise of discretion will need to be further considered carefully with supporting evidence to ensure it is designed to uphold the interests of consumers. We decided not to allow discretion in respect of the principles of ECO4 Flex routes in our proposed changes, but we will continue to monitor the operation of the VCMA and engage with GDNs and their partner organisations to review if further changes to eligibility criteria to include discretion is justified.

#### *Project registration process*

50. Cadent shared their view on one of the fields in the PEA form, namely "Remaining Amount in the Allowance at Time of Registration", stating that it could become unmanageable due to the increasing number of VCMA Projects. Cadent asked Ofgem to consider an alternative requirement of a six-monthly summary which would not be

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<sup>5</sup> <https://www.ofgem.gov.uk/publications/energy-company-obligation-eco4-guidance-delivery>

<sup>6</sup> <https://www.ofgem.gov.uk/publications/great-british-insulation-scheme-and-eco4-local-authority-administration-guidance>

subject to the Regulatory Reporting Pack (RRP) Data Assurance Guidance (DAG) process.

51. We included in the proposed changes to remove the requirement for reporting the remaining amount in the GDN's allowance at the time of project registration and move to a quarterly reporting requirement instead. We can confirm that the quarterly reporting requirement will not be subject to the RRP DAG process. We consider that a quarterly reporting requirement achieves a better balance in providing visibility to Ofgem on GDNs' progress and keeping the administrative burden on GDNs to a minimum than a six-monthly reporting requirement.

#### *VCMA strategy*

52. Citizens Advice added that in the absence of a mandated minimum proportion of spending allocated to help customers in fuel poverty, Ofgem should use the GDNs' annual draft strategies as an opportunity to assess the proposed breakdown of spending on different themes and prompt GDNs to reallocate funding where appropriate.
53. We continue to engage regularly with the GDNs to ensure that their VCMA strategies are up-to-date and reflect the challenges faced by vulnerable consumers.

#### *Cost of VCMA*

54. Zero Technology Solar Ltd. commented on the impact on bills related to our proposed changes. However, such comment refers to the consultation on licence modification opened in April, and it was about increasing the VCMA by re-purposing unspent FPNES allowance. The relevant decision<sup>7</sup> was published on 5 June 2023.

#### *Other information*

55. Cadent added that the inclusion of a table within the VCMA Governance Document to outline company specific VCMA funding allocations would be beneficial to stakeholders.
56. The VCMA Licence Conditions ring-fence 25% of the VCMA for what are termed Collaborative VCMA Projects but offer flexibility that allows GDNs to spend a higher proportion of their funding to Collaborative VCMA Projects as they see fit. We do not consider the inclusion of a table to outline company specific VCMA funding allocations would be beneficial, as it may do the opposite to confuse and undermine the flexibility allowed by the Licence.

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<sup>7</sup> <https://www.ofgem.gov.uk/publications/decision-modifications-price-control-financial-instruments-and-licence-conditions-gas-transmission-gas-distribution-and-electricity-transmission>

**Decision**

57. After reviewing all the feedback, we have decided to go forward with the changes proposed with a number of amendments as explained above in this decision letter. The changes to the VCMA Governance Document will widen the eligibility criteria, improve details and transparency in GDNs' reporting and strategies and ensure an appropriate level of governance to reflect the additional allowance available.

Yours sincerely,

**Kevin Tse**

**Head of Price Control Monitoring and Response**

**For and on behalf of the Authority**