



## **National Energy Action (NEA) response to Ofgem's RIIO-3 SSMC – GD Annex**

### **About National Energy Action (NEA)**

National Energy Action<sup>1</sup> works across England, Wales, and Northern Ireland to ensure that everyone in the UK<sup>2</sup> can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

### **Background to this response**

NEA partners with each of the four GDNs to deliver social action cost-effectively and support the alleviation of fuel poverty. Throughout RIIO-GD2, NEA has worked with Ofgem and the network companies to embed good practice regarding vulnerability into each business. NEA representatives currently sit on the Independent Stakeholder Groups (formerly CEGs) of Cadent, SGN and Wales and West Utilities. NEA also has a close relationship with Northern Gas Networks.

In addition to this advisory work, NEA has successfully campaigned for a strengthened regulatory environment to help GDNs better help their customers, including:

- The introduction of a new principles-based licence condition mirroring the requirement for energy suppliers to 'treat customers fairly'.
- Increasing the total sum of the Vulnerability and Carbon Monoxide Allowance (VCMA) use it or lose it pot ahead of RIIO GD2 starting, reflecting the increased need in the sector that resulted due to the COVID-19 pandemic.
- Repurposing the funding that was previously made available for FPNES into the VCMA pot, as few connections could be delivered, but the need for support remained.
- Ensuring that GDN's NIA funding must be partly targeted towards addressing vulnerability.

Furthermore, NEA works with GDNs to deliver projects that are funded by the Vulnerability and Carbon Monoxide Allowance, including:

- Our new 'Warm Homes, Healthy Futures' programme of work across each network, that looks to embed fuel poverty services into frontline healthcare provision.
- Our 'One Number' partnership with Cadent and NGN to triage, customers referred by gas engineers into advice (including income maximisation, energy advice and gas appliance servicing).
- Our 'Warm and Safe Homes' service, which is co-financed by the collaborative element of the VCMA (Cadent and SGN), providing reactive and proactive services that respond to the clients' needs as they actively seek help, and to proactively seek out the most vulnerable households who require support.

### **Our response to this consultation**

NEA broadly supports the proposal to give GDNs a similar regulatory framework to the current RIIO GD2 price control. Our response focuses on the small changes that could be made to the proposal in order to strengthen action to address vulnerability into the next regulatory period. We make the case that:

- A use it or lose it allowance is preferable to an ODI-F when seeking best outcomes for vulnerable customers
- There is peril in significantly reducing the funding available for GDNs to address consumer vulnerability

- There is merit in increasing the proposed VCMA pot into RIIO GD3

Each of these are considered in turn below.

### **A use it or lose it allowance is preferable to an ODI-F when seeking best outcomes for vulnerable customers**

Within RIIO 2, Ofgem has set different regulatory frameworks for both GDNs and DNOs when it comes to addressing consumer vulnerability. GDNs have been given a use it or lose it allowance through the Vulnerability and Carbon Monoxide Allowance (VCMA), while DNOs have been given an ODI-F for their work on vulnerability. This provides a useful comparison as to which method is best suited to ensure that network companies take appropriate action to help vulnerable consumers in their area.

The VCMA originally totalled £60 million, and was latterly significantly increased as a result of the repurposing of the funding that was originally made available for the Fuel Poor Network Extension Scheme (FPNES). It is complemented by what amounts to a reputational incentive, with several public facing requirements:

- To report annually on work done through the VCMA.
- For prospective VCMA projects to be submitted to Ofgem in a transparent manner that can be seen by stakeholders.
- To hold an annual VCMA showcase event where stakeholders can see what projects have been undertaken and pose questions to GDNs and their partners.

Additionally, Ofgem required that one quarter of the available funding be used collaboratively. This has resulted in two positive impacts:

1. That the GDNs have set up a forum between themselves and consumer groups to discuss the VCMA collaboration strategy, and approve potential projects.
2. That GDNs tend not to compete with each other on vulnerability, but are incentivised to work together to solve issues. This is an important factor that avoids creating a postcode lottery.

The ODI-F available to DNOs works very differently. It provides +/- 0.5% of base revenue, alongside a vulnerability baseline to provide an incentive for networks to invest in addressing vulnerability. This means that DNOs could access significantly more additional revenue for vulnerability services compared to GDNs. While NEA originally supported this approach in the RIIO ED2 SSMC, it has become clear to us that the risk that such an incentive introduces through a potential penalty, as well as the existence of a vulnerability baseline, has led to less ambitious vulnerability strategies from the DNOs when compared to the GDNs.

Additionally, such an incentive structure also implies competition between DNOs. While the incentive does not explicitly state that DNOs are ranked against each other to access the incentive, it could be perceived that Ofgem would not want to provide each DNO with the full incentive. This risks DNOs being more siloed in their approach to vulnerability. Indeed, we have seen a step change in how GDNs work together over the period, but this has not been reflected on the DNO side.

Overall, NEA believes that a continuation of the VCMA approach would have significant benefits for low income and vulnerable households, and NEA encourages Ofgem to maintain this approach for GDNs, and consider adopting it for DNOs in RIIO ED3.

### **There is peril in significantly reducing the funding available for GDNs to address consumer vulnerability**

Alongside the regulatory methodology for providing funding for vulnerability work (i.e. use it or lose it, or an ODI-F), an important consideration is the quantum of revenue available for GDNs to spend in this area. This quantum is important, not only for the households that will ultimately receive support, but also for the partners that GDNs work with through the funding.

VCMA provides significant funding for activities such as energy advice and income advice. It also provides some funding for fuel vouchers to help households avoid self-disconnections. There are limited other sources of funding for these activities. The main other contributor to funding is the Warm Home Discount Industry Initiative scheme. The legislation that underpins the Warm Home Discount sunsets at the end of March 2026, coinciding with the current end of the VCMA. This means that there is a significant cliff edge of funding currently for energy advice, with significant potential for the advice sector to contract unless some certainty over funding sources is given. Industry Initiatives is likely to provide £71 million in funding for advice and similar activities in 2025/26.<sup>3</sup>

An additional consideration is the impact that the repurposing of the Fuel Poverty Network Extension Scheme has had on the sector. The additional £100 million into the VCMA was extremely welcome. This has allowed organisations such as NEA to be much more ambitious with our partnerships with GDNs. Such an injection of funding has led to two positive outcomes:

- More ambitious projects such as NEA's own 'Warm Homes, Healthy Futures' programme, which are much larger in scope than previous uses of the VCMA. In terms of scale, while projects before the reallocation were more likely to have a value of £100,000s, many new projects total millions of pounds, and could even breach £10 million.
- Many more partnerships with smaller organisations as GDNs are able to extend their partnership working.

The impending cliff edge in funding presents a risk to both types of partnerships. Crucial work that is currently receiving significant funding may need to stop, and new partnerships may end. The impact of this cliff edge must be a key consideration for Ofgem in its decision on the quantum of VCMA funding.

### **There is merit in increasing the proposed VCMA pot into RIIO GD3**

The current funding level for the VCMA pot in RIIO GD3 sits at ~£60 million per year for the fourth and fifth years of GD2. The demand for the services that the VCMA funds has never been higher. Debt in the energy sector is at an all time high, and while the trajectory of energy prices has recently thankfully seen a downwards trend, it is still expected that prices will remain relatively high, by historical levels, for the rest of the decade and likely throughout RIIO GD3. Prices also remain volatile, and with ongoing international conflicts, there is high potential for further price spikes this decade.

Sustained increase prices have negative impacts on vulnerable consumers. They lead to rationing and debt. Our latest polling<sup>4</sup> found that three in 10 (30%) say their household has found it difficult to afford to pay their energy bills in the past three months. This has driven many to drastic 'not' coping strategies. In the last three months:

- 59% of British adults had turned their thermostat down lower than they wanted.
- 52% turned their heating off, even though it was cold inside the house.
- 49% had gone to bed early to stay warm.
- 45% had only heated one room in the house.
- 28% had left the curtains closed all day or covered the windows in newspaper.
- 22% had left the house to avoid putting the heating on.
- 6% had even foraged locally for wood or other fuel.

This significant affordability challenge has an impact on both the physical and mental wellbeing of households. Cold homes raise blood pressure, which can increase the risk of a heart attack. In addition, cold air restricts the airways, suppresses immune response and exacerbates damp and mould, which in turn increase the risk of developing winter infections, and respiratory problems. Arthritis, grip strength and sickle cell anaemia can all be made worse by living in cold conditions and a reduction in dexterity leads to an increased risk of falls in the home. Children's lung function and brain development can be negatively impacted by living in a cold home, resulting in impaired cognitive development. 28% of young people are likely to be at risk of multiple mental health symptoms due to living in a cold home, compared to 4% of children living in adequate warmth.<sup>5</sup>

Mental health is also impacted. Becoming unable to heat a home doubles the risk of adults developing new mental health conditions and triples the risk of these getting more severe if people already had mild mental health conditions. Those that are able to choose increased debt over a cold home face similar mental health consequences.<sup>6</sup> Half (46%) of people in problem debt also have a mental health problem.

The work done by VCMA projects ultimately alleviates these pressures on the mental and physical wellbeing of households.<sup>7</sup>

Additionally, the energy advice offered as part of VCMA partnerships goes beyond affordability, and can include guidance on energy efficiency. This is crucial to ensure a fair and affordable transition to net zero, a key topic that will gain more salience throughout the RIIO GD3 period. The Fuel Poverty Target<sup>8</sup>, for all low income households in England to reach EPC C by the end of 2030, falls within the period, and so efforts to insulate low income homes will escalate. The demand for VCMA type services is therefore likely to increase, with little funding elsewhere to support such work.

The SSMC proposes that the level of funding for VCMA is reduced to £60 million for the period, or £12 million per year throughout the course of the period. This would represent an 80% reduction in available funding year on year. This, coupled with a potential cliff edge created by the current sunset of Warm Home Discount regulation, presents a significant challenge to partner organisations delivering VCMA work. But it would also likely lead to much less help getting to households, at a period where demand is likely to at least be maintained.

NEA believes there is merit in a VMCA budget that goes beyond the proposal in the SSMC. With FPNES no longer continuing, evidence seen by NEA as part of our work on ISGs suggest that there remains an appetite from GDN's customer bases to support their most vulnerable customers, and the VCMA scheme remains an effective way to do so.

While NEA understands that Ofgem cannot increase the annual VCMA funding up to the levels seen at the end of the RIIO GD2 period, we believe that there is a middle ground that ensures cost effectiveness while ensuring adequate support for low income and vulnerable households. **NEA therefore recommends that Ofgem doubles its proposed funding to an overall £120 million pot.** This would still mean an average of £24 million per year, which is still a reduction of 60% from current levels. However, it would provide much needed funding, and help the GDNs to continue to fund more ambitious programmes, as well as continue, and embed, a broader set of partnerships.

## **Our response to the consultation questions**

### **GDQ31 What are your views on our proposal to retain the use of the VCMA UIOLI allowance, on the alternative option to incentivise vulnerability through an ODI-F, and on which activities to support vulnerability could be funded through baseline allowances?**

Within RIIO 2, Ofgem has set different regulatory frameworks for both GDNs and DNOs when it comes to addressing consumer vulnerability. GDNs have been given a use it or lose it allowance through the Vulnerability and Carbon Monoxide Allowance (VCMA), while DNOs have been given an ODI-F for their work on vulnerability. This provides a useful comparison as to which method is best suited to ensure that network companies take appropriate action to help vulnerable consumers in their area.

The VCMA originally totalled £60 million, and was latterly significantly increased as a result of the repurposing of the funding that was originally made available for the Fuel Poor Network Extension Scheme (FPNES). It is complemented by what amounts to a reputational incentive, with several public facing requirements:

- To report annually on work done through the VCMA
- For prospective VCMA projects to be submitted to Ofgem in a transparent manner that can be seen by stakeholders.
- To hold an annual VCMA showcase event where stakeholders can see what projects have been undertaken and pose questions to GDNs and their partners.

Additionally, Ofgem required that one-quarter of the available funding be used collaboratively. This has resulted in two positive impacts:

1. That the GDNs have set up a forum between themselves and consumer groups to discuss the VCMA collaboration strategy, and approve potential projects.
2. That GDNs tend not to compete with each other on vulnerability, but are incentivised to work together to solve issues. This is an important factor that avoids creating a postcode lottery.

The ODI-F available to DNOs works very differently. It provides +/- 0.5% of base revenue, alongside a vulnerability baseline to provide an incentive for networks to invest in addressing vulnerability. This means that DNOs could access significantly more additional revenue for vulnerability services compared to GDNs. While NEA originally supported this approach in the RIIO ED2 SSMC, it has become clear to us that the risk that such an incentive introduces through a potential penalty, as well as the existence of a vulnerability baseline, has led to less ambitious vulnerability strategies from the DNOs when compared to the GDNs.

Additionally, such an incentive structure also implies competition between DNOs. While the incentive does not explicitly state that DNOs are ranked against each other to access the incentive, it could be perceived that Ofgem would not want to provide each DNO with the full incentive. This risks DNOs being more siloed in their approach to vulnerability. Indeed, we have seen a step change in how GDNs work together over the period, but this has not been reflected on the DNO side.

Overall, NEA believes that a continuation of the VCMA approach would have significant benefits for low income and vulnerable households, and NEA encourages Ofgem to maintain this approach for GDNs, and consider adopting it for DNOs in RIIO ED3.

NEA would support activities that GDNs have shown they have embedded into their business as being included in a vulnerability baseline, to ensure that VCMA funding is used to support new activities and partnerships.

### **GDQ32 At what level should VCMA funding be set to ensure its effectiveness and sustainability, and what percentage should be ringfenced for collaborative projects?**

The current funding level for the VCMA pot in RIIO GD3 sits at ~£60 million per year for the fourth and fifth years of GD2. The demand for the services that the VCMA funds has never been higher. Debt in the energy sector is at an all-time high, and while the trajectory of energy prices has recently thankfully seen a

downwards trend, it is still expected that prices will remain relatively high, by historical levels, for the rest of the decade and likely throughout RIIO GD3. Prices also remain volatile, and with ongoing international conflicts, there is high potential for further price spikes this decade.

Additionally, the energy advice offered as part of VCMA partnerships goes beyond affordability and can include guidance on energy efficiency. This is crucial to ensure a fair and affordable transition to net zero, a key topic that will gain more salience throughout the RIIO GD3 period. The fuel poverty target, for all low income households in England to reach EPC C by the end of 2030, falls within the period, and so efforts to insulate low income homes will escalate. The demand for VCMA type services is therefore likely to increase, with little funding elsewhere to support such work.

The SSMC proposes that the level of funding for VCMA is reduced to £60 million for the period, or £12 million per year throughout the course of the period. This would represent an 80% reduction in available funding year on year. This, coupled with a potential cliff edge created by the current sunset of Warm Home Discount regulation, presents a significant challenge to partner organisations delivering VCMA work. But it would also likely lead to much less help getting to households, at a period where demand is likely to at least be maintained.

NEA believes there is merit in a VCMA budget that goes beyond the proposal in the SSMC. With FPNES no longer continuing, evidence seen by NEA as part of our work on ISGs suggest that there remains an appetite from GDNs' customer bases to support their most vulnerable customers, and the VCMA scheme remains an effective way to do so.

While NEA understands that Ofgem cannot increase the annual VCMA funding up to the levels seen at the end of the RIIO GD2 period, we believe that there is a middle ground that ensures cost effectiveness while ensuring adequate support for low income and vulnerable households. **NEA therefore recommends that Ofgem doubles its proposed funding to an overall £120 million pot.** This would still mean an average of £24 million per year, a reduction of 60%. However, it would provide much needed funding, and help the GDNs to continue to fund more ambitious programmes, as well as continue, and embed, a broader set of partnerships.

NEA believes the current 25% ringfence for collaboration is an important aspect of the VCMA to facilitate the GDNs working together more broadly on addressing vulnerability. We therefore propose that Ofgem maintains the collaboration minimum at this level.

### **GDQ33 How should VCMA funding be allocated to ensure maximum impact for consumers in vulnerable situations?**

NEA believes that the VCMA is currently working well, and that there should not be an effort to make wholesale changes to the ways that it is allocated. In each area, the need for support far outstrips the funding available.

We do, however, understand the concerns that the areas with most need do not necessarily receive funding proportionate to that need. On the other hand, we are unsure about whether those communities would have a higher willingness to pay for greater levels of service.

NEA does not have a strong view on the decision, but urges Ofgem to take a full distributional analysis on whichever option it prefers, and to consult widely, if it decides that change is needed.

Over and above allocation, NEA believes there is merit in rethinking how VCMA is able to be spent. In particular, we urge Ofgem to rethink the rules that do not allow the money to be used to repair and replace broken boiler systems, or to increase the energy efficiency of homes. This should be a consideration for Ofgem given their new net zero remit.

### **GDQ34 How can learnings from VCMA projects better inform the GDNs' organisational approaches to consumer vulnerability?**

NEA agrees with Ofgem that there is potential to better integrate learnings from VCMA partnerships into approaches to consumer vulnerability. We believe that the baseline allowance approach we articulate in our answer to GDQ31 would provide some incentive to do this.

Additionally, engagement is needed between the sector and partners to discuss learnings and what can be integrated into the core businesses of GDNs. NEA would happily work with Ofgem and the GDNs to facilitate such engagement in the form of a workshop, if this is seen as useful.

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## References and Notes

<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

<sup>2</sup> NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

<sup>3</sup> [https://assets.publishing.service.gov.uk/media/6246b816d3bf7f32b11f1f7b/Warm\\_Home\\_Discount\\_reform\\_final\\_stage\\_Impact\\_Assessment.pdf](https://assets.publishing.service.gov.uk/media/6246b816d3bf7f32b11f1f7b/Warm_Home_Discount_reform_final_stage_Impact_Assessment.pdf)

<sup>4</sup> <https://www.nea.org.uk/news/fuel-poverty-england-2024/>

<sup>5</sup> <https://www.instituteofhealthequity.org/resources-reports/left-out-in-the-cold-the-hidden-impact-of-cold-homes>

<sup>6</sup> <https://www.instituteofhealthequity.org/resources-reports/left-out-in-the-cold-the-hidden-impact-of-cold-homes>

<sup>7</sup> <https://www.moneyandmentalhealth.org/money-and-mental-health-facts/>

<sup>8</sup> <https://www.legislation.gov.uk/uksi/2014/3220/made>