

Gas Distribution and stakeholders

Email: vcma@ofgem.gov.uk

Date: 11 November 2024

Dear stakeholders,

Consultation on a proposal to update the Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document

We implemented a VCMA use-it-or-lose-it allowance (UIOLI) within RIIO-GD2 as part of our continued focus on vulnerable consumers. We are now consulting on the proposed changes to the VCMA Governance Document.

The VCMA provides UIOLI funding for Gas Distribution Networks (GDNs) to spend on VCMA Projects focused on vulnerability and carbon monoxide safety initiatives that go beyond activities that are funded through other price control mechanisms or that are required through licence obligations. The VCMA allowance was set at £60m at the time of RIIO-2 Final Determinations ([RIIO-2 Final Determinations](#)). This amount was increased to £171m due to the decision to re-purpose unspent Fuel Poor Network Extension scheme funds to the VCMA which took effect on 31 July 2023 ([Decision to update RIIO-2 Gas Network VCMA Governance Document](#)).

The VCMA Governance Document is established by Special Condition 5.4 of the gas transportation licence and sets out the regulation, administration, and governance of the VCMA. We are proposing changes to the VCMA Governance Document to:

- Widen the eligibility criteria for VCMA projects for the servicing, repair and replacement of essential gas appliances.

Our decision on whether to implement these proposals will be informed by the responses to the consultation.

Proposed changes to widen eligibility criteria for VCMA projects for the servicing, repair and replacement of essential gas appliances.

We made a change to the VCMA Governance Document in 2023 that established an affordability criteria for these specific projects, linking them to the Energy Company Obligation 4 (ECO4) affordability criterion. ECO is a government energy efficiency scheme in Great Britain designed to tackle fuel poverty and help reduce carbon emissions.

The unintended consequence of this was that it created a gap in funding that vulnerable consumers could fall into. This gap meant that consumers that should have been, but were not for whatever reason, on any means-tested benefits, lost out on potential support. Since the 2023 update to the VCMA Governance Document, the GDNs are now unable to act quickly enough, if at all, in the interests of these vulnerable consumers. The effect of this is a significant drop in the number of repairs and replacements of essential gas appliances that GDNs could offer since the change to the governance document.

We believe this unintended effect is not in the interests of vulnerable consumers. The intent of including these projects under the umbrella of the VCMA is that we believe the GDNs are well placed in their role during emergency callouts to reach vulnerable consumers. We believe it is important for the GDNs to be able to act quickly, with flexibility and the ability to respond appropriately to these high-risk cases and we do not believe the current version of the VCMA Governance Document enables this adequately. We therefore propose a change in the Governance Document to address this.

We do not foresee a significant risk of this widened scope from drawing funds away from other VCMA projects. Firstly, these projects represent a very low percentage of GDNs' total VCMA spend meaning their ability to draw funds away from other projects is low. Secondly, we do not ringfence a percentage of VCMA allowance to be spent on specific types of projects beyond collaborative projects between GDNs. We are simply enabling the GDNs with the current funding to act quickly to respond to the needs of vulnerable consumers GDNs contact as part of their role in emergency callouts.

Our proposed changes to the VCMA Governance Document focus on widening the eligibility criteria to support more vulnerable consumers, whilst adhering to the GDNs' role in addressing vulnerability as set out in the RIIIO-2 Sector Specific Methodology Decision that

it should be related to their existing areas of competence, activity and consumer interaction.

If implemented, the changes will allow for more vulnerable consumers to benefit from essential gas appliance servicing, repair and replacement projects to essential gas appliances, allowing the GDNs to act faster in supporting customers.

GDNs are already required to provide us with details of the expenditure incurred in respect of any VCMA Project, on a quarterly basis. We propose that this is extended to include servicing, repair and replacement of essential gas appliances if our proposed changes are implemented.

To protect consumers, it remains the case that the Authority 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 Governance Document. VCMA funding will also be automatically returned to consumers at the end of the price control if GDNs do not use it.

Timing of an updated VCMA Governance Document

We will publish our decision on the proposed changes in early 2025. If implemented, the updated VCMA Governance Document will come into effect immediately following our decision.

Consultation

We have published a draft VCMA Governance Document with all proposed changes incorporated in tracked changes alongside this letter.

1. Do you agree with the proposed amendments to the VCMA eligibility criteria to allow an expanded scope for essential gas appliance servicing, repair and replacement eligibility?

Next steps

Stakeholders are invited to respond to this consultation no later than 9 December 2024.

All responses and any questions related 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 responders 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 early 2025 (alongside any non-confidential responses to this consultation).

Yours sincerely,

David McCrone

Head of Price Control Operations Policy

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