



Gas Distribution Price Control Comments from NEA

National Energy Action (NEA) is a charity working to ensure that low-income households have access to sufficient warmth for health and comfort at an affordable cost. NEA develops and promotes energy efficiency policy and practical initiatives to tackle the heating and insulation problems of low-income families and individuals

NEA welcomes the opportunity to comment specifically on the section of this document that deals with network extensions to non-gas communities since, notwithstanding recent price increases, the provision of gas fired central heating can make a major contribution to the elimination of fuel poverty.

The Government's Fuel Poverty Strategy, published in November 2001, estimated that around 20% of households in Britain did not have a gas supply. Of these 4.5 million households it was suggested that around 1.3 million were in fuel poverty. The Government established a working group that year which concluded that there was a case for extending the gas network to some communities where this was 'cost effective', but that further work was needed to test whether this would help to address fuel poverty. Nonetheless the evidence that gas heating reduces the incidence of fuel poverty is persuasive. In 2004 only 13% of households in England did not use gas but they accounted for almost a third of fuel poor households. However, the Government also recognised that where network extension was uneconomic it was important to develop pilot projects using renewables and other technologies to test whether they also had a role to play in tackling fuel poverty in non-gas network areas.

Regrettably, there has subsequently been only limited action to exploit either possibility. NEA therefore welcomes the recognition by Ofgem that it is necessary to intervene to prompt further action on the part of the gas supply industry.

We are somewhat surprised that Ofgem has made only passing reference in this consultation to the work of the DTI's Design and Demonstration Unit (DDU). A footnote acknowledges its estimate that there are around 4,600 clusters of communities with 50 homes or more within 2km of the existing gas network but not connected to it. However the DDU has other valuable expertise to share. It estimated that over 100,000 households were in fuel poverty within these clusters (now likely to be in the region of 200,000 following energy price rises). It has also indicated that it would cost around £850 per home to connect, based on 75% take-up and has developed considerable experience of coordinating different schemes and assembling funding packages to allow network extensions to take place.

As the consultation document observes the key issue in persuading households to switch to gas is the up front cost of doing so. The evident reluctance of consumers to finance fuel switching by accepting higher charges for a 20 year period is unsurprising given that they will also, in most circumstances, face substantial costs to install boilers, radiators and pipework. For fuel poor households not eligible for schemes which can meet or contribute to these costs,

which Warm Zone data suggests could be as many as 30%, take up is likely to be very limited. Even middle-income households are likely to be deterred. Although in theory EEC funds could be used to support fuel switching NEA is not aware of any evidence about the extent to which this occurs.

For low-income households who meet the eligibility criteria for Warm Front or equivalent schemes in Wales and Scotland, these costs can be met through these Government funded schemes. We note also that Warm Front will pay for the cost of a gas connection in properties less than 23 metres from a gas main, although here too we are not aware of any evidence about the extent to which this occurs or the practical consequences, such as the proportion of the maximum grant this would account for.

NEA endorses Ofgem's view that better targeting and coordination of the funding available via these various programmes is necessary, although we contest the suggestion that this would eliminate the need for any further regulatory intervention to promote network extension. It has long been NEA's view that the current funding and delivery arrangements for energy efficiency programmes are too complex and that resources from these programmes should be pooled to improve targeting and delivery. We particularly welcomed Ofgem's support for this position in its response to the Government's Energy Review. That said, we believe that Ofgem should be more explicit about the arrangements for coordination between any incentives for network extension and energy efficiency schemes. It is our assumption that any infill scheme will include a package of insulation improvements as a matter of course, or even that connection to gas will be dependent on accepting such a package.

As regards the options identified by Ofgem to incentivise network extension NEA is not in a position to comment in detail. We would welcome the additional analysis of costs and benefits which we assume will follow in the Regulatory Impact Assessment which Ofgem will undertake. We share concerns about the possible impact of any adjustments to price controls which increase charges to low-income consumers, particularly at this time of rapidly increasing prices. However we set this alongside the evidence that providing gas (and energy efficiency improvements) to communities close to the existing network is an effective solution to fuel poverty and a safeguard against it for the future.

We are sceptical that arrangements which invite new consumers to meet the costs of connection will be effective and in the case of low-income consumers that this is an equitable approach. We note that the majority of existing gas consumers have not had to pay a connection charge to enjoy the benefits of the most cost effective method of home heating and believe that it is appropriate that they should support new consumers who aspire to do so where necessary. Whatever arrangements are put in place we repeat our earlier observation that any scheme should be simple but comprehensive, to maximise take up by, and benefits to, householders and to minimise administration and transaction costs.

Finally, on a more general note, NEA raised some concerns when ownership of the national gas distribution network was first privatised then broken up. National Grid raised £6 billion from the most recent sale, which was either re-invested into other parts of its business or given to shareholders. It would be appropriate if the sale of a national asset was to fund network extensions to new customers, as well as providing the £125 million of benefits over the following 18 years which Ofgem maintained at that time would accrue to existing customers.