

# Gas distribution price control review: third consultation

response to Ofgem consultation 203/06 by the National Consumer Council

# 1. Introduction

The National Consumer Council (NCC) uses its insight into consumer needs to advocate change, working with public service providers, businesses, regulators and Government. NCC conducts rigorous research and policy analysis to investigate key consumer issues, and uses the results to influence organisations and people that make change happen. NCC receives the bulk of its funding from the DTI.

NCC is committed to the principle of universal access for essential goods and services, including gas and electricity. This is defined as 'availability and continuous accessibility and affordability of goods and services at a specified minimum quality for all consumers'. In particular, NCC has a remit to promote the interests of disadvantaged consumers. These are people who - for example, because of low income, living in a deprived area, or a disability - are excluded from adequate provision of everyday essential goods and services or are obliged to pay more for them than better-off consumers.

NCC welcomes the opportunity to comment on Ofgem's Gas Distribution Price Control Review third consultation (203/06) particularly those aspects of it that relate to network extensions to non-gas communities. NCC's comments on the proposals should be seen as building on the comments submitted in response to Ofgem's second consultation (123a/06).

## 2. Network extensions to non-gas communities - the options

NCC believes that this is a unique opportunity for Ofgem to establish a robust, workable mechanism that will incentivise the extension of the gas network in a rational and consistent manner. NCC therefore welcomes the refined set of options set out in Ofgem's third consultation document.

In its previous response, NCC set out the reasons why domestic households connected to the gas network are in a much more favourable position than those that are not. Gas central heating offers environmental, social and economic advantages over other forms of heating. There are therefore equity questions over the size of the gas network, and many compelling reasons for extending it to adjacent communities where the benefits of doing so outweigh the costs, taking proper account of the full range of benefits.

Extending the network also has the potential to contribute to the Government's ability to meet its targets in relation to fuel poverty and CO2 emissions. In this respect, NCC welcomes Ofgem's increased emphasis on the potential environmental benefits in the third document which must be carefully evaluated alongside social and economic benefits.

### *Option 1*

In line with our previous response, NCC cannot accept Option 1 since we do not agree that the current situation is satisfactory. NCC strongly urges Option not to lose this opportunity to change the status quo.

### *Option 3(a)*

In relation to Option 3 (a), NCC does not consider that corporate social responsibility (CSR) is an adequate or appropriate basis for an incentive on GDNs to extend the network. On the contrary, CSR activities are generally short-term and designed to raise the profile of the company in question among potential investors. Extending the gas network is a much more long-term activity that will bring benefits to future consumers, not current or potential share-holders. NCC therefore does not favour Option 3 (a) as being a viable option.

### *Option 3 (b)*

NCC does not think that Option 3 (b) would, of itself, provide an adequate incentive for GDNs to carry out extensions to the gas distribution network, being more of a reporting tool. NCC can see that this Option could work alongside some of the other Options. However, NCC does not consider that Ofgem should use the number of 'fuel poor households' as the basis for its output measure, but rather the number of 'households in deprived communities', for example, for the following reasons.

A fuel poor household is transient, and the extent of fuel poverty depends on a number of factors coming together in each individual circumstance. Therefore the aim of energy efficiency measures, and fuel switching, is to make properties 'fuel poverty proof'. In this way, the aim would be to guarantee that whoever lives in the property will not be in fuel poverty, regardless of their other circumstances.

NCC recognises that the intent of the proposals is to increase the affordability of network extensions, and incentivise GDNs to make funds available for the co-ordination of other sources of funding that could assist with the additional in-home costs gas network extensions. However, in NCC's view, this co-ordination role does not have to be performed by a GDN. Rather GDNs could be 'contracted in' by other bodies such as local authorities, regional development agencies, suppliers or others.

### *Option 5*

In line with our previous response, NCC continues to favour Option 5. This Option would be simple to operate and effective, so long as the criteria for eligibility are well-constructed. This Option could be combined with Option 3 (b) to provide an increased incentive on GDNs actually to seek out opportunities for extending the network.

### *Option 6*

NCC can see that this Option does have some positive aspects to it, but in our view it would be more complicated for GDNs to administer than Option 5 with its impact harder to predict. For example, GDNs would need to understand what funding from Government programmes was available in advance in order to know how much infill customers would have to contribute. This level of co-ordination would require a high level of involvement which might deter GDNs from undertaking network extension programmes.

A further reason that NCC does not favour Option 6 is that it fails to allow for households that might want to connect to the network at a later date. Yet there will be many cases where a property will connect when it changes hands, or when major redecorating work was being undertaken. This should not be seen as a reason not to extend the network.

### *Impact Assessment*

NCC welcomes Ofgem's commitment to model the costs and benefits of its proposals accurately. We urge Ofgem to ensure that the estimate of social and environmental benefits takes account of the full range of outcomes. Similarly, in calculating the CCPIC, we urge Ofgem to take account of the predominant fuel used for space and water heating in the community in question and the best estimate of savings that would result. Finally, NCC points out that the proportion of social housing is not generally used as a proxy for fuel poverty, since fuel poverty is more prevalent in privately-owned and private-rented properties. The proportion of social housing might give some indication of the relative level of deprivation, however.