



*Campaigning for Warm Homes*

**OFGEM consultation on strategy for the next gas distribution price control -  
RIIO-GD1**

**Comments from National Energy Action (NEA)**

National Energy Action (NEA) is a national charity with a primary objective of eradicating fuel poverty. NEA recognises that fuel poverty results from a combination of low household incomes, unaffordable energy prices and poor standards of heating and insulation. Consequently NEA welcomes the opportunity to respond to this consultation and particularly to those elements with the potential to contribute to the provision of affordable warmth for disadvantaged household.

Current estimates indicate that there are more than 4 million fuel-poor households in England and 5.5 million fuel-poor households in the UK. NEA estimates that the incidence of rural fuel poverty has more than doubled since 2005 and is now in excess of 1 million households.

The causes of fuel poverty are generally common to both rural and urban areas – low incomes, high energy prices and energy inefficient housing. However, whilst both rural and urban households have been hit by rising energy prices, those off the mains gas network are often forced to rely on even more expensive fuels and, despite recent gas price rises, gas central heating remains one of the most economical methods of heating the home. Added to this, rural residents are more likely to live in older, larger dwellings which are very energy inefficient and therefore cost more to heat. 50% of homes in the most rural areas and 25% in village centres have an energy efficiency rating below SAP 30 compared to just 8% of homes in urban areas. A SAP rating below 35 is generally understood to represent a significant health hazard to the dwelling occupants under the Housing Health and Safety Rating System. These issues combined mean that more must be done to help those vulnerable householders who are off the gas network.

The UK Fuel Poverty Strategy, published in November 2001, commits the Government to ending fuel poverty for all households in England by 2016 and for all households in Wales by 2018. The next gas distribution price control review period (GDPCR) will last eight years (from April 1 2013 to March 31 2021) and covers both the 2016 and 2018 dates. NEA therefore welcomes many of the proposals that seek to enhance the role transmission companies and distribution network companies can play in addressing fuel poverty, both for those households on the gas network and those who currently are not.

NEA also believes this endeavour is particularly important given that the proposed scale of investment in this period will mean higher energy bills are “almost certain”<sup>1</sup>.

The current price control period has once again illustrated the challenges that transmission and distribution network companies often highlight when delivering energy services to areas of the country with low population density. Around 9 million people live in rural areas in England. Of these almost exactly half (4.8 million) live in countryside towns and reasonably dense domestic settlements, many in close proximity to existing gas infrastructure. NEA believes that opportunities to connect rural communities and other reasonably dense non-urban settlements are still being overlooked and that the upcoming GDPCR period must deliver far more for these households.

The existing proposals also allow GDNs to facilitate a non-gas solution for fuel-poor customers where this is achievable at a lower cost. NEA believes that low carbon technologies can provide communities and individual households with solutions to mitigate the impact of rising energy costs. NEA has carried out a range of research projects in this field has demonstrated that fuel-poor households can benefit from these approaches where conventional energy efficiency improvements, such as demand-side energy efficiency interventions are already utilised, or are inadequate or impracticable<sup>2</sup>. These technologies can also provide competitive energy services (heat and power or cooling) to off gas grid customers. The cost of these technologies can often be justified on economic grounds through greater fuel efficiency or through harnessing plentiful renewable sources of energy such as wind, waste streams, solar or heat from the ground or air.

NEA’s research demonstrates that it is important that these technologies are properly specified and installed and/or operated by professionally trained and accredited installers. In addition, appropriate advice and guidance must be provided to the householder in order that technologies are correctly operated and deliver optimal benefit. We would emphasise that whilst these technologies are particularly relevant to solid-walled and non-traditional construction properties, conventional energy efficiency improvements, such as demand-side energy efficiency interventions, should not be overlooked.

NEA comments in response to the consultation questions are limited to those with implications for consumers and/or wider social issues.

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<sup>1</sup> Consultation on strategy for the next gas distribution price control - RIIO-GD1 Overview paper, 17 December 2010.

<sup>2</sup> NEA would welcome working with OFGEM, transmission companies and distribution network companies in order to help them better understand the issues associated with the instillation of energy efficiency and/or non-gas solution in fuel poor households.

## **CHAPTER: Four**

***Question 1: Do you consider that the proposed outputs and associated incentive mechanisms, taken together with other element of the price control, will ensure that companies deliver value-for-money for consumers, and play their role in delivering a sustainable energy sector?***

NEA recognises that the costs associated with this new level of investment will be borne primarily by consumers. However, it is important to note that the RIIO-TI model marks a significant departure from previous price control models and it is harder to determine what the exact costs to consumers will be.

As noted above, NEA believes that opportunities to connect rural communities and other non-urban settlements are still being overlooked and would expect that the upcoming GDPCR period should deliver far more for disadvantaged households in these communities.

NEA also believes that low carbon technologies can provide communities and individual fuel-poor households with solutions to mitigate the impact of rising energy costs, but it is of crucial importance that these technologies are properly specified and installed and/or operated by professionally trained or accredited installers. In addition, appropriate training must be given to the householder to ensure the most efficient and economic operation of the equipment.

NEA is concerned that proposals to enhance the role transmission companies and distribution network companies can take in addressing fuel poverty are given lower priority in terms of outputs and associated incentive mechanisms than is the case with other elements. NEA would seek reassurance that fuel poverty objectives be given equivalent status with other objectives. NEA strongly believes that OFGEM should ensure that proposals to alleviate fuel poverty are placed at the heart of the criteria used to scrutinise the submission of business plans by network companies. Considerable weighting should also be given to innovation projects where fuel poverty reduction or elimination is achieved through conventional energy efficiency improvements, such as demand-side energy efficiency interventions.

***Question 3: Do you have any views on the proposed outputs or incentive mechanisms?***

As above.

## **CHAPTER: Five**

***Question 3: Do you have any views on the criteria for assessing business plans? Are any of the criteria highlighted inappropriate? Are there any additional criteria that should be added?***

As indicated above, NEA asks OFGEM to ensure that proposals to alleviate fuel poverty are placed at the heart of the criteria used to scrutinise the submission of business plans by network companies. This may be achieved by weighting fuel poverty in the measures used to assess whether a business plan is incorporated under the fast-track settlement/procedure.

## **CHAPTER: Seven**

### ***Question 1: Do you have any views on the role of innovation in RIIO-TI?***

NEA would ask that considerable weighting be given to innovation projects where fuel poverty partnerships are encouraged and developed. Because of their profound understanding of their local areas, their duty of care to residents and the fact that many are already engaged in affordable warmth strategies, it is essential that delivery should involve local authorities. An optimal framework would comprise a systematic bottom up "area-based" roll-out of energy efficiency measures involving both local authorities and their private commercial and/or voluntary partners. This approach could leverage funds and energy services expertise from network companies as well as utilities and local contractors. This could provide additional benefits through local employment opportunities and improved economic well-being of the community. This approach would need to be complemented by non-area specific programmes to make sure that consumers who are obviously in need, but outside the geographical area or narrow eligibility criteria, could receive support.

NEA also believes that within the gas distribution price control and the wider transmission price control there is a unique opportunity to incentivise a form of community-wide demand-side response. By aggregating community energy savings (demand and supply-side energy efficiency) it is possible to relieve stress on the gas and electricity distribution and transmission network(s). The practice of being rewarded for reducing demand in the energy intensive sectors is now well established. NEA would welcome the opportunity to discuss with OFGEM how community energy savings could be similarly rewarded and the feasibility of this approach within the context of the incentive stimulus.

### ***Question 2: Do you have any views on the time limited innovation stimulus?***

While it is understandable that this proposal has been included, if the innovation stimulus were to take the form of the potential community-wide demand-side response model, the timeframes required would be comparatively long. The time limited innovation stimulus should not work against this concept and should endeavour to front-load funding so that it can be accessed when the development risk of the project is at its highest point.