

**National Grid Gas Distribution**  
**Rationale for Revenue Drive for Fuel Poor Connections**  
**25 May 2012**

**Rationale**

It is currently not known what the outcome will be of the 2014 Ofgem review of non-gas solutions to fuel poor homes. However, networks have identified there are significant volumes of vulnerable customers at present who would be able to reduce their fuel costs by moving to highly efficient gas heating systems.

The output commitments that networks have proposed under the RIIO-GD1 framework, in essence caps the volumes of fuel poor connections that can be undertaken. There is potential that networks will be able to undertake additional fuel poor connections over and above their plan volumes to support Government's aspirations of reducing fuel poverty, particularly if other technologies are not available to reduce the energy costs to vulnerable customers, i.e. the cost of alternatives are greater than those obtained through highly efficient gas heating systems.

**Revenue Driver**

To address this issue, consideration could be given to a fuel poor connections revenue driver for any fuel poor connections above the networks' base plan.

The information required for the revenue driver would be the fuel poor unit cost allowance set at the current NPV of transportation revenues. In order to provide control over the additional amount of spend an overall cap could be agreed within the revenue driver.

Networks	RIIO-GD1 (£'000s 09/10 real)								RIIO-GD1 Cap (£m)
	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	
East of England	x	x	x	x	x	x	x	x	x
London	x	x	x	x	x	x	x	x	x
North West	x	x	x	x	x	x	x	x	x
West Midlands	x	x	x	x	x	x	x	x	x
									x

**Benefits**

Introducing a revenue driver in the licence would allow flexibility for Networks and Ofgem to ensure the fuel poor connection policy is effective over the RIIO-GD1 period. As part of our ongoing engagement we tested with our stakeholders whether they would be supportive of having flexibility over the number of fuel poor connections being delivered. We tested this upto a +20% flexibility. Stakeholders supported the flexibility for delivery of 20% more fuel poor connections being undertaken based on our agreed output commitment of 34,650 connections.

To reduce the burden of implementing changes to the licence, should it be required post the 2014 review; a revenue driver could be introduced now with a requirement for Ofgem to confirm its use following the 2014 review.

The approach is similar to other revenue drivers proposed in the licence drafting so could be incorporated into an existing licence to avoid duplication.

**Disbenefits**

As Ofgem would be required to enact the revenue driver following the 2014 review we have not identified any disbenefits with this proposal.