



Making a positive difference
for energy consumers

To: All those with an interest in
the Fuel Poor Network Extension
Scheme

Date: 14 August 2014

A chance to contribute to our review of the Fuel Poor Network Extension Scheme

1. Introduction

The Fuel Poor Network Extension Scheme (“Scheme”) enables customers that are suffering from fuel poverty to switch to natural gas by helping towards the cost of connecting to the gas network. Switching from sources such as electricity or oil to a cheaper fuel like natural gas can make a real difference to those in need.

The Scheme is delivered by the Gas Distribution Networks (GDNs). The Scheme was introduced in the last price control period (GDPCR, 2008–2013) during which the GDNs connected over 40,000 households. For the current price control (RIIO-GD1, 2013–2021), GDNs are expected to deliver a total of 77,000 new connections. Funding for this is built into the revenue that we allow each company to recover. More detail on the number of connections made through the Scheme is shown in Annex 2.

We believe that the Scheme remains an essential tool to help combat fuel poverty, however in recent years we have seen a number of developments in how fuel poverty is being tackled. As part of RIIO-GD1 Final Proposals,¹ we said that we would review the Scheme during the price control period, to take account of these developments.

This letter commences this review.

It is important that we hear the views of a wide range of stakeholders. We want to assess how well the Scheme aligns with wider Government strategies on heating and fuel poverty and whether there are any changes we could make that would maximise the benefits it can deliver.

We are also taking this opportunity to highlight some amendments that we would like to make to the Scheme.

¹ [RIIO-GD1: Final Proposals - Overview. 168/12. 17 December 2012](#)

2. Response

This letter explains how the Scheme works and some of the issues that may impact on it in the future. We raise eight questions throughout this letter and these have been consolidated in the response template in Annex 3. Please use this template to send your responses to us.

Please submit your completed response template to rupika.madhura@ofgem.gov.uk by 31 October 2014. Unless clearly marked as confidential, all responses will be published on our website.

If you would like to discuss the contents of this letter please call Rupika Madhura on 020 7901 7091.



Maxine Frerk
*Interim Senior Partner – Distribution Policy
Smarter Grids and Governance*

3. Background to the Scheme

The Scheme provides a discount against the cost of connecting to the gas network. To be eligible for the Scheme a customer has to be in fuel poverty. For the purposes of the Scheme a customer is currently judged to be living in fuel poverty if they meet at least one of the following criteria:

- they reside within one of the 20 per cent most deprived areas, as measured by the Government's Index of Multiple Deprivation (IMD), when measured at the Lower Level Super Output Area. The IMD is defined separately for England, Scotland and Wales.
- they are eligible for measures under Warm Front (England), Nest (Wales) or the Energy Assistance Package (Scotland).
- they fall within the Priority Group (low income households and over 70 years of age) for measures under the Carbon Emissions Reduction Target (CERT).
- they are in fuel poverty based on the standard Government definition - that is, they spend more than 10 per cent of their disposable income on all household fuel used to maintain a satisfactory heating regime.

In administering the Scheme, GDNs need to work with a partner organisation, approved by us, who:

- verifies that the customer is eligible for the Scheme, and
- ensures that the customer is able to make use of the gas when they are connected, providing funding for 'in-house' works if necessary (eg for a gas boiler).

Each eligible customer receives a voucher. The value of this voucher is equal to the Net Present Value (NPV) of the transportation revenue for a typical customer. The voucher is then discounted against the cost of connecting the customer to the network. If the value of the voucher is less than the cost of making the connection, then the customer must fund the difference if they want to be connected. If the value of the voucher is equal to, or higher, than the cost of making the connection then the customer does not have to make an up-front payment to be connected.

The Scheme encompasses two types of connection:

- one-off connections – single households that are connected by service pipe to an existing main.
- community based projects – where a number of households are connected, requiring a new mains pipe as well as service pipes to each individual household.

4. Are there changes that should be made to the Scheme?

The purpose of the Scheme is to help alleviate fuel poverty. Gas is just one method of delivering energy for heating and hot water and once installed, is currently among the lowest cost sources of heating. There are however a growing number of alternatives to gas including electric heating (such as heat pumps) or heat networks (district heating schemes). Over time these technologies may need to play a much more prominent role in the energy mix if carbon reduction targets are to be achieved.

The Scheme is just one measure that can help to combat fuel poverty. There are a range of wider initiatives in place to help deliver the fuel poverty strategies for England, Scotland and Wales.

In the sections that follow we describe some of this strategic backdrop. We welcome your thoughts on whether, against this wider context, any changes to the Scheme should be made.

4.1 The long-term future for gas

In *The Future of Heating: A strategic framework for low carbon heat in the UK*,² the Government sets out the challenge for decarbonising heat until 2050. This highlights that meeting carbon reduction targets will necessitate emissions from buildings falling to near zero by 2050.

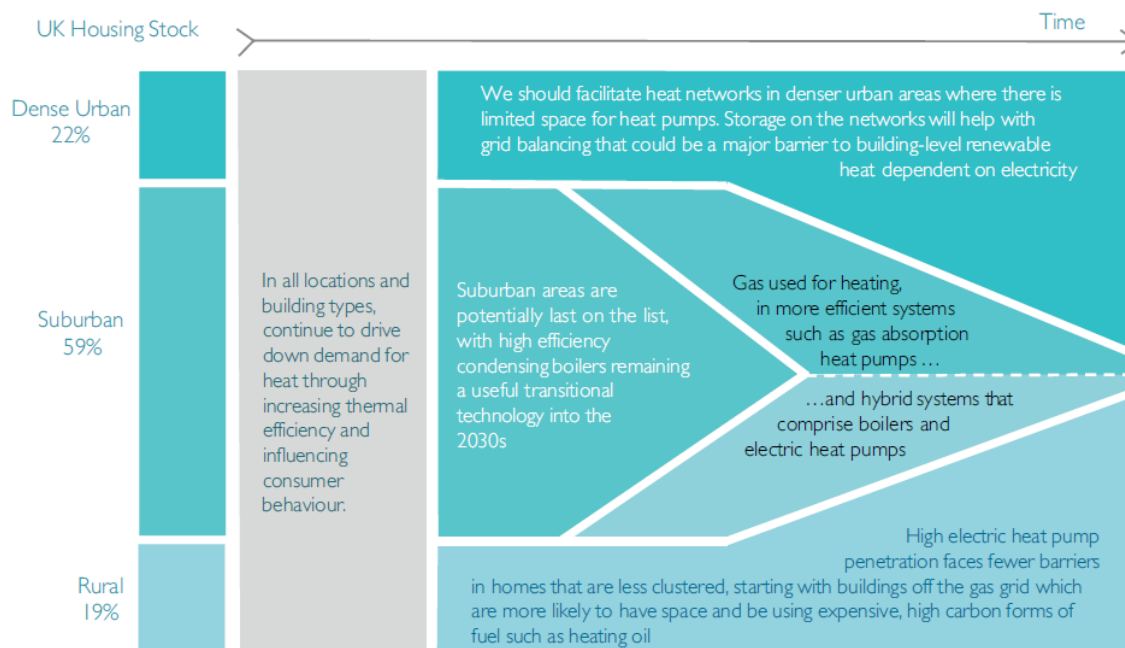
The Strategic Framework provides a high-level view of how this long-term transformation can be achieved. This will involve early action to drive down heat demand in buildings, and three strands of activity on heat supply:

- expanding the use of low carbon heat networks in towns and cities
- supporting the uptake of renewable heating systems in rural off-gas grid areas, and
- promoting the more efficient use of gas heating in the short to medium term, with gas use reduced to close to zero by 2050.

The change in the expected role for gas is presented in the diagram below.

² [The Future of Heating: A strategic framework for low carbon heat in the UK. March 2012](#)

Figure 1: Updated Strategic Framework for low carbon heat in buildings over time



Source: DECC 2013³

We understand that DECC is considering how best to meet the challenge of decarbonisation. The reduction in natural gas use in future decades does not necessarily mean that there will not be a role for gas networks in future. There is potential for smaller isolated networks that could be locally fuelled by biomethane injection, whilst work is still on-going into the long-term prospects for heating from hydrogen.

The Scottish Government also recently published its draft *Heat Generation Policy Statement Towards Decarbonising Heat: Maximising the Opportunities for Scotland*⁴ for consultation. The consultation closed on the 9 June 2014 and the responses to the consultation are currently being analysed. It is anticipated that the Heat Generation Policy Statement will be finalised and published in 2015.

Q1 Do you think the Scheme effectively interacts with the UK heating Strategic Framework and Scotland’s Heat Generation Policy Statement? How might it be improved to better align with wider activity? Please evidence your answer.

Q2 Should the Scheme be targeted at certain types of customers/certain locations to maximise long term benefits (eg over a period of 15-45 years)? If so who/which locations should be targeted and how might this best be achieved?

4.2 Policies to tackle fuel poverty

This section provides information on some of the wider initiatives tackling fuel poverty.

4.2.1 The Green Deal and Energy Company Obligation (ECO)

The Green Deal⁵ and ECO⁶ are the Government’s key policies supporting households to lower energy costs through the installation of energy efficiency measures. The Green Deal is designed to help households pay for energy efficiency improvements through the savings

³ [The future of heating: meeting the challenge. 26 March 2013](#)

⁴ [Towards Decarbonising Heat: Maximising the Opportunities for Scotland. March 2014](#)

⁵ [The Green Deal - Parliament. 6 February 2014](#)

⁶ [Energy Companies Obligation \(ECO\)](#)

that they make on their energy bills. Alongside the Green Deal, the ECO requires Britain's largest energy suppliers to install energy efficiency measures in households in Britain. ECO focuses on householders who require assistance to make their homes more energy efficient, for example, vulnerable and low-income households and those living in properties where it is difficult to install energy saving measures.

ECO targets certain groups of customers through three different obligations:

1. Carbon Emission Reduction Obligation (CERO)
 - *primarily targets the insulation of hard-to-treat homes, including those which cannot be fully funded through the Green Deal.*
2. Carbon Saving Community Obligation (CSCO)
 - *targets low income and rural areas with insulation and district heating measures.*
3. Home Heating Cost Reduction Obligation (HHCRO)
 - *targets the reduction of heating costs through the installation of heating and insulation measures in households on certain means-based benefits.*

The government has proposed significant changes⁷ to the ECO scheme, which will come in to effect later this year.

4.2.2 The Warm Home Discount (WHD)

The Government provides support to many low income and vulnerable households through the WHD.⁸ This scheme provides electricity bill rebates, discounted tariffs and indirect support. The Government has recently announced its continued support for the WHD. In the coming winter over two million households will receive £140 off their electricity bills and total spending on the scheme will reach more than £1.1bn.

4.2.3 The Winter Fuel Payment

The Government also provides the Winter Fuel Payment.⁹ This is a universal pensioner benefit ranging from £100 to £300 depending on the circumstances of the consumer and is payable annually. It is intended to provide assurance to older people so that they can keep warm during the winter months because they know they will receive help with their bills. Cold Weather Payments also provide additional support during cold winter weather to those on a low income.

4.2.4 Arrangements for England, Scotland and Wales

Fuel poverty is a devolved issue. England, Scotland and Wales have statutory targets to reduce the number of households in fuel poverty. There are separate strategies to tackle fuel poverty in each country although a number of key policies operate across Britain (notably ECO and WHD).

This year DECC published their consultation: *Cutting the cost of keeping warm: a new fuel poverty strategy for England*.¹⁰ This consultation puts an emphasis on helping low-income households who are not connected to the gas grid and those whose health can suffer from

⁷ [The Future of the Energy Company Obligation. 22 July 2014](#)

⁸ [Warm Home Discount \(WHD\)](#). August 2014

⁹ [Winter Fuel Payment. June 2014](#)

¹⁰ [Cutting the cost of keeping warm: a new fuel poverty strategy for England. 21 July 2014](#)

living in cold conditions. This coincides with a proposal to raise the efficiency ratings of as many fuel poor homes as reasonably practicable (to Band C by 2030¹¹).

The Scottish Government's *Sustainable Housing Strategy*¹² sets out a plan for a national programme to tackle fuel poverty in Scotland. This included the introduction of the Scottish Government's Home Energy Efficiency Programmes for Scotland (HEEPS). HEEPS comprises: the Area Based schemes, designed and delivered by local authorities, targeting fuel poor areas; the Affordable Warmth scheme, delivered nationally by energy suppliers who provide measures to those eligible under the ECO Home Heating Cost Reduction Obligation; and the Energy Assistance scheme, which is a modified extension of stage 4 of the Energy Assistance Package. They provide energy efficiency measures to a large number of Scottish households while delivering emission savings and helping to reduce fuel poverty.

The Welsh Government is helping low income and vulnerable households to reduce their energy bills through its own energy efficiency programme.¹³ This includes the Nest fuel poverty scheme that will improve the energy efficiency of privately owned and privately rented properties and is expected to provide advice and support to up to 15,000 households in Wales per year. Nest is complemented by an area-based scheme, Arbed. Arbed helps to provide targeted improvements for communities in the most deprived areas in Wales. In addition Welsh Government has put additional funding into its energy efficiency programme to attract ECO to Wales.

Q3 How effectively is the Scheme interacting with these strategies and other forms of assistance? Please explain where the Scheme works well and where there are any issues.

Q4 Are there any changes we could make to the Scheme that would better align it to these strategies and forms of assistance?

4.3 Fuel Poverty Advisory Groups/Forums priority issues

The Fuel Poverty Advisory Group (for England) ("FPAG") is an advisory non-departmental public body of the Department of Energy & Climate Change. FPAG provides advice on the effectiveness of policies aimed at reducing fuel poverty, and encourages greater co-ordination across the organisations working to reduce fuel poverty. FPAG has made delivering change for non-gas fuel poor households a key focus of its ongoing work. A working group has been established to take forward a two year programme of activity. Key priorities include:

- exploring the challenges and barriers to the delivery of energy efficiency and heating measures to non-gas fuel poor homes;
- better use of data to improve delivery and targeting;
- sharing and best practice on delivery mechanisms and technological solutions for non-gas homes among those involved in extending the gas grid and delivering alternative heating solutions.

The Scottish Fuel Poverty Forum is the independent advisory body for Scottish Ministers on matters relating to fuel poverty in Scotland. They recently completed a review¹⁴ of the Scottish Government's fuel poverty strategy, setting out a number of recommendations that should be taken forward. This included ensuring that the Scottish Government HEEPS programme better serve those that are not connected to the gas grid. Scottish Ministers

¹¹ [Cutting the cost of keeping warm to tackle fuel poverty. 22 July 2014](#)

¹² [Scotland's Sustainable Housing Strategy. 21 June 2013](#)

¹³ [Home Energy Efficiency Schemes: the facts. May 2014](#)

¹⁴ [Fuel Poverty Forum report](#)

published an initial response to those recommendations¹⁵ and will also publish an update to their Scottish Fuel Poverty Statement¹⁶ later this year which will provide more detail on progress.

Q5 Does the Scheme provide an opportunity to address these issues? What changes could be made to the Scheme to help address these issues?

4.4 Other changes to the Scheme

Stakeholders have flagged to us that changes to the Scheme could better align it with other elements of the heating and fuel poverty strategies. In some instances this could involve using the funding allocated to delivering the Scheme to support the deployment of other forms of heating – such as district heating networks powered by a gas-fired central boiler. It has also been suggested that this funding could go towards non-gas solutions delivered by third party organisations, or in-home works.

There may be restrictions on our ability to use funding allocated to providing the Scheme in RII0-GD1 for other purposes. Nevertheless we are keen to hear your thoughts on these and any other changes you think should be made to the Scheme.

Q6 Are there any other changes you would like to see made to the Scheme? If yes, what benefits do you think these changes will deliver?

5. Updates/clarifications

We would like to use this opportunity to update the Scheme. This will include updating:

5.1 The eligibility criteria

We want to update the criteria to include recent changes to Government's definition of fuel poverty.¹⁷

We also want to update the eligibility criteria to reflect that the fact that some initiatives that are referenced in the current criteria have changed or have been discontinued. Annex 1 provides a comparison table between the current eligibility criteria and our proposed updates.

Q7 Do you agree with the updates to the eligibility criteria suggested in Annex 1? If not, please explain your rationale and any other changes you would like to see?

5.2 The calculation of the voucher to reflect current gas usage

In our previous decision letter¹⁸ we explained how the Scheme would operate. In this letter we calculated the value of the voucher assuming an average domestic gas consumption of 19,000kWh a year. However, we know that average gas usage has been declining recently and as a result we want to revise this figure to 15,000kWh a year. This will reduce the value of the voucher but reflects the latest usage data.¹⁹

Q8 Do you agree with this change to the average domestic gas consumption value?

¹⁵ [Scottish Government response to the Fuel Poverty Forum](#)

¹⁶ [Scottish Fuel Poverty Statement](#)

¹⁷ [Fuel Poverty: a Framework for Future Action. July 2014](#)

¹⁸ [Final position on the non gas fuel poor network extension scheme, 29 June 2011](#)

¹⁹ [Revisions to DECC domestic energy bill estimates. March 2014](#)

Annex 1

Updating the Eligibility Criteria

To be eligible for the Scheme a consumer has to be in fuel poverty. A consumer will be considered as living in fuel poverty if they meet at least one of a range of different criteria. In choosing these, our approach has been to use criteria that either reflect commonly used definitions of fuel poverty or are employed for other fuel poverty related measures. This approach helps to ensure that customers that benefit from the Scheme are equally likely to benefit from other forms of assistance. Table 1 below sets out our proposed updated eligibility criteria and the reasons why we believe such changes are appropriate.

Table 1: Eligibility Criteria

Current criteria	Updated criteria proposal	Reason for the update
Existing households will qualify for the network extension scheme if they:		
1. reside within the 20% most deprived areas, as measured by the Government's Index of Multiple Deprivation (IMD), when measured at the Lower Level Super Output Area (LOSA). The IMD is defined separately for England, Scotland and Wales. Therefore, for instance, a Welsh household will qualify if it falls within one of the 20% most deprived areas in Wales as measured by the Welsh Index of Multiple Deprivation (WIMD); or	reside within the 25% most deprived areas, as measured by the Government's Index of Multiple Deprivation (IMD). The IMD is defined separately for England, Scotland and Wales. Therefore, for example, a Welsh household will qualify if it falls within one of the 25% most deprived areas in Wales as measured by the Welsh Index of Multiple Deprivation (WIMD), or	Low income areas under ECO's (Carbon Saving Community Obligation) CSCO are currently being redefined by Government ²⁰ and expected to be within the 25% of the most deprived areas measured by IMD from 1 April 2014.
2. are eligible for measures under Warm Front (England), Nest4 (Wales) or the Energy Assistance Package5 (Scotland); or	are eligible for measures under HHCRO²¹ (England, Wales and Scotland), Nest (Wales) or the Home Energy Efficiency Programmes for Scotland, or	Warm Front ended in January 2013. Nest is ongoing. Energy Assistance Package was replaced with Home Energy Efficiency Programmes for Scotland which have operated from April 2013.
3. fall within the Priority Group (low income households and over 70 years of age) for measures under the Carbon Emissions Reduction Target (CERT); or	Not applicable anymore.	CERT ended on 31 December 2012. ECO has replaced CERT and Community Energy Saving Programme (CESP). ECO's HHCRO eligibility criteria include low income households and vulnerable elderly.

²⁰ [The Future of the Energy Company Obligation. 22 July 2014](#)

²¹ [Energy Companies Obligation \(ECO\): Guidance for Suppliers. 1 May 2014](#)

4. are in fuel poverty based on the standard Government definition - that is spend more than 10% of their disposable income on all household fuel use to maintain a satisfactory heating regime.

are in fuel poverty based on the latest definition. England uses the Low Income High Cost Indicator.²² Under this definition a household is considered to be fuel poor where:

- **its income is below the poverty line (taking into account energy costs); and**
- **its energy costs are higher than is typical for its household type.**

Scotland and Wales currently use the previous definition. For devolved administrations, the definition in use at the time of application for a connection under the Scheme should be used.

This is the latest definition²³ of fuel poverty introduced in 2013 in England. Scotland and Wales still use the previous definition in their fuel poverty strategies.

²² [Fuel Poverty: a Framework for Future Action July 2013](#)

²³ [Fuel Poverty: a Framework for Future Action, July 2013, Page 11](#)

Annex 2

Table 2 – Number of forecast Fuel Poor Network Extensions annually by GDN over RIIO-GD1^{24*}

Company	Licensee	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	Final Proposal additions	Total
NGGD	East of England	1,160	1,160	1,170	1,270	1,370	1,350	1,350	1,250		10,080
	London	340	340	340	360	380	380	380	360		2,880
	North West	1,670	1,670	1,680	1,690	1,690	1,670	1,630	1,630		13,330
	West midlands	1,040	1,040	1,050	1,060	1,060	1,040	1,040	1,030		8,360
NGN		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500		12,000
SGN	Scotland	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375		11,000
	Southern	800	800	800	800	800	800	800	800	2,600	9,000
WWU		1,500	1,500	1,500	1,500	1,200	1,200	1,200	1,200		10,800
Totals		9,385	9,385	9,415	9,555	9,375	9,315	9,275	9,145		77,450
Cumulative		9,385	18,770	28,185	37,740	47,115	56,430	65,705	74,850		

*The Final Proposals included an additional 2,600 connections from SGN.

Company acronyms

NGGD: National Grid Gas plc
 NGN: Northern Gas Networks Limited
 SGN: Scotia Gas Networks Limited
 WWU: Wales & West Utilities Limited

²⁴ [RIIO-GD1: Supporting document – Outputs, incentives and innovation. 27 July 2012](#)

Table 3 – Number of Fuel Poor Network Extensions GDPCR1²⁵

Company	Licensee	2009/10	2010/11	2011/ 12	2012/ 13	2013/ 14	GDPCR1 Total
NGGD	East of England	0	1,326	1,125	2,214	2,748	7,413
	London	0	362	357	378	200	1,297
	North West	0	1,369	1,981	1,858	1,943	7,151
	West midlands	0	683	1,059	954	1,206	3,902
NGN		0	645	801	1,804	914	4,164
SGN	Scotland	0	672	3,768	4,533	2,801	11,774
	Southern	0	167	626	725	120	1,638
WWU		0	187	1,779	2,205	2,105	6,276
Totals		0	5,411	11,496	14,671	12,037	43,615

²⁵ [End of Period Review of the First Gas Distribution Price Control \(GDPCR1\). 21 March 2014](#)

Annex 3:

Response Template

Thank you for taking the time to respond to our questions.

We hope all the questions are clear, but if you have any difficulties please email rupika.madhura@ofgem.gov.uk.

Once you have completed the questionnaire please send it back to us to the email address above. You need to return the completed response template (word version attached) to us by **31 October 2014**.

Part 1 - About you

Question	Your response
<i>What is your name?</i>	
<i>What is your position?</i>	
<i>What are your contact details?</i>	

Part 2 - About your business

Question	Your response
<i>What is your company's name?</i>	
<i>What is the nature of your company's business? Please state if this involves Fuel Poor Network Extensions Scheme, or Fuel Poverty related work.</i>	
<i>What areas of the country does your business operate in?</i>	

Part 3 – FPNES review questions

Q1 Do you think the Scheme effectively interacts with the UK heating Strategic Framework and Scotland's Heat Generation Policy Statement? How might it be improved to better align with wider activity? Please evidence your answer.

[Please provide response here]

Q2 Should the Scheme be targeted at certain types of customers/certain locations to maximise long term benefits (eg over a period of 15-45 years)? If so who/which locations should be targeted and how might this best be achieved?

[Please provide response here]

Q3 How effectively is the Scheme interacting with these strategies and other forms of assistance? Please explain where the Scheme works well and where there are any issues.

[Please provide response here]

Q4 Are there any changes we could make to the Scheme that would better align it to these strategies and forms of assistance?

[Please provide response here]

Q5 Does the Scheme provide an opportunity to address these issues? What changes could be made to the Scheme to help address these issues?

[Please provide response here]

Q6 Are there any other changes you would like to see made to the Scheme? If yes, what benefits do you think these changes will deliver?

[Please provide response here]

Q7 Do you agree with the updates to the eligibility criteria suggested in Annex 1? If not, please explain your rationale and any other changes you would like to see?

[Please provide response here]

Q8 Do you agree with this change to the average domestic gas consumption value?

[Please provide response here]