

## 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](mailto: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 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>	Citizens Advice
<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>	England and Wales. Citizens Advice Scotland has also contributed to this response.

#### 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.***

Citizens Advice does not consider the Scheme to be aligned with the UK heating framework or Scotland's heat generation statement. In brief, we consider both the Scheme and the UK heat strategy need updating. The latter is unduly optimistic about the impact of Green Deal and ECO, while its expectations on the future role of the gas network need updating, for example to take account of new potential sources of renewable gas.

Similarly, we consider the FPNES could potentially play a greater role in helping reduce

future reliance on fossil fuels for heating as well as increase its impact on reducing fuel poverty among off gas households. We support FPAG's recommendations, viz:

- Allow GDNs to set the value of the Fuel Poor Voucher at the RIIO allowance for gas connections and incentivise them to invest any surplus on the true costs of this connection to provide assistance for other measures that would complement the initial investment;
- Allow GDNs to apply the value of more than one Fuel Poor Voucher to support the investment of a new heat network;
- Work with DECC to address the issue of insufficient funds for 'in-house' works in the homes of low income households. This is a problem across Great Britain but is particularly acute in England, given the lack of a public sector grant programme such as HEEPS, NEST and Arbed in Scotland and Wales.

Citizens Advice considers Ofgem should more actively monitor the extent to which new gas connections are accompanied by installation of new heating systems and appropriate levels of insulation. It is essential that new gas connections form part of whole house improvements, if fuel affordability is to be achieved for beneficiaries of the FPNES. We note that insulation improvements are integral to the Renewable Heat Incentive (RHI) and the heat strategy.

***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?***

Citizens Advice is an active participant in the FPAG off-gas working group, which is considering the effectiveness of current policies for assisting low income off-gas households. One of the working group's projects is the production of a comprehensive, shared map of the gas network from which energy suppliers and national and local government can identify those households where it might be most economically viable to extend the gas network. This should provide a valuable tool to the FPNES with respect to the future targeting of support.

Citizens Advice considers the FPNES and similar schemes should recognise the differing needs of off gas households. Low income off-gas consumers in urban tower blocks require different solutions to those in rural communities. Residents of Park homes present even further challenges. We therefore consider the FPNES, ECO, devolved nation schemes, RHI, district heating schemes etc could be better integrated so that appropriate solutions are put in place to meet the needs of different off-gas consumers. In some cases, this may require specific policy instruments to address specific needs, such as those of Park home residents.

Under the current RIIO arrangements, Gas Distribution Networks (GDNs) are provided with a finance package to deliver an agreed number of fuel poor gas connections by March 2021. Because companies are incentivised to deliver connections as efficiently as possible, they are more likely to deliver the simpler and more straightforward gas connections, rather than those that will deliver the greater benefits to vulnerable customers (single gas connections as opposed to community gas connections).

Citizens Advice supports FPAG's proposals to make sure GDNs provide support to as many low income off-gas households as possible. Currently GDNs are measured against the number of connections made with no direct measure of the impact of this investment. Ofgem should develop incentive mechanisms for GDNs that are based on, for example, maximising the reduction of fuel poverty or the reduction of fuel bills for

fuel poor households. This would encourage GDNs to ensure their regulatory allowance delivers the most value, and would result in the full allowance being utilised in solutions other than simple gas connections.

Such a model would encourage innovation and give the GDNs the freedom to identify which solutions and locations to prioritise, and to collaborate effectively with the other GDNs and utility companies. Ofgem would need to develop new approaches for rewarding strong performance since the model would not intrinsically incentivise efficiency.

Citizens Advice recognises that new gas connections will remain the best option for providing affordable fuel for many households for the short and medium term. We do not consider it appropriate to revise the Scheme on the expectation that there is a major shift away from gas for heating in the next 20 years. It would also be inconsistent with other GDN investments which are designed and depreciated over 45 years.

***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.***

Citizens Advice does not consider the Scheme is interacting in any substantial way with English fuel poverty and carbon reduction schemes. Interaction appears to mainly take place with social housing projects. GDNs face particular challenges in making sure homes receive 'in-house' measures, particularly new gas heating systems and insulation. Interaction is better in the devolved nations due to the existence of publicly funded grant schemes and proactive public sector agencies, or their contractors, who can help facilitate and coordinate the integration of different programmes.

Where households cannot be connected to the gas grid, Citizens Advice considers Ofgem should support GDN investment in other forms of energy solutions, such as community heating. To ensure maximum investment in such schemes we would urge Ofgem to work with DECC and other partners to explore the potential for bringing together the gas distribution and electricity distribution fuel poverty schemes and the Energy Company Obligation so that these households can be helped.

Our colleagues in Citizens Advice Scotland note that the Scottish Government has set up a gas infill scheme which provides loan funding to connect groups of owner occupiers to the gas grid. There appears to be little interaction between this scheme and the FPNES, despite them appearing to address similar needs.

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

We support FPAG's recommendation that the provision of a new gas connection to a community district heating scheme should be recognised as a benefit to each household benefitting, with cumulative funding being made available for each qualifying household. A mains extension to a community, which each has an individual gas connection and their own gas heating, should not be treated differently than a district/community heating scheme with a central gas boiler.

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

- a) Not in its current structure.

- b) Through the reforms advocated above and strategic oversight of all the different schemes which can help or potentially help off-gas consumers.

**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?**

In addition to community heating we would like Ofgem to explore the potential for the Scheme to fund heat pumps and other renewable heating options, providing these are installed as part of whole house packages and ongoing support is provided with respect to use of heating controls etc.

**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?**

**Criteria 1**

Citizens Advice does not consider the Index of Multiple Deprivation, or the individual domains within it, as a particularly suitable indicator of fuel poverty. The IMD tends to highlight areas of social housing due to the high proportion of benefit claimants in such housing. It therefore provides a useful tool for targeting economic development and general poverty initiatives but is less useful for targeting fuel poverty initiatives. Fuel poverty is more concentrated in private tenures due to its higher proportion of energy inefficient housing. Furthermore, fuel poverty is much less concentrated in rural areas than urban, making the use of area indicators problematic.

We would ideally like the Scheme to use a bespoke fuel poverty indicator; however, we note that DECC's small area fuel poverty indicator for England is not considered robust below local authority level, thereby reducing its value for targeting policies such as the FPNES. In the long term we would urge the government to develop a specific fuel poverty small area indicator (or improve the existing indicator) to enable the targeting of fuel poverty schemes, such as FPNES and CSCO. In the short term we accept that there is little option but to use the IMD but would urge greater recognition of its limitations.

We also note that the Scottish Government has developed a specific indicator for allocating funds to its Area Based fuel poverty schemes. We consider Ofgem should liaise with the Scottish Government with respect to its potential applicability to the FPNES.

**Criteria 2**

We note that the Scottish Government is currently reviewing eligibility for its Energy Assistance Scheme within HEEPS2. The future criteria of the FPNES should therefore correspondingly reflect the new criteria.

**Criteria 4**

We accept that this criteria should reflect the new definition of fuel poverty in England, while continuing to use the 10% definition used in Scotland and Wales, although we consider help should also be provided to low income 'lower cost' households. We are sceptical if any of these criteria are used in any practical sense by the GDNs. However, we would like to highlight forthcoming research, commissioned by Eaga Charitable Trust, that attempts to show how the new LIHC indicator might be operationalized at a local level. This may be of future use for the FPNES.

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

Citizens Advice is concerned that this change is estimated to reduce the value of the voucher by some £800-£900. This reduces the viability of certain schemes or requires households to contribute towards the costs, which most households will be unable to do. We would therefore urge Ofgem to consider amending its methodology for deriving an appropriate level of funding for the voucher. For example, it should take account of the

higher heating regime required by many low income households. These heating regimes are built into the categorisation of households as fuel poor and take account of different households' heating needs, for example many vulnerable households are in the home for much longer periods than those at work or in full time education.

We support FPAG's proposal to set the value of the Fuel Poor Voucher at the RIIO Allowance agreed at the beginning of the current regulatory period.