

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 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>	The Fuel Poverty Advisory Group
<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>	<p>The FPAG is a non-departmental advisory body, which consists of a chairman and senior representatives from the energy industry, charities and consumer bodies. Each member represents their organisation, but is expected to take an impartial view. The role of the Group is to:</p> <ul style="list-style-type: none">• Consider and report on the effectiveness of current policies aiming to reduce fuel poverty;• Consider and report on the case for greater co-ordination;• Identify barriers to reducing fuel poverty and to developing effective partnerships and to propose solutions;• Consider and report on any additional policies needed to achieve the Government's targets;• Encourage key organisations to tackle fuel poverty, and to consider and report on the results of work to monitor fuel poverty.

	<p>Note: The diverse nature of the Group's membership may, on some occasions, prevent unanimity on some of the following points. Individual Members of the Group may wish to submit their own evidence which dissents from the FPAG consensus.</p> <p>Fuel poverty context: For many years the problem of poor heating systems, badly insulated housing, combined with a low income and unaffordable, rising fuel costs has contributed to significant health problems and exacerbated health inequalities. The latest figures on the number of excess winter deaths for England and Wales last winter show a worrying increase of 29% to 31,100 deaths. An estimated 30% of winter deaths in Europe are caused by cold housing¹.</p> <p>Consumer surveys reveal energy costs as a source of even greater worry to fuel-poor² (households with incomes below the poverty line (taking into account energy costs) and paying higher than typical energy costs for their household type) and hard-working families than in previous years. The National Audit Office³ says utility bills will increase over the next ten years to fund large-scale infrastructure spending, but the UK government does not know by how much, or whether bills will be affordable.</p> <p>Prioritisation: The FPAG position is to ensure fuel poor consumers whether they are connected to the gas grid or not should receive assistance to improve the fabric of the home, and those households on the lowest incomes should be prioritised.</p> <p>As a result of concerns about the effectiveness of present policies at assisting households who are off-gas, in 2013 the FPAG established an industry working group specifically to look at how fuel poverty amongst households who are off the gas grid could be addressed (see Q.2).</p>
<i>What areas of the country does your business operate in?</i>	England although individual members may represent organisations that operate the whole of GB.

¹ http://www.euro.who.int/_data/assets/pdf_file/0017/145511/e95004sum.pdf [p13]

² *Fuel Poverty Report* – Updated August 2013 - Gov.uk

³ [Infrastructure investment: the impact on consumer bills](#)

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.

The FPAG does not believe the schemes currently are aligned or indeed interact with each other. Specifically the respective Heat Strategies recognises that district heating, thermal insulation and (like the FPNES) efficient conventional heating systems have an important role in alleviating fuel poverty, the principles appear to be the continued drive to decarbonise heat and as far as practicable eliminate fossil fuels out of heating by 2050. It is assumed this will mainly be achieved through demand reduction, development of district heating in built-up urban areas (fed by a range of fuel sources) and a large scale expansion of electric and renewable forms of heating (biomass, air-source and ground-source heat pumps) in suburban and rural areas. Whilst there is some recognition of a continuing role for the gas network, the heat strategy expresses uncertainty of its value up to 2050 and therefore results in misalignment with the current structure of the FPNES.

The FPAG highlights that the Heat Strategy presents a number of immediate and longer-term objectives which based on current policies, are unrealistic or require additional policies, incentives or prescriptive regulation in order to be achievable. We would highlight the assumption that within this decade the strategy assumes all practicable cavity wall and loft insulation are insulated and up to 1.5 million solid walls will be insulated.

It also suggests that the Green Deal will transform the domestic energy efficiency landscape; the Energy Company Obligation will provide direct support to vulnerable consumers; most of the existing 13 million conventional gas boilers will be replaced by condensing boilers and there will be zero carbon new-build properties.

We'd suggest many of these outcomes are unlikely and therefore we would recommend for the FPNES to be most effective it should be better aligned to the aspirations of the Heat Strategy and more generally help reduce the future reliance on the use of fossil fuels in domestic heating and critically have a greater impact in helping to reduce fuel poverty to off gas grid homes:

- We encourage Ofgem to allow GDNs to set the value of the Fuel Poor Voucher at the RIIO allowance for such gas connections and in addition 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 insufficient funding available for the low income householder to fund 'in-house' works in England (given lack of grant based programme like in the rest of GB).

The FPAG would also encourage Ofgem to more actively monitor that new gas connections are accompanied by new heating systems and appropriate levels of insulation. We believe this is fundamental to the full affordability outcomes of a new gas connection being realised by the household and is consistent with the current principles within the Renewable Heat Incentive (RHI) and, more generally, DECC's 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?

The FPAG position is to ensure fuel poor consumers whether they are connected to the gas grid or not should receive assistance to improve the fabric of the home, and those households on the lowest incomes should be prioritised.

As a result of concerns about the effectiveness of present policies at assisting households who are off-gas, in 2013 the FPAG established an industry working group specifically to look at how fuel poverty amongst households who are off the gas grid could be addressed. That working group is producing practical results in the form of a comprehensive, shared map of the gas network from which energy suppliers and national and local government can identify easily those households where it might be most economically viable to seek to extend the gas network. The FPAG will be publishing the outputs from this working group in due course.

In 2010, the average heating oil consumer had a modelled spend of £2,102 on their fuel costs per annum, compared to an average fuel spend of £1,287 amongst households on the gas grid. In addition, households off the gas grid have an average SAP rating of 41, compared to an average of 55 amongst households on the gas grid.

It can therefore be concluded that those households off the gas grid with the highest fuel costs also live in the least thermally efficient buildings, resulting in a higher risk of experiencing fuel poverty.

Over a number of years many industry initiatives have been launched that considered the challenges facing 'off gas grid' properties. These initiatives, including the FPNES have had some notable successes, however the FPAG believes that a more holistic, collaborative and flexible approach could deliver greater benefit to these consumers.

As currently structured the FPAG does not believe that the FPNES recognises the differing needs of off gas grid homes. We believe the FPNES (and other complimentary schemes) should ensure that appropriate controls and incentives are in place that deliver solutions that recognise that consumers that live in an urban tower block (generally with electric storage heaters) rather than a non-gas consumer who is fuel poor because they live in a rural community (and are likely to have an inefficient oil heating system) present very different challenges.

Under the current regulatory arrangements administered by Ofgem (RIIO), Gas Distribution Networks (GDNs) are provided with a finance package to deliver an agreed number of fuel poor gas connections by March 2021. These companies are incentivised to deliver these connections as efficiently as possible, this may direct effort to delivering 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). The FPAG would argue that such incentives are not appropriate in the context of fuel poverty. As an alternative we propose that GDNs are encouraged to target those homes most in need and in addition invest its full regulatory allowance to help provide support to as many households as possible.

Currently GDNs are measured against the number of connections made with no direct measure on the impact of this investment. The FPAG suggests a more appropriate measure would be to incentivise GDNs to maximise the reduction of fuel poverty or to maximise the reduction of fuel bills for households in fuel poverty. This would incentivise the GDNs to ensure their regulatory allowance delivers the most value, and would result in the full allowance being utilised in solutions other than simply 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. Remunerating strong performance would need to be considered with such a model, as efficiency retention would not operate.

With the uncertainty around the decarbonisation of domestic heating the FPAG believes the role of gas networks and the provision of a new gas connection to an existing main will remain the best option for many homes. Revising the current FPNE scheme to recognise the probability of a full scale move away from gas for heating in the next 20 years, would seem premature, and would 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.

Under the present government arrangements, the FPAG is not aware of any material interaction with other fuel poverty or carbon reduction schemes and investment in off gas grid homes that have been connected through the FPNEs is generally through a social housing partner. Furthermore we understand from our leadership of the Industry Working Group (IWG) that the greatest challenge GDNs face is ensuring that homes receive 'in-house' measures and in particular new and efficient gas heating systems and complimentary levels of insulation.

It is well documented that Social Landlords are capital constrained and the closure of the Warm Front Scheme (England) has resulted in a lack of public funding for in-house measures, it should be noted that this is not the case in devolved government administrations, where public funds are available to fund new heating systems. The FPAG would welcome steps to align and coordinate funding from other schemes to fully realise the benefits of a new gas connection.

Where economically viable, extensions to the mains gas grid and the installation of in-house solutions are welcomed by the FPAG, however this should not be viewed as a long term solution for all. There is a need for low income off gas grid households to be supported more equitably and efficiently through a range of energy efficiency and renewable heat policy interventions. In particular, where households cannot be connected to the gas grid, the FPAG would encourage Ofgem to 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 explore the potential to incentivise and align both the gas distribution and electricity distribution Fuel Poverty schemes together with the Energy Company Obligation to ensure they are designed to be mutually reinforcing and efficient in this respect.

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

In addition to those suggestions already documented, the provision of a new gas connection to a community district heating scheme should be recognised as a benefit to each household impacted, 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) As described above.

**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?**

Given the restricted scope of the FPNES and the number of connections achieved the FPAG considers the scheme has been effective, however we believe there are some areas where improvements should be considered.

The uncertainty created by the finite nature of GDN funding does present a strategic challenge with the development of long term collaborative partnerships. The scenario where a GDN has delivered its RIIO connection commitments 'early' and reached its target would result in a 'closed for business' situation. The FPAG therefore calls on Ofgem to introduce a more flexible and sustainable funding mechanism to remove this uncertainty.

The provision of the concessionary coal allowance (administered by DECC) is often seen to be a barrier to providing more practical, energy efficient and environmentally acceptable heating solutions. By providing an alternative comparable incentive for these former miners and their dependents to switch fuels could make their homes and lives more comfortable, energy efficient and at the same time make a positive impact on air quality, the environment and perhaps most importantly their health. Further benefits may be realised if an alternative funding mechanism could support whole community solutions.

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?

The FPAG supports the extension of the proxy to households who reside within the 25% most deprived areas however Ofgem should look to evaluate early on the extent to which assistance provided within these expanded areas is targeting households that are in or vulnerable to fuel poverty. Similarly, we support the proposal that eligibility is aligned to other industry/government schemes e.g. HHCRO, NEST and HEEPs.

Adoption of the Low Income High Cost Indicator: whilst aligning the eligibility criteria closely with the LIHC indicator may imply a desirable 'joining up' across Government and the regulator, the FPAG stresses the FPNES should continue to provide assistance to those low income households who could be judged to have low incomes and below median costs. We are concerned that homes that qualify under the previous definition (and will continue to in devolved administrations) will no longer qualify and we would request Ofgem monitors this through the FPNES and work with the GDNs to ensure those homes in England are not disadvantaged further.

The FPAG believes that Ofgem should learn from the complexity of other schemes and ensure the FPNES and its eligibility criteria is simple, transparent, and easily understood by customers, that will enable GDNs to identify eligible homes and deliver solutions as efficiently as possible.

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

The FPAG recognises as homes become more energy efficient, the average consumption will reduce accordingly. We are extremely concerned however that this clearly disadvantages the very homes that the scheme is intended to support. Should the fuel poor voucher (FPV) mechanism continue and is used to define the level of funding available for vulnerable households to fund a gas connection, then with the current methodology, the lower the consumption value used, the lower the value of the FPV. The FPAG understands this change could see the reduction of the value of the FPV by some £800-£900.

If energy consumption is used to derive a level of funding, consideration should be made to using a different value for different types of consumer. For example, if a household includes a vulnerable person, then the requirement for heating through the day would be higher and therefore the FPV level should be set correspondingly higher. To avoid these complexities the FPAG would suggest a simple solution could be that the value of the FPV is set at the RIIO Allowance agreed at the beginning of the current regulatory period.