



*Action for Warm Homes*

## **National Energy Action (NEA)'s response to Ofgem consultation on the Fuel Poor Network Extension Scheme**

NEA is a leading UK fuel poverty charity. At the forefront of NEA's focus are millions of low income households across the UK that continue to struggle to afford the energy they require to heat and power their homes to a standard needed for their health and wellbeing. NEA's mission is to ensure that all households can meet their energy needs for health and comfort at an affordable cost, and that the needs of vulnerable energy consumers are central to policy decisions made by all tiers of government, the devolved administrations and the fuel utilities. To achieve this, NEA undertakes a range of activities, including higher-level strategic campaigning and lobbying; research and analyses into the causes and extent of fuel poverty; local demonstration projects and development of national qualifications to improve the quality of energy advice and services.

### **About this response and our recommendations**

The Department of Energy and Climate Change (DECC)'s latest statistics<sup>1</sup> show the composition of fuel poor households. The analysis not only provides more detailed information regarding fuel poverty levels but also illustrates the continued depth of the problems facing some households. The following statistics show that fuel poor households that are off the gas network are typically prone to much more severe fuel poverty and despite recent policy interventions, these households are least likely to benefit from current policies.

- In 2012, under the previous 10 per cent definition of fuel poverty (still used across Scotland, Wales and Northern Ireland), the number of fuel poor households in the UK was estimated at around 4.50 million representing 17 per cent of all UK households. This is an increase compared to 2011 where it was estimated at around 4.34 million were in fuel poverty.
- Under the LIHC measure the number of households in fuel poverty in England is projected to have also increased from 2.28 million in 2012, to 2.33 million in 2014, with increases in energy costs a key factor.
- The aggregate fuel poverty gap is also projected to have increased from £1 billion in 2012, to £1.1 billion in 2014; and the average gap is projected to increase from £443 in 2012 to £480 in 2014.
- In 2013, it was estimated that 500,000 fuel poor households live in rural locations however the Government has not released comparable figure this year.
- In 2012, 533,000 fuel poor households in England did not have access to natural gas and heated their properties with oil, solid fuel, LPG or electricity. As a result, these households continue to typically have higher individual fuel poverty gaps, approximately double the average on gas, typically over £1000.
- Households living in the most energy inefficient dwellings (those with a SAP rating of E or below) continue to be much more likely to be fuel poor than those in more energy efficient dwellings, and have higher fuel poverty gaps. Statistically, these less efficient properties are much more likely to be concentrated off the gas network.

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<sup>1</sup> Annual Fuel Poverty Statistics Report, 2014, *Department of Energy and Climate Change (DECC)*, July 2014.

The statistics highlight how the extent and depth of fuel poverty is likely to have continued to increase (whichever definition is used) and the problem is still being exacerbated by other factors e.g. where households are reliant on more expensive and possibly inefficient sources of space and water heating and where thermal standards of their dwellings cannot be improved in a cost-effective manner. Because of these circumstances, statistically, fuel poverty is still far more likely to prevail in rural and/or off-gas areas and despite the Government failing to report to the same extent on the risks of fuel poverty in rural areas and providing less information off-gas areas, our assertion that that the depth of fuel poverty off the gas network is likely to be deepening is a reflection of the higher fuel poverty gap of off-gas households in 2012 compared to 2011.

There is now a critical opportunity to make progress to improve this situation as part of a new and ambitious fuel poverty strategy. In the 2014 Budget, the Chancellor made the following observations regarding the need to provide additional support to off-gas householders:

“The government is committed to helping households with their energy bills and reducing fuel poverty. The government will shortly be publishing its proposals for a new fuel poverty target and strategy and as part of this will consider the particular challenges faced by those households that are not connected to the gas grid.”

Ofgem have also stated that the Fuel Poor Network Extension Scheme needs to better align with wider Government strategies on heating, fuel poverty and are considering changes that would maximise the benefits it can deliver. This alignment of objectives is welcome and within this response, we encourage Ofgem to:

1. Allow GNs to apply the full Net Present Value (NPV) of future transportation revenues to the successful connections of fuel-poor households but hypothecate any surplus on the true costs of this connection to provide assistance to other households who would exceed the maximum value of the Fuel Poor Voucher.
2. Allow GNs to apply the value of more than one Fuel Poor Voucher to the successful connections of fuel-poor households to a district heating network.
3. 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 priority is to supplement existing programmes and help unlock the replacement of inefficient electric heating systems in tower blocks, provide contributions towards modern efficient district heating networks and improve access to more efficient conventional or renewable heating measures and extensive and low cost insulation. Working with obligated energy suppliers, we want Gas and Electricity Network Operators to help deliver a new fund for low-income households who are not currently connected to the gas network and may miss out on assistance all together.
4. NEA also states Ofgem must ensure successful gas connections are accompanied by decent levels of insulation. 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.

## Contact details

### 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>	National Energy Action (NEA)
<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>	As noted above, NEA is a leading UK fuel poverty charity. NEA has also developed partnership arrangements and delivery projects with both Gas Network Operators (GNOs) and more recently Distribution Network Operators (DNOs).
<i>What areas of the country does your business operate in?</i>	England, Wales and Northern Ireland

## Response to the consultation questions

### 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.***

No, not at present. Whilst, the Government's Heat Strategy rightfully recognises that district heating, thermal insulation and (like the FPNES) efficient conventional heating systems have an important role in alleviating fuel poverty, the general approach is to "squeeze" fossil fuels out of heating by 2050. It is assumed this will mainly be achieved through demand reduction (specifically the avoidance of unnecessary space heating by the installation of higher thermal insulation standards), development of district heating in built-up urban areas (fed by a range of fuel sources) and a massive 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.

The Heat Strategy also presents a number of immediate and longer-term objectives which NEA would emphasise, based on current policies, are unrealistic or require additional policies, incentives or prescriptive regulation in order to be achievable. For example, within this decade the Government's Strategy assumes all practicable cavity wall and loft insulation are insulated and up to 1.5 million solid walls will be insulated by the end of the decade, the Green Deal transforms the domestic energy efficiency landscape, the Energy Company Obligation supports vulnerable consumers and part funds expensive energy efficiency measures, most of the existing 13 million conventional gas boilers will be replaced by condensing boilers and there will be Zero carbon new-build properties. NEA notes the outcomes are unlikely and therefore recommends the following areas of the FPNES should be adjusted to achieve optimal results in aligning the aspirations of the Heat Strategy and more generally reducing both fuel poverty and the use of fossil fuels in domestic heating:

- We encourage Ofgem to allow GNs to apply the full Net Present Value (NPV) of future transportation revenues to the successful connections of fuel-poor households but hypothecate any surplus on the true costs of this connection to provide assistance to other households who would exceed the maximum value of the Fuel Poor Voucher.
- Allow GNs to apply the value of more than one Fuel Poor Voucher to the successful connections of fuel-poor households to a district heating 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 priority is to supplement existing programmes and help unlock the replacement of inefficient electric heating systems in tower blocks, provide contributions towards modern efficient district heating networks and improve access to more efficient conventional or renewable heating measures and extensive and low cost insulation. Working with obligated energy suppliers, we want Gas and Electricity Network Operators to help deliver a new fund for low-income households who are not currently connected to the gas network and may miss out on assistance all together.

- NEA also states Ofgem must ensure successful gas connections are accompanied by decent levels of insulation. 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?***

Under the Gas Distribution Price Control (GDPCR) process there are already currently options available to promote extensions of the gas network to low income households and/or communities. It is therefore strange that the wording in this question is so vague and open ended. However, for the avoidance of any doubt, NEA supports the scheme being targeted at low income customers and deprived areas. In addition, on the 29 June 2011, Ofgem published its final position on the non-gas fuel-poor network extension scheme. Within the open letter, Ofgem decided that the eligibility criteria should be extended so that more vulnerable households would qualify for the network extension scheme.<sup>2</sup> We welcomed this extension to the eligibility, however, NEA is not aware of the extent to which Ofgem has reviewed the extent to which beneficiaries of the scheme (using the IMD proxy) are on low-incomes and/or are fuel poor according to the 10% definition or the new Low Income High Costs Definition). NEA would assert that this should have been a key focus of the review and will seek to ensure this analysis is undertaken, especially if the existing proxies are again extended to the top 25% most deprived areas.

***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.***

NEA notes that the brief description of the existing domestic schemes within this section of the consultation do not attempt to explore any of the many barriers to low income households accessing support through these programmes and particularly does not seek to identify how these schemes could be better integrated with the FPNES. As a result, NEA has highlighted some of the main areas that do currently present barriers to low income households and we have concluded our answer by highlighting how the FPNES should therefore be adapted.

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<sup>2</sup> If they reside within the 20% most deprived areas, are eligible for measures under England, Wales and Scotland's energy efficiency fuel poverty schemes, households fall within the Priority Group (low income households and over 70 years of age) for measures under the Carbon Emissions Reduction Target (CERT); or the household is in fuel poverty based on the standard Government 10% definition

## Improving energy efficiency - The Energy Company Obligation

Following termination of the Warm Front scheme in January 2013, England continues to be the only UK nation without a Government-funded energy efficiency programme targeted at fuel poor households. In contrast, Scotland and Wales have continued to expand funding for their own national programmes. As well as intending to compensate for the loss of Warm Front in England (as well as the other previous GB wide supplier funded initiatives like the Carbon Emissions Reduction Target and the Community Energy Saving Programme<sup>3</sup>), the ECO is also disbursed across Scotland and Wales, with Northern Ireland remaining excluded from this programme<sup>4</sup>. The table below shows how expenditure to address fuel poverty through heating and insulation improvements at a GB level has been reduced compared with previous funding levels in recent years.

**Table 1 - Nominal (not actual) Expenditure on energy efficiency programmes 2010/11 and 2013/14**

GB wide Programme	2010-11	2013-14
Community Energy Saving Programme	£117 million	n/a
Carbon Emissions Reduction Target (Priority Group <sup>5</sup> )	£654 million	n/a
Energy Company Obligation (AW and CSCO)	N/A	£540 million
Total Expenditure	£771 million	£540 million

**\* Note: The actual spend may be lower or higher than Government impact assessments predicted as shown in the table above but this is deemed to be commercially sensitive information and not available)**

The lack of any Government-funded energy efficiency programme targeted at fuel poor households in England and the subsequent reductions of available resources are a key source of concern because as noted above, this results in insufficient funding available for the low income householder to fund 'in-house' works in England, following a successful gas connection. However, as a result the interventions announced in the 2013 Autumn Statement this has also prompted the release of a consultation on the future of the ECO scheme<sup>6</sup>. Following the outcome of this consultation, the Government proposes to make the following changes to ECO in the current obligation period (ending March 2015):

- To reduce the March 2015 Carbon Emissions Reduction Obligation (CERO) target by 33%. The March 2015 Carbon Saving Community Obligation (CSCO) and Affordable Warmth (also known as the Home Heating Cost Reduction Obligation (HHCRO) targets will remain the same.

<sup>3</sup> According to the Association for the Conservation for Energy (ACE)'s Fuel Poverty 2014 update, funding for insulation under ECO, compared to CERT and CESP, has resulted in a 74% reduction in Cavity Wall Insulation, 90% reduction in Loft Insulation and a 68% reduction in Solid Wall Insulation.

<sup>4</sup> In Northern Ireland, the Northern Ireland Sustainable Energy Programme (NISEP) imposes a levy on electricity bills equivalent to around £7 per customer which is set to move to an Energy Efficiency Obligation made up of a levy across all fuels, including the non-regulated oil industry.

<sup>5</sup> Suppliers were required to meet 40% of their total target by delivering measures to a 'Priority Group' of vulnerable and low-income households, including those in receipt of eligible benefits and pensioners over the age of 70 and 15% of the savings needed to be achieved in a subset of low income households (a Super Priority Group) considered to be at high risk of fuel poverty. Under the scheme there was little incentive for the assessor/installer to log detailed financial and personal details of households that would identify them as SPG. In a piece of qualitative research NEA undertook over 7,872 households that had received energy efficiency measures between August 2010 and October 2012 under the Priority Group of the CERT programme, almost one in five (19.1%) respondents recalled having received the Cold Weather Payment in the last two years and NEA subsequently estimated a total of 18.4% of the sample met the SPG criteria.

<sup>6</sup> Department of Energy and Climate Change (DECC): The Future of the Energy Company Obligation, March 2014.

- Allow easy to treat cavity walls, loft insulation and district heating connections made from 1 April 2014 to be included as an allowable primary measure under CERO.
- Enable obligated energy suppliers to carry forward a certain proportion of over delivery against their March 2015 targets to count towards their March 2017 targets.
- Enable obligated energy suppliers to deliver less than their share of the new 2015 CERO target (however this flexibility would not apply to the Affordable Warmth or CSCO targets, with both remaining enforceable compliance deadlines at 31 March 2015).
- Extend the CSCO element of ECO from 15% to the 25% lowest areas on the Index of Multiple Deprivation. In addition, the qualifying criteria for the CSCO rural sub obligation would be simplified by allowing suppliers to deliver against this sub-target to any domestic property located in the poorest quarter of rural areas, as well as to people living in rural areas who are not members of the Affordable Warmth Group.

Whilst existing dedicated support in ECO for low income and vulnerable households is to be maintained and extended from March 2015 until March 2017, in general, the reduced scale of the ECO in future years will continue to seriously exacerbate the problem of insufficient resources. As noted above and below, ECO resources were initially insufficient considering the scale and depth of fuel poverty across Great Britain and this situation is now even more acute (especially in England).

The stop-start approach to funding that we have seen and the resulting peaks and troughs of activity have made it difficult (and sometimes impossible) to form and sustain local delivery partnerships. In addition, the lack of guaranteed assistance for eligible fuel poor households under the ECO makes the scheme very difficult to promote. Based on unwelcome experience, NEA, along with many of partners (including GNs and other advice-providers), have little to no confidence that efforts to identify fuel poor households and encourage applications to ECO will result in actual measures being installed. This lack of certainty represents a major barrier to partnership working and effective delivery. As noted elsewhere, outside England, the Devolved Administrations in Scotland, and Wales have already attempted to respond to some of these challenges by supplementing supplier funding under ECO with tax-payer funded support for their domestic energy efficiency schemes, targeting fuel-poor households or deprived areas. England is now the only UK nation providing no recurrent public funds to enable eligible vulnerable and financially disadvantaged households to improve heating and insulation standards in their homes. This is despite growing evidence that investing in an ambitious, long-term, sustainable funding stream which can radically improve domestic energy efficiency would generate the country (and particularly HM Treasury) more revenue than under a business-as-usual approach.

More specifically, the 33 % reduction to the CERO target will reduce the amount of carbon abatement required from the programme overall and the contribution from hard to treat measures. This change, coupled with uplifted scores for early CERO delivery and the ability of obligated energy suppliers to have increased flexibility for delivery of measures under CERO (by increasing the number of eligible measures that they have a choice to deliver in order to comply) and increased flexibility when they choose to deliver their obligations will reduce the key role ECO resources could have played in supporting fuel poor households in solid wall and hard to treat properties<sup>7</sup>. These properties are more likely to be found in rural and off-gas areas. In addition, the Government will also make the following changes to ECO within the obligation period commencing on 1 April 2015:

<sup>7</sup> Around 27,500 SWI measures were installed under ECO up to end of December 2013.

- To allow an uplifted Affordable Warmth score for measures delivered to households whose main fuel type is not natural gas.
- To provide that electric storage heaters, that are broken or not functioning efficiently, which are repaired or replaced under Affordable Warmth are scored in the same way as a “qualifying boiler” and in doing so, receive a higher notional bill saving.
- To require all boiler replacements delivered under Affordable Warmth to include a minimum warranty.

### **How do these other reforms address the off gas divide?**

Current delivery through Affordable Warmth has almost exclusively been delivered to low income households on the gas network. Whilst it is anticipated that this situation may improve with the recent changes, the table below notes the extent to which these proposals could potentially lead to a real step change in provision for low income households off the gas network.

**Table 2: Percentage of ECO delivery to non- gas fuelled households within AW (current and proposed levels):**

Fuel type	Current	Consultation Scenario	% Change
Electricity	1%	7%	+7%
Other	1%	5%	+4%
Gas	98%	88%	-10%

However, the scenarios presented above are based on an assumption made within the consultation that the uplifts applied to Affordable Warmth scoring for measures delivered to households whose main fuel type is not natural gas are sufficient and that suppliers find it attractive to repair or replace LPG and heating oil boilers or electric storage heaters as a result of the proposed higher notional bill saving. There is also a significant concern that it is highly likely interventions will be targeted at urban off-gas (i.e. electric storage heaters primarily located in tower blocks) as opposed to rural off-gas – primarily heating oil and LPG boilers. In particular, it is highly likely large volumes of electric storage heaters in urban areas will be prioritised with little delivery targeted at rural areas that have LPG or heating oil boilers. More generally, no metrics exist to differentiate between delivery to rural off-gas grid and urban off-gas grid. Responses to Parliamentary Questions have confirmed that the Government does not currently capture this information; yet doing so would help ensure that policies can be monitored and adjusted to ensure there is more equitable delivery and sufficient amount of investment and activity is devoted into rural off-gas grid areas.

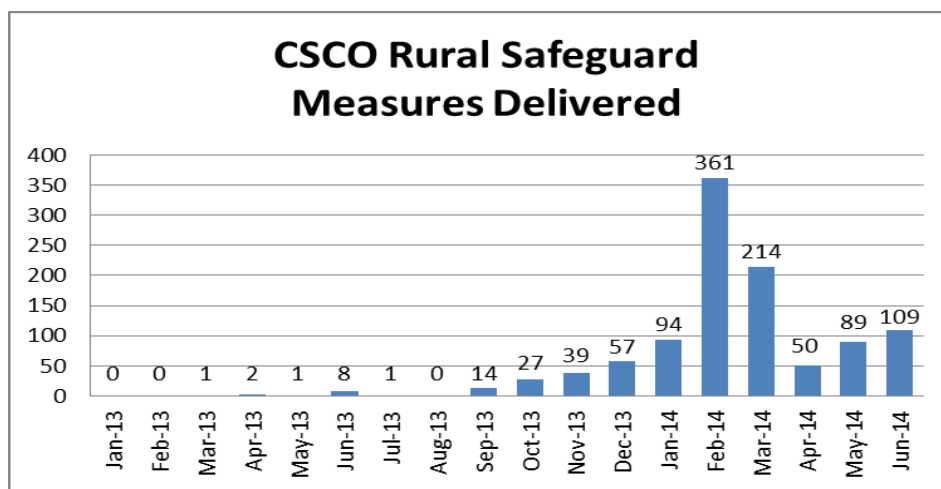
### **Rural Safeguards**

The need to intervene to provide distributional equity for off gas and rural households was partially recognised during the initial policy development before the policy went live. 15% of the Carbon Saving Communities target should have been delivered on behalf of low-income vulnerable households in rural communities at an estimated cost of £25m a year. There were two ways in which a household could qualify to be eligible for activity in this section of the CSCO; if a household was within a settlement of fewer than 10,000 inhabitants and is in receipt of one of the qualifying benefits for the Affordable Warmth element of ECO or a household is within or adjoining one of the qualifying areas.



From the outset of the ECO scheme, concerns have been raised about the validity of the 10,000 inhabitant threshold. Whilst this number of inhabitants would be comparatively small for an urban settlement, this number of households could imply a community is still on-gas, potentially on the urban fringe. This meant that the support that suppliers provide is unlikely to benefit deep rural areas which certainly won't have access to the gas grid and therefore may be more reliant on comparatively expensive alternative heating fuels. DECC statistics<sup>8</sup> released on 21<sup>st</sup> August 2014 indicate that out of 891,669 measures installed under ECO to end June 2014, including 163,849 under the CSCo, only 1,067 of these measures were installed within the rural sub-obligation. These 1,067 measures account for 0.11% of total ECO measures installed (891,669) and only 0.65% of total CSCo measures installed (163,849) Note that 15% of CSCo is supposed to be 'ring-fenced' for rural communities.

**Table 3: CSCO Rural delivery to date**



These concerns are now likely to be enhanced following the changes to the qualifying criteria for the CSCo rural sub-obligation which allow suppliers to deliver against this sub-target to any domestic property located in (or in the adjoining areas to) the rural IMD areas. This additional flexibility is anticipated to expand the number of eligible households from around 600,000 to around 1.3 million Whilst the broadening of eligible households help increase take-up, it is likely to divert help away from the most deprived deep rural areas (and those households on the lowest incomes) towards the easier to reach semi-rural/suburban areas where it is easier to target multiple or clustered homes rather than isolated or smaller settlements (and find householders that are willing to provide larger capital contributions towards the cost of the in-house works) .

### Green Deal Home Improvement Fund

Following the changes outlines above, the Government announced a new tax funded initiative to reduce the impacts of the cuts to ECO. DECC's Green Deal Home Improvement Fund (GDHIF) scheme provided householders with additional financial support where they were replacing their central heating boiler but only natural gas boilers qualified. The rationale was that incentivising replacement of oil or LPG fired boilers through GDHIF may prohibit householders replacing these heating types by installing renewable heating instead. As a result, the only available option to rural householders is via the Renewable Heat Incentive (RHI) which involves an upfront payment of between £6,000-£25,000 to install renewable heating systems (typically heat pumps or biomass boilers). For obvious reasons, these upfront costs are completely prohibitive for low income households and removes the option of a traditional heating system repair or replacement.

<sup>8</sup> Please see: Domestic Green Deal and Energy Company Obligation in Great Britain, Monthly report, 22 July 2014

## **Support for Alternative Heating - Renewable Heat Incentive**

NEA has consistently highlighted that the upfront costs of micro-generation technologies are prohibitively expensive for fuel-poor households. Without assistance in paying the capital costs, these households are unable to benefit from the operational incentives targeted at micro-generation. The Renewable Heat Premium Payment (RHPP) did provide support to cover part of the upfront cost of a renewable heat installation, however, the remaining contribution (sometime as high as 90% of the total capital cost) was left for fuel poor households in private housing to fund.

The Renewable Heat Incentive (RHI) for domestic properties was launched in April 2014. Similar to the feed-in tariff for electricity, this scheme will pay people for the renewable heat they generate in their home. The intention was that Green Deal and the RHI are fully integrated to offer 'those who are off the gas grid a way to a warmer, cheaper, lower carbon home' has been realised, at least in part. NEA therefore welcomed the RHI as one of a number of steps that can help bring renewable heat technologies to the mass market and therefore help people off the gas network to access affordable warmth. However, NEA has concerns that despite the potential, without further intervention, there will continue to be a lack of equal access for the poorest households.

NEA believes that the Government must recognise that it is possible to ring-fence an element of the current domestic RHI budget to provide the necessary upfront capital support for low income households. Before the closure, eligible applicants to Warm Front were guaranteed to receive assistance and could benefit from a grant of up to £6,000 to those off the gas-grid. The grant could be paid for measures such as insulation and alternative heating such as more efficient electrical heating, oil heating systems and renewable heating. Moves to an RHI ring-fence would address this current gap in provision. One thing is for sure, the replacement programme, the ECO, in its current form is not going to fund these measures and therefore NEA will continue to urge policy makers to accept the need for further changes to the current schemes and the need for further adequate resources.

## **Maximising income and mitigating high energy prices**

This year, average expenditure on the WFP fell from £2.5 to circa £2.1 billion. Cold Weather Payments are made to eligible households in an area where a period of exceptionally cold weather has occurred (defined as 7 consecutive days during which the average of mean daily temperatures is 0oC or lower). Households are eligible based on age and vulnerability and in receipt of income-related benefits. There is therefore a strong argument for increasing the levels of support, through schemes such as the Warm Home Discount or WFP, to those qualifying households who live in off-gas grid rural areas in recognition of their inherently higher energy costs.

As a result, in our response to the recent consultation on the fuel poverty strategy in England, NEA recommended that as well as introducing new powers to extend support currently provided under the Warm Homes Discount Scheme (WHDS) Core Group and Winter Fuel Payments (WFP) to all Cold Weather Payment (CWP) recipients and provide a higher rate for off gas households (or increasing temperature thresholds for Cold Weather Payments), the Government must enhance its insistence that current data sharing powers must be used by obligated suppliers to better target and improve the cost effectiveness of current delivery of both the Energy Company Obligation (ECO) and the roll-out of smart meters. The proposed higher payment to off-gas households is predicated on activity from the FPAG off gas working group to provide an accurate database of all households that are off the gas network. As well as higher payment to off-gas households, this could also allow earlier payment of Winter Fuel Payments and NEA therefore urges DECC and DWP to translate this progress swiftly into tangible policy outcomes.

## Conclusions and implications to FPNES

For individual domestic fuel-poor connectees whose premises are situated sufficiently close to a relevant gas main, the total cost of that connection will be determined by a standard domestic connection charge for that DN (often in addition to the cost of any necessary streetworks). The standard connection cost methodologies are published within the relevant Gas Distribution Connection Charges statement. For fuel-poor households whose premises are not situated sufficiently close to a relevant main, the connection is less straightforward; costs are often quoted on a bespoke basis and exceed the maximum value of the Fuel Poor Voucher and, as such, the remaining cost is payable by the connectee. For obvious reasons, the burden of these additional connection costs is prohibitive to low-income households and frequently the connection will not proceed.

Two observations are apparent; the success of extensions of the gas network to fuel poor or vulnerable households is reliant on sufficient public funding being available for 'in-house' works. The recent reductions highlighted above, alongside the unlikely outcome of the provision of measures<sup>9</sup>, will reduce the likelihood that sufficient numbers of fuel-poor households will have the means to fund the necessary in-house works that facilitate the connection. There is also a gap in provision in instances where the total connection cost exceeds the maximum value of the Fuel Poor Voucher. Given these challenges it is important to highlight that, currently, if the maximum fuel poor discount exceeds the cost of the connection, the householder would not be able to use the remaining value for other purposes, or to transfer that value to other householders. In the case of one-off connections, there therefore may be scope to amend this restriction to allow GNs (or respective GDN partners) to apply the full Net Present Value (NPV) of future transportation revenues to the successful connections of fuel-poor households but hypothecate any surplus on the true costs of this connection to provide assistance to households who would exceed the maximum value of the Fuel Poor Voucher (*i.e* transfer any surplus to support fuel-poor households where premises are not situated in close proximity to a relevant main). If this surplus can be realised, aggregated and capitalised, the types of assistance which might be provided (by a range of parties) could include:

- Improved heating controls
- Insulation of attic and wall cavities
- Draughtproof doors and windows
- Radiator reflector panels
- Providing energy-saving appliances and electrical efficiency measures
- Replacing incandescent bulbs with CFLs or LEDs
- Improved building insulation and air tightness and reducing areas of air leakage
- Improvements to the efficiency of electrical water heating systems

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<sup>9</sup> Annual expenditure on programmes which can fund the heating of fuel poor households in England has reduced significantly. Under ECO, obligated energy suppliers also have full discretion to determine the extent of support they (or their contractors/agents) will provide to households and the measures they choose to install. As discussed above, it is also unlikely off-gas grid households will benefit from heating measures within the rural safeguard.

It should be highlighted that these changes could also be made quickly and all that is required is modifying the GDN and IGT licences which currently contain conditions that limit the amount of revenue that companies can recover from their customers. Whilst NEA expects further work may be needed to explore the potential implications for all customers and investigate any disadvantage or distributional impacts that might accrue to different types of energy consumers who may not directly benefit from these proposals, NEA would stress that the depth of fuel poverty off the gas network is likely to be deepening and this should provide justification for taking adequate action to support these households.

As noted above, NEA would therefore urge Ofgem to 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 priority is to supplement existing programmes and help unlock the replacement of inefficient electric heating systems in tower blocks, provide contributions towards modern efficient district heating networks and improve access to more efficient conventional or renewable heating measures and extensive and low cost insulation. Working with obligated energy suppliers, we want Gas and Electricity Network Operators to help deliver a new fund for low-income households who are not currently connected to the gas network and may miss out on assistance all together.

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

As noted above.

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

NEA is not clear on the 'issues' being referred to in this question, however, both FPAG and the Scottish Fuel Poverty Forum have insisted that DECC should not rely solely on market driven models to provide equal access to low income off gas households and additional resources are desperately needed to ensure programmes provide a cost effective long-term solution for tackling high energy bills and helping to eradicate fuel poverty.

FPAG has particularly highlighted that data sharing can reduce policy costs and help the most vulnerable households access support. As well as introducing new powers to extend support currently provided under the Warm Homes Discount Scheme (WHDS) Core Group to all Cold Weather Payment (CWP) recipients and providing a higher rate for off gas households, FPAG and NEA has also highlighted that the Government must enhance its insistence that current data sharing powers must be used by obligated suppliers to better target and improve the cost effectiveness of current delivery. The proposed higher payment to off-gas households is also predicated on activity from the FPAG off gas working group to provide an accurate database of all households that are off the gas network. As well as higher payment to off-gas households, this could also allow earlier payment of Winter Fuel Payments and NEA therefore urges DECC and DWP to translate this progress swiftly into tangible policy outcomes.

Beyond the to help deliver a new fund for low-income households who are not currently connected to the gas network, NEA has also been working with FPAG to continue to highlight a new opportunity to increase resources for domestic energy efficiency in England and across the UK by working with Distribution Network Operators (DNOs) to incentivise electricity demand reduction on their networks, alongside a direct social outcome.

Finally, NEA has also been working with FPAG to call on the Government to urgently address some of the failings of ECO from a customer perspective and address a lack of guaranteed assistance for certain specified HHCRO eligible households. Key to this is activating existing powers which enable the Secretary of State to focus the delivery of energy efficiency programmes on specified types of people or specified geographical areas through secondary legislation. These powers would require the energy companies to follow up 'mandated' referrals' with guaranteed assistance being provided to the specified householders. This in turn would give far greater confidence to local authorities and community based organisations to refer households for assistance.

***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?***

As noted above, NEA recommends Ofgem allow GNs to apply the full Net Present Value (NPV) of future transportation revenues to the successful connections of fuel-poor households but hypothecate any surplus on the true costs of this connection to provide assistance to other households who would exceed the maximum value of the Fuel Poor Voucher. In response to question 3, NEA highlighted the types of measures that could be funded. NEA has significant evidence of the cost savings and wider benefits of these energy efficiency interventions.

As part of a recent project, NEA commissioned work to look at the costs and savings associated with low-intervention measures and their installation in households. The tool developed an assessment of costs and savings for a standardised package of measures to be installed in three property types known (based on English Housing Survey data) to be prone to fuel poverty. The three property types are:

1. 2-bed mid-floor flat with electric storage heaters and immersion
2. 3-bed semi-detached house with gas
3. 3-bed semi-detached house with oil and immersion

The measures chosen for the standardised package were selected on the basis they:

- a.) cost less than £20 per measure;<sup>10</sup>
- b.) take less than one hour to install per measure;
- c.) require basic to medium skills to install that make use of only simple tools, for example an Allen key or screwdriver.

In developing a standardised package, assumptions were made around a typical number of units to install per low-cost measure per property (for example two radiator reflector panels per household). Calculations for the three property types incorporate only those measures applicable to that property type. The type, number and install cost of measures included in the standardised package is outlined in the table below.

<sup>10</sup> The £20 is exclusive of labour costs but inclusive of the total typical number of units to install per measure per property. For example, energy efficient light bulbs, GLS – LED, cost £12.24 per unit but on average five are required per property. Thus this measure was excluded from the standardised package.

### Standardised package of low-cost measures

	Low-cost measure	Typical number of units installed per property	Total install cost <sup>11</sup>
1.	Radiator reflector panels	2	£12.84
2.	External door stops draught proofing	1	£6.30
3.	External door threshold draught proofing	1	£7.63
4.	Letter box lagging	1	£24.49
5.	Pipe lagging	1	£9.58
6.	Hot water insulation jacket	1	£9.88
7.	Energy efficient light bulbs GLS - CFL	5	£12.10
8.	Standby-off plug	1	£8.18
9.	Carbon monoxide alarm (basic)	1	£12.68
10.	Setting heating controls (not providing new ones)	1	£6.00
11.	Check Economy 7 meter times	1	£1.20
12.	Per property works price <sup>12</sup>	1	£9.00

For this standardised package, the total cost (labour and kit) is estimated at £124.18. The time taken to fit the measures is estimated at five hours. Presented below are benefits accrued from this standardised package. The first table shows annual cost savings (£) and annual carbon savings (kg CO<sub>2</sub>) for each measure<sup>13</sup> across the three property types.<sup>14</sup> The following table shows the total cost and carbon savings for the standardised package across the three property types. The payback period to realise the total cost savings (based on the total cost of the package) is also represented.

<sup>11</sup> Install cost consists of the average of the minimum and maximum labour cost plus the cost of the total typical number of units installed per property. Unit prices are exclusive of VAT.

<sup>12</sup> Per property works price consists of the cost to 'get through the door', assess a property and explain the measures.

<sup>13</sup> Savings for each measure are calculated on the assumed typical number of units installed per measure per property.

<sup>14</sup> The figure for each metric (Saving £/annum, Saving kg CO<sub>2</sub>/annum) represents the mean of the estimated minimum and maximum saving.

## Cost and carbon savings by low-cost measure across three property types

Measure <sup>15</sup>	2-bed mid-floor flat		3-bed semi with gas		3-bed semi with oil	
	Saving £/annum	Saving kg CO <sub>2</sub> /annum	Saving £/annum	Saving kg CO <sub>2</sub> /annum	Saving £/annum	Saving kg CO <sub>2</sub> /annum
1.	NA	NA	5	20	7	26
2.	NA	NA	3	12	4	14
3.	NA	NA	3	12	5	14
4.	NA	NA	2	0	2	4
5.	NA	NA	24	96	43	153
6.	45	164	77	311	140	505
7.	47	173	47	173	47	173
8.	3	11	3	11	3	11
9.	NA	NA	NA	NA	NA	NA
10.	NA	NA	35	141	49	175
11.	33	0	NA	NA	NA	NA

## Cost and carbon savings for a standardised package of low-cost measures across three property types

	2-bed mid-floor flat			3-bed semi with gas			3-bed semi with oil		
	Saving £/annum	Saving kg CO <sub>2</sub> /annum	Cost £ /kg carbon saved per annum	Saving £/annum	Saving kg CO <sub>2</sub> /annum	Cost £ /kg carbon saved per annum	Saving £/annum	Saving kg CO <sub>2</sub> /annum	Cost £ /kg carbon saved per annum
Min. saving	38	141	0.88	87	340	0.37	157	556	0.22
Max. saving	216	554	0.22	308	1213	0.10	442	1593	0.08
Mean saving	127	347	0.36	197	777	0.16	300	1075	0.12
	Years			Years			Years		
Max. payback	3.2			1.4			0.8		
Min. payback	0.6			0.4			0.3		
Mean payback	1.9			0.9			0.5		

<sup>15</sup> The number corresponds with the numbered measure in the first table of measures. Refer to this table for the name of the measure.

What these findings show is that for a relatively short payback period (less than two years for a 2-bed flat, less than one year for a 3-bed semi with gas and less than half a year for a 3-bed semi with oil) a package of low-cost measures can achieve considerable carbon and cost savings (or in the case of low consumption households, lead to significant increased comfort levels). Specifically, the mean cost and carbon savings across the three property types ranges from £100 to £300 per annum and from 300 to 1000 kg CO<sub>2</sub> per annum. This suggests that for a modest outlay the interventions could have both economic and environmental benefits in the form of reduced energy bills for vulnerable fuel poor customers and reduced carbon emissions. In addition to the measures themselves, there may also be cost and carbon savings (not quantified here) from household behaviour change occurring through both the provision of the measures and a level of personalised energy advice.

**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?**

**Extension to 25% most deprived areas**

NEA 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.

**Eligible for measures under HHCRO, NEST and HEEPs**

NEA agrees with this proposal

**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, NEA stresses the FPNES must continue to provide assistance to low income households who could be judged to have low incomes and below median costs. NEA also notes that the LIHC indicator applies only to England whereas the FPNES has a broader geographical scope.

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

NEA understands that the main consequence of using average domestic gas consumption will mean a reduction of the value of the Fuel Poverty Voucher of c. £900 per property. This will mean that many households will be required to find a further contribution towards the costs of connection. This issue will be particularly accurate in private housing where it is also likely the householder will need to make a capital contribution towards the cost of any related in-house works. This will therefore enhance the barriers noted throughout this response and is anticipated to stop many projects from going ahead.