

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>	Northern Gas Networks Ltd
<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>	Gas distribution network. During the last review period we provided assistance to over 4,000 fuel poor customers under the extension scheme. We plan to provide assistance to more than 12,000 customers in the current review period.
<i>What areas of the country does your business operate in?</i>	Yorkshire, the north east and northern Cumbria

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.

Yes the scheme sits very clearly within the UK heating strategy which under DECC's own modelling for the strategy envisages that gas will continue as the main fuel used to provide heat up until the 2040s, but then a switch to other technologies by 2050. The results show a more limited role for gas in 2050, mainly in gas source heat pumps and hybrid technologies rather than in traditional gas boilers. However, it is incorrect to state that the heat strategy envisages that gas usage is reduced close to zero in 2050 as the DECC modelling still envisages around c20/25% of domestic heat load is met by gas

post 2050.

In 2010 NGN as part of the Energy Networks Association (ENA) commissioned a scenario based study with Redpoint. This study, which was supported by numerous energy/business analysts, provided a fully costed view of four potential pathways to 2050, which indicated that costs to the UK could be in the order of £700bn if gas is removed from the energy mix. Maintaining gas use for heat albeit on a reduced scale post 2040 saves the UK very substantial costs and still allows the UK to meet the relevant carbon targets.

The scheme offers immediate assistance to the affordability of energy for customers in fuel poverty with savings of at least £300 per annum as gas is the cheapest unsubsidised means of heating domestic properties. Intervention for households in fuel poverty should be made as early as possible with a focus on relieving the problems of today.

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 way the scheme currently operates means that only those properties where it is economic to do so are connected based on expected future revenues from the property. This is an appropriate approach and should be maintained. Within this constraint we don't see any case for restricting access to the scheme beyond the eligibility criteria.

Again we would urge a focus on making interventions to relieve fuel poverty based on immediate savings than 15-45 year timescales.

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.

The scheme works well where there is parallel funding that can be used to fund in-house works. In England the move from CESP and CERT to the various ECO funding streams and green deal has had a detrimental effect on the availability of funding for in-house works. DECC statistics show the total number of homes being assisted (even including Green Deal) over the last 12 months is only around one third of the level of previous years (e.g. under the CERT, CESP & Warm Front mechanisms).

In addition, ECO funding has been volatile and there are a number of factors further reducing the amount of ECO funding available for many of the most vulnerable fuel poor homes meaning that in many cases there are fuel poor homes that are simply missing out.

For example, the "Affordable Warmth" or HHCRO element of ECO (largely for heating plus low cost insulation measures) was intended to equate £350 million p.a. expenditure (at 2011 values) with little or no contribution from customers. This was based on DECC's Impact Assessment report estimate of an HHCRO rate of 19p and with a certain average total amount of savings per household. In reality HHCRO funding rates have sharply fallen to well below this level (often well under 10p) and which incentivises cherry-picking of larger homes and/or simpler jobs (ensuring many of the most vulnerable miss out).

This will be more acute next year given that DECC is introducing a new HHCRO mechanism that reduces the value of gas fired gas heating savings by 20-25% (something that our partners believe is very ill considered and that was not explicit in

the ECO consultation document). This will further reduce the amount of ECO grant funding available for homes on the mains gas network from an already unduly low level, as outlined above. Unlike Scotland and Wales, there are no other grant funding sources available from central government for these types of heating jobs.

The scheme currently does not provide support for localised heating schemes. For example, high rise properties where the installation of gas CHP plant in the basement of such properties would allow major cost savings for the residents.

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

To assist with the problem of in-house funding the scheme should be amended such that where the actual cost of connection falls below the voucher value, the differential could be used to support in-house works and supplement other forms of funding.

Include within the scheme connections to support localised heating schemes. For example, gas CHP installations in high rise properties where localised heating systems within building can provide much more efficient heating and lower bills for the residents. Eligibility would be determined by the status of the individual residents or location consistent with the scheme criteria with the eligible vouchers pooled to support the provision of the gas connection.

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

Yes – see suggestions in response to previous questions

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?

Overall we think the scheme operates well and has made a real difference to those customers who have had a gas connection and other works carried out. The two changes we would like to see made are set out in response to question 4.

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?

Our analysis of the proposed changes shows they are likely to reduce overall the number of eligible customers. Whilst extending the eligible LSOA's to the top 25% will increase the number we calculate this is more than offset by the move from CERT Priority or Warm Front criteria to HHCRO criteria. Our partners also consider that moving over to the new "LIHC" definition of fuel poverty will exclude many of those in fuel poverty and reduce the number of people eligible under the scheme.

They also believe it is more difficult to work with in practice and also introduces an inconsistency with the approach in both Scotland & Wales where the existing 10% definition will continue to be used. Our area has a large border with Scotland and we are mindful that this could create some localised issues with differing criteria applying north and south of the border.

There are two changes we think should be made to the proposed eligibility criteria:

- Retain housing benefit as a specific criteria as currently exists via CERT priority eligibility. Retaining this will have a significant impact with the development of schemes with Social Landlords when the area is outside LSOA eligibility. Scheme viability can be assessed prior to approaching residents. For Social Landlords it is important for them to be able to assess opportunities without raising tenant expectation. The majority of tenants are not willing to interact with an assessment process as they presume their landlord is ultimately responsible for the maintenance and upgrade of the property.
- Include those customers eligible for the Winter Fuel Payment which would retain the age eligibility criteria and align to the wider fuel poverty strategy.

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

Yes – Ofgem has already approved the modification to NGN’s connection charging methodology statement to implement this change.