

OFGEM FUEL POOR NETWORK EXTENSION SCHEME CONSULTATION

Question 1: 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.

We welcome Ofgem's acknowledgement of the interaction of this scheme with the Scottish Government's Heat Generation Policy Statement. However, we do not believe it aligns well with the long-term objectives of decarbonising our heat supply and could be better aligned with policy and support that the Scottish Government has put in place for energy efficiency, low carbon and renewables, and district heating particularly where this aims to address fuel poverty.

The scheme does not consider the overall socialised costs of subsidising gas network extensions, which conflict with alternative support schemes for low carbon, for example by reducing the cost effectiveness of a district heating scheme or area based energy efficiency strategy. There is also a risk that a subsidy for a short-term solution will increase the costs for future replacement by low carbon or renewable technologies.

It would be more appropriate to look at either individual or groups of homes or even areas (domestic and non-domestic) and assess the available low carbon technologies which deliver the greatest long-term reduction in fuel poverty and to provide a voucher toward the capital cost of achieving the best option, rather than just a gas network extension.

For example, in certain areas it would be more appropriate to extend or build district heating networks than to extend the gas network (i.e. where multi-storeys can be connected to surrounding low rise areas, or there is a low cost source of heat from industrial facilities or Energy from Waste plants – new industrial and waste installations are required under their permitting regime to make use of their excess heat to ensure a high level of energy efficiency is achieved). In these circumstances the heating technology, and so fuel source, can be changed with less disruptive cost to the householder. In areas where district heating is appropriate, extension of the gas network may not only increase the overall cost of largely decarbonising heat but it may make such district heating schemes non-viable.

We would consider this to be of particular importance in areas where the cost of delivering the gas network is very high and is socialised across all gas consumers.

As set out in the Draft Heat Generation Policy statement, the Scottish Government supports district heating through the Heat Network Partnership and finance programmes such as District Heating Loan Fund, Warm Homes Fund. A directory of district heating projects in Scotland is available on the website districtheatingscotland.com and on the Scottish Government's heat map).

Our recommendation is that, in areas where district heating exists or is being planned (with the caveat that those schemes must have heat supply contracts that deliver a high standard of consumer protection), vouchers should only be valid for connection to the district heating network not to extending the gas grid. The Scottish Government would be happy to work with Ofgem to build up a robust evidence base, including using the evaluation of our District Heating Loan Fund currently underway, to ensure this option would provide long term low cost heating for consumers.

Question 2: Should the Scheme be targeted at certain types of customers/certain locations to maximise long term benefits (e.g. over a period of 15-45 years)? If so who/which locations should be targeted and how might this best be achieved?

The Scottish Government aims to decarbonise heat at least cost to consumers. We recognise that there will be areas where there are no immediate opportunities for low carbon heat and for which a scheme that funds extensions to the gas grid may continue to be useful – i.e. areas not close to any existing or planned district heating network; no nearby alternative low carbon sources of heat; or where there is a very low cost to connect to the gas grid.

A scheme which looks at the lowest carbon alternatives to extending the gas network should be targeted at:

- homes off the gas network
- lowest IMD areas plus a buffer zone
- any area where the cost of delivering gas by vehicle is very high.

The Scotland heat map (www.scotland.gov.uk/heatmap) provides a tool to help to identify target areas as priority for low carbon alternatives, which could be defined based on agreed criteria. The Scottish Government would be happy to work with Ofgem to maximise the benefits of this map to targeting the Scheme appropriately.

Question 3: 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 Scottish Government's fuel poverty, climate change and heat strategies prioritise improving the energy efficiency of homes and businesses in Scotland. Improving energy efficiency is the most sustainable way to tackle fuel poverty, and can also make a significant contribution towards reducing emissions and ensuring security of energy supply.

We do not believe the Fuel Poor Network Extension Scheme interacts well with these strategies because no minimum energy efficiency standards (e.g. carrying out Green Deal recommended measures) are required to access the support. This is now a requirement of most forms of low carbon/renewable support.

Question 4: Are there any changes we could make to the Scheme that would better align it to these strategies and forms of assistance?

As set out in response to Question 3, the Scottish Government believes that improved energy efficiency is key to tackling fuel poverty. We would recommend that minimum energy efficiency standards are introduced as criteria for accessing this support.

Where social landlords have identified district heating as the lowest cost option for their tenants, which will be a primary measure under ECO, vouchers for household connections to district heating schemes would support delivery of these projects. In addition, in areas with a high level of mixed tenancy, the lack of ability of private householders in fuel poverty to pay for the connection costs can reduce the scheme's viability (in general, the greater the demand, the greater the efficiency). The availability of vouchers for private homeowners to connect to district heating schemes would address this issue.

Voucher schemes should be supported by consumer protection standards and regulation. Consumer protection for renewables is covered under the Microgeneration Certification Scheme. For district heating, new regulations on heat metering and billing will ensure transparency over heat costs for consumers, and the voluntary Independent Heat Customer Protection Scheme in development, may be able to provide appropriate guarantees in future.

Question 5: Does the Scheme provide an opportunity to address these issues? What changes could be made to the Scheme to help address these issues?

The Fuel Poor Network Extension Scheme is not currently well linked in to the Scottish Government's fuel poverty and energy efficiency support programmes and it is not well publicised as being an accessible form of support for off-gas grid households. Creating links to these programmes, and our wider climate change and heat policies (in particular district heating), will provide an opportunity to widen scope for increased support to those currently not connected to the gas grid whilst also tackling fuel poverty.

Question 6: 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?

Yes, see response to Question 4 above.

Question 7: 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?

Agree. However please note the additional eligibility proposed in the response to Question 4 above.

Question 8: Do you agree with this change to the average domestic gas consumption value?

No. The Scottish Government believes that this value should not be an average across the UK but regional averages – taking into account the heat needs.

DECC publish sub-national gas consumption data here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/303106/Sub-national_gas_consumption_statistics_at_local_authority_level_2005_-_2012_.xlsx

This is data DECC publish for the regions and countries of GB (and it includes an overall GB figure as well). For 2012, it shows that average domestic gas consumption (per meter) was **5.3% higher in Scotland** than GB as a whole.