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Dear Rupika,

Review of the Fuel Poor Network Extension Scheme

We welcome the opportunity to respond to your consultation on reviewing the Fuel Poor Network Extension Scheme (the 'Scheme').

As you are aware, SGN operates two of the largest gas distribution networks in the UK and deliver gas to 5.8 million customers. We are committed to reducing fuel poverty and through our 'Assisted Connections' programme, we can provide a new gas connection free of charge or at a substantially reduced cost to fuel poor households. Under the RIIO-GD1 price control, we have committed to deliver 9,000 fuel poor connections in our southern network and 11,000 fuel poor connections in our Scotland network by 2021.

We firstly summarise the key aspects of our response to your consultation in undertaking a review of the Scheme. We then provide more detailed responses to each of your questions in the format of the response template provided in Annex 3 of your consultation.

In addition to our response, we would also like to remind you that we have previously responded to your request for information, and have highlighted aspects we consider work well or could be improved upon within the remit of the current Scheme. We have also conducted our own fuel poor stakeholder surveys, the results of which were shared with you as part of our response to your request for information. It is important you also consider our response to that request for information when evaluating this consultation response.

We have also provided a separate response to the Department of Energy and Climate Change (DECC) consultation on an appropriate fuel poor strategy for England, and we would be happy to share a copy of our response to that consultation on request.

Finally, we note the Energy Networks Association (ENA) has provided a separate response on behalf of network companies which we were party to, and of course we support the key themes identified in that response. We have also consulted with Energy Action Scotland, and they concur with the key points we raise in our consultation response.

### Summary of our response

Our response can be summarised as follows:

- It is critical to recognise that safe and reliable gas supplies are fundamental to tackling fuel poverty. We would emphasise the importance of any future government strategies clearly indicating gas will continue to play an important role in heating domestic properties in urban areas as a fuel into the 2030s and beyond. Once installed, gas remains the lowest cost source of heating available as an option to alleviate fuel poverty in the majority of areas in the UK;
- We continue to lead the development of green gas and believe this will allow gas to continue to help play a vital role in meeting the needs of fuel poor customers for many years to come;
- We consider if sufficient provisions were made available to support the installation of other in-home measures (i.e central heating systems), many more vulnerable households could be supported under the Scheme;
- All of the schemes mentioned in the consultation paper have a part to play in addressing the issues of fuel poverty in the UK. We believe greater transparency and promotion of these schemes would ensure customers are made aware of how each of the schemes could help them and increase take-up;
- We consider that fuel poor customers who benefit from an indirect connection (i.e. for instance via a district heating connection which is supplied by a direct gas source) should also qualify under the Scheme; and
- We broadly agree with the proposed updates to the eligibility criteria. However, we disagree with the proposal to exclude people above the age of 70 years old, as this potentially risks large numbers of vulnerable people from qualifying under the Scheme.

Thank you again for the opportunity to provide you with our comments on the Scheme and our recommendations for further improvements. We agree the Scheme is important for fuel poor customers, and we look forward to assisting Ofgem in ensuring gas network companies remain appropriately incentivised to deliver the needs of their customers now and into the future.

Should you require any further information with regards to our response then please do not hesitate to contact either \_\_\_\_\_ or \_\_\_\_\_

Yours sincerely,

## 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.

It is critical to recognise that safe and reliable gas supplies are fundamental to tackling fuel poverty. We would emphasise the importance of any future government strategy(s) clearly indicating that gas will continue to play an important role in heating domestic properties as a fuel into the 2030s. Once installed, gas remains the lowest cost source of heating available as an option to alleviate fuel poverty in the majority of areas in the UK.

In addition to increasing the thermal efficiency of fuel poor homes, connecting these properties to the UK's gas grid can be a cost effective way of taking customers out of fuel poverty and as recognised by the Energy Saving Trust:

<http://www.energysavingtrust.org.uk/Energy-Saving-Trust/Our-calculations>

Increasing the number of fuel poor gas connections not only removes people from fuel poverty by lowering their heating costs, but also reduces carbon emissions from homes which were previously heated using oil, Liquid Propane Gas (LPG), coal or electricity. We continue to lead the development of green gas and believe this will help allow gas to continue to play a vital role in meeting the needs of fuel poor customers for many years to come.

At present, we consider there to be both a real and potential conflict between the policy intent and ambitions of the UK Strategic Framework and Scotland's Heat Generation Policy Statement (HGPS). While supporting the overarching objectives to reduce greenhouse gas emissions, we consider these government policy statements should also encourage fuel poor customers to seek and connect to the most economical source of energy for their needs (i.e. gas).

We commissioned work through the Energy Network Association (ENA) Gas Futures Group which was carried out by the Edinburgh based consultancy Delta-EE. This can be found at:

[http://www.energynetworks.org/modx/assets/files/gas/futures/Delta-ee\\_ENA%20Final%20Report%20OCT.pdf.pdf](http://www.energynetworks.org/modx/assets/files/gas/futures/Delta-ee_ENA%20Final%20Report%20OCT.pdf.pdf)

This work shows that over time, district heating and heat pumps would not be able to compete economically with mains gas heating. Nonetheless, in certain circumstances, district heating connections can serve as a useful tool to address fuel poverty where individual gas connections are not possible. We have supported and funded this type of gas connection cost on a discretionary basis in the past but would encourage Ofgem to provide GDNs with the appropriate funding for these connections through our 'Assisted Connections' scheme.

We also consider that if sufficient provisions were made available to support the installation of other in-house measures (i.e central heating systems), many more vulnerable households could be supported under the Scheme. This is of particular importance to off-gas communities within the vicinity of the existing network as the costs of mains infrastructure to reach these communities can often exceed the maximum Assisted Connections allowance or 'Voucher Value'.

An ability to lever additional funding, either from within the Scheme or via alternative assistance options, is critical to reaching such communities. Any broader UK energy strategies should also recognise this important factor and the current fuel poverty issues experienced by these communities.

We recognise the value of schemes such as the Scottish Government Gas Infill Loan Scheme in overcoming the costs challenges for connecting off-grid fuel poor communities, and we would encourage the continuation and expansion of such schemes across the rest of the UK.

We note DECC is currently consulting on a new fuel poverty strategy for England and we would therefore encourage Ofgem to work with DECC to ensure the fuel poor networks extension scheme continues to be an integral part of the Government's strategy to combat fuel poverty. We would also encourage Ofgem to continue working with the Scottish Government to ensure favourable outcomes are achieved for customers in Scotland and with particular reference to the Home Energy Efficiency Programme for Scotland (HEEPS).

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?

We consider it important to ensure the Scheme is targeted at the most vulnerable people in our society and gas remains a cost effective energy solution for all customers who experience fuel poverty.

We would strongly support a broader funding package for potential fuel customers incorporating the installation and use of energy efficient central heating systems as part of their wider energy needs.

Residents living in high rise and/or tower block sites are some of the worst affected homes in the country and are often in the most urgent need of assistance with their energy needs. Installing gas infrastructure to these types of premises is often prohibitively expensive, and a more cost effective solution for customers is district heating system options. We would like to be provided with funding to continue to support this solution. We will continue to innovate and develop new methods and technologies for installing gas services to high rise buildings to make them viable alternatives to district heating schemes.

Under RII0-GD1, we have recognised the particularly vulnerable circumstances of Park Home residents and have committed to continuing to engage with these communities. With the recent changes to ECO governance which has improved recognition of Park Home residents, we are much closer to attaining a whole-house approach, which we believe is critical to supporting these communities.

The Scheme should better engage with private landlords, but we appreciate this is a market that each of the funding streams are finding it difficult to engage. We therefore welcome the changes to the Energy Bill 2011, which encourages private landlords to improve the energy efficiency of their housing stock for their tenants by 2018. In order for this to be most effective, we would suggest there should, in addition, be enforceable obligations placed on all private sector landlords to ensure tenants are protected.

We consider the delivery of future improvements would be enhanced by improved co-ordination between various utility providers and, in particular, we believe closer co-operation between gas and electricity networks operators and energy suppliers should be further encouraged.

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.

All of the schemes mentioned in the consultation paper have a part to play in addressing the issues of fuel poverty in the UK. We believe greater transparency and promotion of these schemes would ensure customers are made aware of how each of the schemes could apply to them.

However, we consider there is currently a fundamental disconnect between government initiatives such as ECO / Green Deal and the Scheme. In our view, there needs to be greater focus on the provision of a total integrated energy solution for fuel poor customers rather than individual aspects of a combined energy solution.

By way of example, while improved thermal insulation of properties should be encouraged, this is often the easiest to deliver but offers only a partial solution to the needs of fuel poor customers. Under previous supplier-led funding streams, there were provisions to support the installation of complimentary in-house measures (such as central heating systems). As such, it is arguable that without similar measures, we are unable to target the worst-affected most vulnerable households as the central heating system can be prohibitively expensive. Improved interaction could be better facilitated by inclusion of the Scheme in the national energy efficiency hotline advice scripts (via the Energy Saving Trust). We are looking into this on behalf of all GDNs to ensure customers are receiving a full outline of options for potential support.

HEEPS (in Scotland) has been an important enabler to supporting our scheme due to the Energy Assistance Scheme component, which has fuel switching funding available for private householders.

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

We consider our response to Q2 & Q3 suitably addresses our concerns around the need for a more integrated energy solution for fuel poor customers.

We also consider fuel poor customers who benefit from an indirect connection (i.e. for instance via a district heating connection that is supplied by a direct gas source) should also qualify under the Scheme.

In our southern network, we have also received a request to provide individual gas supplies, and a small supporting gas network, to a housing area whose residents could potentially qualify as fuel poor customers. This covers approximately 600 properties, but the current criteria of the Scheme prevents us from considering these customers as being eligible for assistance as these residents are currently supplied via pipework that is technically an outlet installed downstream of large primary meters (and hence these customers already benefit from being supplied with gas). This situation means that fuel poor customers within this network will not be able to benefit from having their own smart meter installed, and thus take advantage of being able to choose their supplier and make more informed decisions about their own energy efficiency and use. In our view, Ofgem should consider instances such as this may become more common in future, and ensure the Scheme incorporates sufficient flexibility to accommodate the wider needs of existing fuel poor customers.

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

We are supportive of the Scheme and the way it is generally structured. However, we consider more flexibility could be built into the Scheme and we expand on this below.

In our view, the Scheme does not provide an opportunity to support households beyond the associated connections costs within the voucher value. It is therefore difficult to support communities who are off-gas grid, be it through network extensions or other off-gas grid technologies.

To date, we have supported projects to support off-gas grid customers on a discretionary basis. This has included supporting the Scottish Federation of Housing Associations to set-up the Energy Ideas Fund to support research and feasibility studies into six off-gas grid projects. We are also members of the Off Gas Grid Working Group that is reviewing off-gas grid solutions, and as part of this we are providing our network data to support mapping off-gas communities nationally.

We consider there needs to be further discussion on the fundamental change of the Scheme incentive mechanism to allow greater flexibility. For example, we could allocate a percentage of the allowance to a fund that can be used to support network extension projects and other discretionary projects. We would be happy to discuss the potential of this option further with you.

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?

Please refer to our responses to the previous questions as we consider our previous answers also suitably respond to this question.

In addition, we remain of the view that energy suppliers should be obliged to promote and consider the Scheme as part of a wider package of energy efficiency measures that are provided to customers at the time they transfer to a smart meter. We consider promoting the Scheme as part of a wider energy efficiency assessment for fuel poor customers would be extremely beneficial.

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?

We broadly agree with the proposed updates to the eligibility criteria.

However, we are concerned with the proposal to exclude people above the age of 70 years old, as this potentially risks large numbers of vulnerable people from being unable to qualify under the Scheme. For this reason, we do not support this proposed change to the eligibility criteria suggested in Annex 1 of the consultation paper.

We understand Ofgem's reasons for reaching this position, but our concern originates from recent research which indicates the number of fuel poor customers is likely to increase significantly in the future. For instance Energy Action Scotland has advised of a survey showing that people's life savings generally last for 4 years after retirement, and hence by 70 years of age they will be state dependant and most likely to experience fuel poverty. This is further compounded by the latest government estimates that the number of people aged 65 and over will increase from 8 million in 2007 to 14 million in 2031. Overall, the consensus of opinion indicates more people will remain at home and not move into care homes until much later in life. This will increase the number of elderly and vulnerable people remaining at home.

More generally, and with the exception to the above point we have made on excluding people above the age of 70, the proposed updates allow a better alignment with supplier-led schemes. We consider this is logical and encourages a more joined-up funding pool which may lead to improved holistic solution designs. However, to take full advantage of the improved opportunities to provide a whole-house approach to tackling fuel poverty, it is essential our previous response on the need for funding opportunities for more integrated fuel poor energy solutions (i.e. the inclusion of central heating systems) is addressed.

We also consider better direction is needed on the application of the 10% rule for Scotland. There is currently no guidance and we would welcome further clarification from Ofgem on this point to improve access to the Scheme.

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

We broadly agree with the proposed change to the average domestic gas consumption value. However, we do not agree the general trend evidenced by Ofgem applies equally to the fuel poor demographic.

In line with the views of one of our key stakeholders, Energy Action Scotland, we believe that while energy efficiency measures have been successful in improving efficiency ratings in homes (and thereby lowering gas consumption) there has been less progress in recent years for improving the energy efficiency rating of homes in band F and G. In support of this view, we would refer you to the Scottish Housing Condition Survey 2012 which can be found at:

<http://www.scotland.gov.uk/Resource/0043/00439879.pdf>

These homes are generally the least thermally efficient and are likely to require a higher than average gas consumption to overcome the poor insulating properties of their homes. This is important because thermal efficiency is a key factor in determining fuel poverty.

Furthermore, we are concerned that accepting the proposed change to the gas consumption value would decrease the voucher value available per connection. This would cause a significant number of quotes to enter the "contribution required" category, which could exclude the most vulnerable households from accessing our scheme. It is arguable that this effect would be exacerbated by the lack of complimentary funding for in-house measures.