

The findings of our review of the Fuel Poor Network Extension Scheme

Update and further consultation

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Overview:

We launched a review of our Fuel Poor Network Extension Scheme ("the Scheme") on 14 August 2014, with the publication of our consultation letter¹. In RIIO-GD1 final proposals,² we said that we would undertake this review to ensure that the Scheme is line with the wider government energy and fuel poverty strategies.

This document:

- provides an overview of the responses we received to our consultation of 14 August 2014 and the policy issues that emerged for us to consider further;
- explains our final decision on certain aspects of the Scheme;
- consults further on certain areas of the Scheme and invites interested parties to contribute their views and;
- sets out the next steps.

¹ [Fuel Poor Network Extension Scheme Consultation letter](#)

² [RIIO-GD1 Final Proposals Overview](#)

Context

Reducing the number of households that are in fuel poverty remains one of the most important energy challenges that we face in Great Britain.

Governments – both national and devolved - have put in place a range of policies to address fuel poverty. These include measures to improve the energy efficiency of housing, such as the Energy Companies Obligation (ECO) scheme, financial assistance, for example the Warm Home Discount, and cold weather payments for the most vulnerable. As the energy regulator it is important that we also take steps to support those on low incomes and in other vulnerable situations when developing our policies.

The type of energy that households use for heating and cooking can make a significant difference to fuel poverty levels. Gas consistently remains one of the least expensive sources of energy, however not every household is connected to the gas network. Getting connected to the grid and having access to gas can make a real difference in the quality of living standards for those in fuel poverty. Using our price control mechanisms (GDPCR1 and RIIO-GD1³) we have provided a mechanism that assists households to connect to the networks owned by the Gas Distribution Network companies (GDNs). This is called the Fuel Poor Network Extension Scheme.

We are committed to ensuring the Fuel Poor Network Extension Scheme is aligned with other government schemes to maximise the benefits to households eligible for our Scheme. In August 2014 we issued a consultation to understand how the current arrangements for the Scheme could be improved.

This document explains our findings from this review. We have also used this opportunity to update and provide clarification on various aspects of the Scheme, which contribute to its effective delivery.

Associated documents

You may find the following associated documents helpful:

[What is the fuel poor gas network extension scheme? \(Ofgem\)](#)

[Fuel Poor Network Extension Scheme Review Consultation Letter \(Ofgem\)](#)

[Final position on the non-gas fuel poor network extension scheme \(Ofgem, 2011\)](#)

[The Future of Heating: A strategic framework for low carbon heat in the UK \(DECC\)](#)

[Cutting the cost of keeping warm \(DECC\)](#)

³ GDPCR1 is the Gas Distribution Price Control Review (2008-2013). RIIO-GD1 is the current Price Control Review (2013-2021). RIIO stands for Revenue = Incentives and Innovation and Outputs.

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Executive Summary

Background

We believe that our **Fuel Poor Network Extension Scheme is an essential tool to help combat fuel poverty**. In recent years, we have seen a number of developments in other initiatives to tackle fuel poverty. As part of RIIO-GD1 Final Proposals⁴, we said that we would review the Scheme during the price control (1 April 2013 until 31 March 2021) to take into account such developments.

Consultation

We launched **our review** of the Scheme on 14 August 2014, by publishing a consultation letter asking stakeholders a range of questions on the Scheme. We also asked the Gas Distribution Companies (GDNs) some specific questions regarding the Scheme.

We stated in our consultation that we would like the Scheme to continue for the remainder of RIIO-GD1 and through this review we would like to consider:

- how well the Scheme is **aligned** with broader government initiatives focused directly or indirectly on helping low income and vulnerable consumers;
- whether any **changes** could be made to **maximise the benefits** of the Scheme;
- **general updates** to how the Scheme currently operates, for example to its eligibility criteria, average gas consumption figure etc.

The consultation closed on 31 October 2014. We **received 22 responses**.

Key conclusions

Our key conclusions from the review are:

- The **Scheme will continue** for the remainder of RIIO-GD1 and we consider that the **GDNs can connect more eligible households during RIIO-GD1** than originally envisaged. We will reset the RIIO-GD1 target for GDNs and are inviting the GDNs to re-submit their forecasts in relation to the Scheme for our assessment.
- To further **strengthen the incentives on the GDNs**, we propose to apply a mechanism which will incentivise GDNs to outperform their revised targets. We will also use the Stakeholder Engagement incentive and Discretionary Reward Scheme to reward companies that build partnerships and ensure assistance is targeted at the most vulnerable.

⁴ [RIIO-GD1 Final Proposals Overview](#)

- We consider that the **Scheme can be extended to support district heating solutions** to assist more vulnerable and low income households. We invite views from stakeholders on how the Scheme could be amended to facilitate gas connections for district heating.
- In order to ensure the Scheme is applied consistently in the future, we are **introducing a voucher calculator** that we expect GDNs to use when establishing how much assistance each eligible household can receive.
- We have **revised the eligibility criteria** to make it consistent with the changing landscape of other schemes offering assistance to low income and vulnerable consumers.
- We are using this opportunity to consult further on the underlying detail of some of our proposals.

Next steps

The consultation on remaining issues will close on **18 June 2015**. We remain on track to publish our final decision on the outstanding issues contained within this document by **30 September 2015**. This will allow the effected parties six months to implement all amendments to the Scheme which will **take effect from 1 April 2016**. Our final decision on the outstanding areas will be informed by the responses to the questions contained within this document.

1. Introduction

Chapter Summary

This chapter summarises how we have conducted our review of the Scheme, the issues that have emerged and how we have addressed those issues in this document.

The Fuel Poor Network Extension Scheme

1.1. The Fuel Poor Network Extension Scheme ("Scheme") enables low income vulnerable households to switch to natural gas by helping to fund the cost of connecting to the gas network.

1.2. The Scheme provides a discount to eligible households against the cost of connecting to the gas network in the form of a "voucher". The voucher is used to discount the cost of connecting the eligible household to the gas network. To be eligible for a voucher, a household has to meet our eligibility criteria. More information on the Scheme is provided in Appendix 3.

1.3. The Scheme is delivered by the GDNs. The Scheme was introduced in the previous price control (GDPCR1, 2008–2013) and continues in the current price control period (RIIO-GD1, 2013–2021). In recent years we have seen a number of developments in how fuel poverty is being tackled. As part of RIIO-GD1 Final Proposals,⁵ we said that we would review the Scheme during the price control period, to take account of these changes.

Our review

1.4. On 14 August 2014⁶ we published a letter initiating our review of the Scheme. We asked interested stakeholders to respond to eight questions. In addition, we also separately made a request to the GDNs to provide information to us on how the Scheme is administered.

1.5. We received 22 responses to our consultation letter. A summary of the consultation responses is provided in Appendix 2 of this document. Full responses can be found on our website.⁷

⁵ [RIIO-GD1 Final Proposals Overview](#)

⁶ The questions can be found in Annex 3 of our August 2014 [consultation letter](#)

⁷ [Fuel Poor Network Extension Scheme Consultation](#)

1.6. Once we identified the key issues raised in the responses, we held a stakeholder workshop on 27 November 2014.

Key policy issues that emerged from our review

1.7. A number of different issues emerged from our review. Stakeholders were keen to see the Scheme continue but suggested a number of changes that they believed would maximise the benefits it could deliver. Broadly these concerned the following:

- Eligibility criteria
- Targeting the Scheme at the most vulnerable consumers
- Calculation of the voucher
- Extending the Scheme to district heating solutions and households on independent gas transporter networks
- Using the voucher value to fund in-home works and more remote connections
- Changes to how the Scheme is administered.

Structure of this document

1.8. In the remainder of this document we describe stakeholder views and our position on these issues under the chapter headings listed below. In some of the areas we have decided to consult further and we are inviting stakeholders' views on specific questions.

- **Chapter 2:** Who qualifies for the Scheme?

In this chapter this we explain the revisions we will make to the eligibility criteria for the Scheme.

- **Chapter 3:** Targeting the Scheme

In this chapter we explain the changes we are introducing to incentivise the GDNs to go beyond their fuel poor connection target set under RIIO-GD1 and explain how existing incentive mechanisms under RIIO-GD1 encourage companies to target those most in need.

- **Chapter 4:** Extending the Scheme

In this chapter we explain our decision to extend the Scheme to include connections to district heating systems. We also explore how the Scheme might facilitate more connections to eligible households on iGT networks.

- **Chapter 5:** Using the voucher value to provide additional assistance



The findings of our review of the Fuel Poor Network Extension Scheme

In this chapter we explain our position on suggestions made by stakeholders to use the Scheme to deliver additional assistance to eligible households.

- **Chapter 6:** Administrative aspects of the Scheme

In this chapter we explain the changes we are making to our partnership approval process and the obligations that we expect partnership organisations to meet. We also explain our decision to publish a standard fuel poor voucher calculator, and we consult further on the source for the average gas consumption value.

- **Chapter 7:** Overall impact of our review

In this Chapter we describe how our changes could impact on the number of fuel poor connections that GDNs can make for the remainder for RIIIO-GD1 and how we intend to deal with this.

- **Chapter 8:** Implementation

In this chapter we explain how and when we expect the changes resulting from our review should be implemented.

What is not changing?

1.9. The following aspects of the Scheme will remain unchanged:

- The Scheme will continue for the remainder of the RIIIO-GD1.
- The Scheme is underpinned by a key principle that each connection is self-financing and does not require a subsidy from other consumers. This will continue.
- GDNs will continue to use vouchers to provide a discount against the cost of connection to those households that qualify based on our eligibility criteria.
- Partners working with GDNs will require our approval.
- We continue to expect GDNs to work with relevant organisations to ensure the benefit to vulnerable and low income households are maximised

2. Who qualifies for the Scheme?

Chapter Summary

This chapter summarises the decision we have made to update the eligibility criteria for the Scheme.

Revised eligibility criteria

2.1. In Appendix 1 of our consultation of August 2014,⁸ we stated our intent to update the eligibility criteria for the Scheme. We consulted on amending the criteria to incorporate the following:

- changes to the government's definition of fuel poverty in England, and;
- the recent changes and/or the discontinuation of some related initiatives.

2.2. Stakeholders broadly agreed with the proposed changes to the eligibility criteria, as they bring the Scheme into line with other fuel poverty schemes and initiatives. Nonetheless, stakeholders raised some areas of disagreement. From the GDNs, National Grid Gas Distribution (NGGD) and Northern Gas Networks (NGN) expressed concerns about the different fuel poverty definition/indicator to be used in England and in Scotland and Wales. NGN highlighted this could create localised issues near the England-Scotland border, whilst NGGD highlighted that the difference could make it harder for GDNs in England to meet their targets under the Scheme. SGN expressed concern over the proposal to exclude the over 70s criteria, noting this potentially excludes large numbers of vulnerable consumers from the Scheme. Wales and West Utilities (WWU) believes excluding consumers aged over 70 would make assessing households more complicated. Non-GDN respondents also broadly agreed with the proposed changes, with some respondents including suggestions for amendments. For example, Yorkshire Energy Services considered that the criteria should be extended to include consumers eligible for the Winter Fuel Payment, whilst also sharing concerns that the proposed changes would likely reduce the overall number of eligible consumers.

2.3. Given the concerns raised by stakeholders, we conducted our own analysis on the potential impact of our proposed changes to the eligibility criteria on the number of forecast connections. Our analysis demonstrated:

⁸ [Fuel Poor Network Extension Scheme Consultation letter](#)



The findings of our review of the Fuel Poor Network Extension Scheme

- that the criteria remain wide ranging and in line with the original intent of the Scheme ie, to not inadvertently exclude a particular type of fuel poor household;
- although a different measure of fuel poverty applied to England compared to Wales and Scotland may add complexity for GDNs operating in more than one country, it is important that our eligibility criteria for the Scheme recognises these differences. This is because other forms of complementary assistance provided to low income and vulnerable households in these countries are linked to the different measures and indicators of fuel poverty.
- although not a separate eligibility criterion, the over 70s will still be eligible for a voucher if they are entitled to assistance under the Energy Companies Obligation (ECO) Home Heating Cost Reduction Obligation (HHCRO), the qualifying criteria of which includes individuals receiving state pension credit (see Appendix 5); and
- the current RIIO-GD1 target for fuel poor household connections under the Scheme can not only be met but exceeded with our revised eligibility criteria in place.

2.4. We have therefore concluded that we will be adopting the changes as proposed in our consultation. We consider that these changes help maximise the benefits of the Scheme and better align it to other forms of assistance

2.5. The new eligibility criteria for the Scheme are set out in Appendix 5, and will take place from 01 April 2016.

3. Targeting the Scheme

Chapter Summary

This chapter summarises how we are incentivising GDNs to deliver the Scheme to maximise the benefits for vulnerable consumers.

3.1. In our consultation of 14 August 2014, we requested views on whether the Scheme should be targeted at certain types of fuel poor households or geographic locations.

3.2. The majority of stakeholders agreed that the Scheme could be further targeted however no clear trend emerged as to what the specific focus of targeting should be. Some stakeholders requested that the focus of the Scheme should remain broad and assist as many households as possible. Others suggested that specific types of fuel poor households or areas should be targeted. These included a greater focus on low income households and those in social housing. WWU suggested that the Scheme should be inclusive of social landlords and be able to support landlords and tenants in urban areas renting private properties. Several non-GDN respondents would like to see a greater focus on assisting those in rural areas.

3.3. In order to ensure the Scheme covers as many households as possible, the first step is to successfully identify low income and vulnerable households. A number of respondents highlighted that this can be challenging. In particular concerns were raised over the lack of information sharing between organisations with similar objectives to address fuel poverty, such as between GDNs, energy suppliers and network operators. We are considering cross-industry data sharing as part of our work on the Priority Services Register. We note that DECC's new fuel poverty strategy for England⁹ describes how the government is progressing a number of medium and long term activities to improve the targeting of specific schemes that are in place to tackle fuel poverty. This includes setting up a new service to reduce the complexity and cost of identifying households on eligible means tested benefits for ECO's Home Heating Cost Reduction Obligation (HHCRO). We also welcome the collaborative partnership between DECC and the Fuel Poor Advisory Group's Industry Working Group (FPAG IWG) to develop a map of off-gas grid households.

3.4. Although we have revised our eligibility criteria, fundamentally the way in which the Scheme identifies fuel poor households will not change. We consider that our eligibility criteria ensure that the Scheme will benefit a broad population of low income and vulnerable consumers. Restricting this to a smaller subset of the fuel poor could mean that households that would otherwise benefit from a gas connection could miss out on the assistance that the Scheme offers.

⁹ [Cutting the cost of keeping warm: a fuel poverty strategy for England](#)

3.5. We do, however, recognise the importance of ensuring that GDNs endeavour to identify those households that will benefit the most from a gas connection. We have incentivised the GDNs in RIIO-GD1 to engage effectively with all stakeholders through the Stakeholder Engagement Incentive (which forms part of the Broad Measure of Customer Service). The key aim of this incentive is to encourage GDNs to effectively engage with a wide range of stakeholders and use the outputs from this process to inform how they plan and run their businesses. We therefore expect GDNs to use this incentive to demonstrate how they have engaged with those hard-to-reach consumers that may be in need of assistance. Even where a gas connection is not viable, we still expect GDNs to play an active role in working with other organisations to facilitate alternative forms of assistance. We will use the Stakeholder Engagement incentive to financially reward those companies that show us how their actions have led to positive outcomes for these consumers.

3.6. RIIO-GD1 also provides for a discretionary reward scheme (DRS)¹⁰ which rewards GDNs that deliver outputs that contribute to environmental and social objectives beyond those funded at the price review. We expect GDNs to use this incentive to develop non-network solutions for fuel poor households, and to work collaboratively with other parties to provide funding for in-house works.

3.7. In addition, we are also proposing to make changes to the role of the partnership organisations (explained in Chapter 6) to ensure vulnerable consumers get the best outcome for their circumstances.

¹⁰ [RIIO-GD1 Gas Discretionary Reward Scheme](#)

4. Extending the Scheme

Chapter Summary

This chapter sets our decision on extending the scope of the Scheme.

Increasing the scope of the Scheme to include other technologies

4.1. In our consultation, we asked how well the Scheme interacts with other aspects of the heat and fuel poverty strategies in England, Scotland and Wales and whether it could be better aligned.

4.2. Several non-GDN respondents stated that the Scheme could be extended to include District Heating (DH). Amongst the GDNs, SGN, WWU and NGN supported extending the Scheme to DH. NGN noted that the current arrangements do not facilitate the support of DH. One non-GDN respondent raised a concern over potential higher energy and maintenance costs for the end consumer if the Scheme was extended to DH; however several non-GDN respondents suggested that extending the Scheme to include DH would potentially lead to reduced bills for consumers.

4.3. The DH schemes for consideration are gas connected Combined Heat and Power (CHP) schemes. For DH, there is one gas connection to the CHP plant, which supplies multiple households with heat via a heat network. Because the household is not physically connected to the gas network, they are currently not eligible for funding under the Scheme.

4.4. After considering the responses to our consultation, we have concluded that there would be a benefit for fuel poor households if the Scheme was expanded to include mains natural gas powered district heating ("DH"). Section 4AA of the Gas Act 1986 requires us to have regard to the interests of "individuals with low incomes" when carrying out our functions. Although, strictly speaking, households on district heating systems are not gas consumers, they may qualify as "individuals on low incomes", to which we can have regard. For clarity, for the purposes of the Scheme, we are only considering gas powered DH. We do not consider it appropriate to extend the Scheme to forms of renewable heating which are not powered by gas. References to DH in this document should be read to mean mains natural gas powered DH.

4.5. Extending the scope of the Scheme to include DH would better align the Scheme with wider Government initiatives and policies relating to fuel poverty. The Scottish Government for example is proposing to have a target of 40,000 households connected to DH by 2020, and is proposing to provide funding arrangements¹¹ to facilitate the achievement of these targets. Similarly in England, DECC's Heat Strategy¹² suggests that up to 20% of UK domestic heat demand might be served by heat networks by 2030, but no firm targets are given. DECC's Heat Network Delivery Unit (HNDU) also support local authorities in developing heat networks.¹³

4.6. We therefore propose to extend the Scheme to fund mains natural gas connections for DH systems as follows:

- the voucher will only be applied where it can be demonstrated that the consumers served by the DH system meet the eligibility criteria;
- the voucher value will reflect the NPV of the future gas transportation revenue of the gas connections to the district heating system.

4.7. Given the Scheme is currently designed to be applied to individual households; we would like to consult further with stakeholders on how the Scheme should be modified to accommodate DH systems.

Question 1:

How do you think the voucher calculation should be amended for funding DH schemes? From which party would the future gas transportation revenue be recovered?

Question 2:

What calculations and assumptions should be made for the:

1. gas consumption of the CHP unit and for the individual DH connected households.
2. asset life over which the connection costs are recovered.

Please provide detailed suggestions in your response.

Question 3:

Do you think the partnership eligibility criteria for the Scheme should be amended to support the inclusion of DH and if so, how? Please provide detailed suggestions in your response.

¹¹ [The Scottish Government Draft Heat Generation Policy Statement](#)

¹² [DECC, The Future of Heating: Meeting the Challenge](#)

¹³ [Overview of grant funding and guidance available to local authorities developing heat networks](#)

Independent Gas Transporters (iGTs) networks.

4.8. In our consultation of August 2014 we asked if we should make any other changes to the Scheme to maximise its benefits. We received some responses requesting us to consider how eligible households on a network, adjacent to a GDN network, operated by an iGT can benefit from the Scheme. We note that to date limited connections have been made under this Scheme to iGT networks.

4.9. We are committed to ensuring the needs of vulnerable households are met, regardless of whether they connect to a GDN or iGT network. We have explained previously (in Appendix 3 of our 2011 decision) how iGTs can participate in the Scheme.¹⁴ We stated that “with respect to gas transportation, iGTs would be able to compete to own/operate a network extension against GDNs in this market by allowing them to offset the cost of the connection with a contribution received from the GDN.” The GDN contribution should be based on a proportion of the cost of the connection based on the GDN share of the NPV of future gas transportation revenue. The contribution is used by the iGT to discount the cost of connecting eligible households. The GDN is able to recover its contribution in subsequent price controls by adding its contribution to its Regulatory Asset Value (RAV), at the end of the current price control in which the connection is delivered.

4.10. In addition to the arrangement that already exists, we welcome your views on how the Scheme could be modified to better enable gas connections for eligible households located adjacent to an iGT network.

Question 4:

In addition to the current arrangement, how can the Scheme be modified to better enable gas connections for eligible households that are located on a network, adjacent to GDN network, operated by an iGT?

¹⁴ [final-position-non-gas-fuel-poor-network-extension-scheme 2011](#)

5. Using the voucher to provide additional assistance

Chapter Summary

This chapter outlines our views on other suggestions we have received on the Scheme.

Alignment with other sources of funding for in-house works and energy efficiency measures

5.1. Stakeholders highlighted the lack of alignment between the Scheme and other fuel poverty measures and strategies, led by England, Scotland and Wales. The key area of focus was the lack of funding for in-house works, such as new boilers, radiators and internal pipework. These works are required (and are often more expensive than the cost of gas connection itself) before the household is able to make use of the gas connection provided under the Scheme. Often connections that could be made do not proceed because the consumer can't get the support for these works.

5.2. In Wales and Scotland, specific schemes exist (Nest and the Home Energy Efficiency Programmes for Scotland (HEEPS) respectively) that provide funding for in-house works. Some respondents noted that in England, since the introduction of ECO and discontinuation of the previous schemes targeting households in fuel poverty, funding sources for in-house works have become less accessible.

5.3. Respondents to our consultation identified a range of ways in which the Scheme could be improved by encouraging greater alignment with other schemes and sources of funding for in-house works and energy efficiency measures:

- linking the Scheme to ECO or HEEPs funding for in-house works, will ensure houses are more energy efficient once connected to the gas grid;
- ensuring that partnership organisations assist and advise fuel poor households in contacting their ECO obligated supplier to carry out in-house works - stakeholders noted that this should become a requirement of partnerships approved under the Scheme;
- introducing a requirement to ECO for suppliers to fund a minimum number of new heating systems.

5.4. Our Scheme is specifically designed to provide gas connections to fuel poor consumers. We want our Scheme to be complementary to initiatives and programmes which support in-house works for low income and vulnerable

consumers. The changes we are making to the eligibility criteria for the Scheme should ensure it is complementary with these schemes. It is however outside of our remit to change or influence the scope of government schemes (such as ECO, Nest and HEEPS). We have, however, engaged closely with DECC on this issue. DECC acknowledge that the funding for in-house works is a barrier for those households who are least able to afford them. To address the funding gap where households are unable to fund the installation of a first time central heating system DECC have introduced the Central Heating Fund (CHF), a £25million scheme available for Local Authorities to support off-grid households in England. The CHF pilots the approach of funding of in-house works through a Local Authority competition. For further details see *Central Heating Fund*¹⁵.

5.5. To encourage the GDNs to work with various organisations that provide whole-house solutions we introduced the Stakeholder Engagement Incentive (SEI)¹⁶ and the Discretionary Reward Scheme (DRS)¹⁷ in RIIO-GD1. Under the SEI and the DRS GDNs will be rewarded for effectively demonstrating to us that they are working with such organisations. We expect GDNs to use these mechanisms to demonstrate how they have worked in partnership with others to deliver the best whole-house solution for households eligible for the Scheme.

Perceived “Surplus” from the Voucher for other works

5.6. Several stakeholders also suggested that the difference between the cost of connection and the value of the voucher (termed as ‘surplus’) should be used to provide other assistance, including funding any shortfalls in support for in-house works.

5.7. We would like to use this opportunity to clarify that there is no surplus resulting from the way in which the Scheme is administered. The RIIO-GD1 price control sets the outputs the GDNs need to deliver and the associated revenues they are allowed to collect for the period from 2013 until 2021. GDNs are expected to deliver all of their outputs (including these connections) within their total expenditure (totex) allowance. Within RIIO-GD1, GDNs are incentivised to deliver all outputs at an efficient cost using the totex incentive mechanism (TIM). If GDNs outperforms or underperforms their totex allowance this is shared with consumers. Where a GDN outperforms their totex (ie delivers the required output but at lower cost than forecast), around 64 percent of outperformance is retained by the company and 36 percent of outperformance is returned to consumer. The same sharing factor is applied if the GDNs underperform.

5.8. One of the outputs which the GDNs are assessed against is the number of connections they make through the Scheme. GDNs are required to report to us

¹⁵ DECC’s [Central Heating Fund](#), an English Local Authority competition to support the installation of first time central heating systems in low income households.

¹⁶ [RIIO-GD1 Stakeholder Engagement Incentive](#)

¹⁷ [RIIO-GD1 Gas Discretionary Reward Scheme](#)

annually on their delivery of this output. GDNs report the actual number of connections made and the actual cost of making these connections - not the maximum value of the voucher. These costs are combined with all other costs that the GDN has incurred and a proportion of this total expenditure is then added to GDN's Regulatory Asset Value (RAV). This means that the cost of connection and the revenue the GDNs will be receiving from that connection in future will be equal. Consequently, there is no surplus value.

5.9. For the avoidance of doubt, when a connection proceeds under the Scheme, either the fuel poor voucher will equal the cost of the connection, or the difference will be made up by the connecting household where the voucher value is less than the cost of the connection.

5.10. We recognise that in-house works form an essential part of ensuring that whole-house solutions are delivered (ie, a household receives a gas connection but also has the required in-house works to be able to use it). For this reason, one of our approval criterion for partners that help deliver the Scheme is that the partner in concern provides, facilitates or ensures access to funding for in-house works.

5.11. We also recognise that a lack of funding for these works could be a significant barrier and limit the number of households that could benefit from the Scheme. We welcome DECC's Central Heating Fund¹⁸, a £25 million scheme available for Local Authorities to support off-grid households in England specifically to fund new (first-time) central heating measures. We have worked with DECC to ensure that the criteria designed to allocate this funding compliments that of the Scheme. This helps to provide whole-of-house solutions for households. We encourage GDNs to work with Local Authorities to use the funding to overcome the barrier of in-house works for those households who are least able to afford the cost of a contribution

5.12. A proportion of the consumer redress money from investigations¹⁹ conducted by us might also be used to assist off gas grid consumers, which could further complement this Scheme.

¹⁸ DECC's [Central Heating Fund](#), an English Local Authority competition to support the installation of first time central heating systems in low income households.

¹⁹ [Ofgem Final Penalty Notice March 2015](#)

6. Administrative aspects of the Scheme

Chapter Summary

This chapter summarises the changes of an administrative nature which we are introducing to the Scheme.

Partnership Approval Process

6.1. Section 4 of the *Final position on the non-gas fuel poor network extension scheme*²⁰ outlines our current approach to the approval of partners. Once a GDN has identified a partner(s) it would like to work with, they complete a standardised questionnaire which is submitted to us for assessment. The GDN must demonstrate in its responses to the questionnaire that its partner fulfils two key criteria. These criteria are that the proposed partner:

- provides funding for 'in-house' works; and
- has appropriate screening process in place such that funds are targeted at fuel poor/vulnerable households.

6.2. If we consider that the GDN has adequately demonstrated its proposed partner fulfils these two criteria, then the partner will be approved. If however we consider that the GDN has not adequately demonstrated that its proposed partner fulfils the relevant criteria, we can either ask for further clarifying information or we can refuse approval of the proposed partner.

6.3. Some stakeholders suggested that our partnership approval process could be improved. The key issue identified in responses to our consultation was a lack of a defined timeframe for the approval of partner applications, once the submission had been made to us. Additionally, from our experience in approving partners, we have identified several issues that we would like to take this opportunity to address.

6.4. Overall the GDNs were largely positive about the process, with those that commented noting the process was largely reasonable and logical. Some GDNs expressed concern about the length of time taken to receive a final decision on partner applications. It was suggested that a non-binding indicative timetable for making approval decisions should be introduced. The Association for the Conservation of Energy (ACE) highlighted the need to explore extending partnerships to a wider range of organisations, pointing to evidence showing charities, community groups and service-providers can be effective partners in engaging with vulnerable households.

²⁰ [final-position-non-gas-fuel-poor-network-extension-scheme 2011](#)

6.5. After considering these responses, we have concluded that there is value in retaining the partnership approval process, but we propose to introduce some improvements to the process. We consider that our proposed changes follow the principles of best regulatory practice by ensuring that a check remains in place against the GDN partner submissions up-front, therefore helping to safeguard the interests of the vulnerable consumers and deterring any fraudulent activity.

6.6. The changes we are proposing to introduce to the approval process are listed below and they would apply from 1 April 2016:

- Once GDNs have explored the opportunity to work with a partner, they will be required to submit their completed partnership questionnaire to us for approval (see Appendix 6). We consider this completed questionnaire to constitute the GDNs' partnership application.
- We will endeavour to process each application received within one month from the date we deem the submitted application to be complete. We will review the information provided and will make an assessment based on the criteria outlined below.
- In order for a potential partner to be approved, we will expect the GDN to demonstrate that its partner:
 - provides and/or facilitates funding for in-house works, for example procuring funding for in-house works by contacting suppliers of other schemes such as ECO; and
 - has screening processes in place which use the Scheme's eligibility criteria to identify households eligible for the Scheme.
 - in addition to the above we propose to introduce an additional criterion to the assessment of partners, which will aim to ensure that a gas connection is the best solution for the consumer. In order to meet this additional criterion, the partner needs to demonstrate that it has the ability to, and will assess, if a gas connection under the Scheme is the best solution to meet the needs a household that is eligible for the Scheme. This assessment will entail checking if there are other fuel options which would better serve the needs of that household.
- We will introduce a requirement for GDNs asking them to explicitly confirm that their proposed partner(s) meets the Scheme eligibility criteria. This assurance will be provided when GDNs complete the revised partnership questionnaire (see Appendix 6). The questionnaire contains a box which the GDNs must tick, confirming that they consider that their proposed partner(s) meets the Scheme eligibility criteria, before the assessment process can begin.

6.7. We view a GDN working with an approved partner to be essential to ensuring fuel poor vouchers are awarded effectively to eligible households. Consequently, the GDNs should not undertake any connections with their chosen partners before the

partner(s) has been approved by us. Failure to comply with this requirement may lead us to disallow any connection payments made by the GDN from inclusion to its RAV at the next Price Control.

6.8. It is ultimately for the GDNs to satisfy themselves that their chosen partner(s) can award the fuel poor voucher in accordance with the Scheme. As a result, we expect the GDNs to use reasonable endeavours to ensure that their partners continue to act in a manner appropriate to the Scheme following approval.

6.9. We would like to invite your views on the proposed changes to the partners approval process and the obligations of the partner organisations as set out in paragraph 6.7.

Question 5:

What is your view on our proposal to introduce changes to the partnership approval process and the obligations of the partner organisations?

Voucher calculation

6.10. If a household falls within the Scheme's eligibility criteria, the GDN must apply a fuel poor test. The fuel poor test is an amended economic test and is described in our GDCPR1 Final Impact Assessment in Initial Proposals.²¹ The fuel poor test is used to assess the level of funding available for the household and if a contribution is required. When carrying out this test the GDN must compare the cost of providing the connection (including reinforcement if necessary) against the voucher value, which is equivalent to the NPV of the future gas transportation revenue of that connection.

6.11. To calculate the NPV of the future gas transportation revenue four variables are used. These are:

- **Discount Factor:** we expect the GDNs to use the annual regulated pre-tax vanilla Weighted Average Cost of Capital (WACC) for the price control in which the connection is delivered.
- **Average Gas Consumption Value:** Currently this figure is set at 19,000kWh. As part of our review of the Scheme, we are consulting on the source of this value (as explained below in this chapter) and will conclude by 30 September 2015.

²¹ [2007 GDCPR1 Final Impact Assessment in Initial Proposals Document](#)

- **Gas Distribution Transportation Charges:** we expect GDNs to use the prevailing gas distribution transportation charges in force at the time the fuel poor voucher is calculated. The transportation charges will incorporate the Local Distribution Zone (LDZ) system charge (capacity and commodity) and the customer charge.
- **Regulatory Asset Life:** we expect GDNs to use 45 years, the accepted regulatory asset life, when calculating the fuel poor voucher.

6.12. In order to ensure consistency in the calculation of the voucher, we are publishing a standardised voucher calculator, which we expect the GDNs to use from 01 April 2016. The calculator provides clear guidance on the inputs which should be used when calculating the NPV of future transportation revenues.

6.13. The calculator is included in Appendix 7, which is published alongside this document.

Average Gas Consumption Value

6.14. As stated in paragraph 6.12, one of the variables required to calculate a fuel poor voucher is the average gas consumption value, which reflects the average amount of gas consumed by a household on an annual basis. Currently the average gas consumption figure used for calculating the voucher is 19,000kWh.

6.15. In our consultation, we stated our intention to revise the average gas usage figure from 19,000kWh to 15,000kWh. This was to reflect declining levels of gas usage and a consumption figure that is currently being used by DECC.²²

6.16. We received a number of responses to this proposal. The GDNs agreed that the average gas usage has declined, but noted that a reduction may impact on the number of connections carried out under the Scheme. Nine non-GDN stakeholders disagreed with the proposal, three agreed and six did not comment. The key concerns were that the change would reduce the value of the voucher, resulting in more households having to make a capital contribution towards the connection (which would reduce uptake of the Scheme). Stakeholders also highlighted that a reduction in the voucher value would reduce any 'surplus' between the actual cost of the connection and the total value of voucher which could be used for other works such as for in-house works (our view on this perceived 'surplus' is set out in Chapter 5).

6.17. Our view remains that gas consumption has decreased in recent years and the figure of 19,000kWh is no longer an appropriate average. We acknowledge that a lower average gas consumption value reduces the total value of the voucher;

²² [Fuel Poor Network Extension Scheme Consultation letter](#)

however this should not be a reason for persisting with a consumption value that no longer reflects that which it purports to. This Scheme is designed to be self-financing ie each connection it delivers should pay for itself over 45 years, without being subsidised by the generality of consumers. If an incorrect average gas consumption figure is used when calculating the voucher, the voucher value will be artificially too high (as in this case) or too low. The voucher value will no longer reflect the value of the future transportation revenues that the GDNs will recover from the household for the connection. As a result, in the scenario where voucher value is artificially high, some of the fuel poor discount will be funded by the general gas consumer, which would be against the “self-financing” principle that underpins the Scheme.

6.18. We further consider that using the medium value from the gas Typical Domestic Consumption Value (TDCV) ²³ that we publish would be more reflective of gas consumption of a typical domestic consumer. The medium gas TDCV is derived by averaging the two most recent median gas consumption values. It does not take into account outliers (ie the consumers with particularly high or low consumption) unlike the 15,000kWh which is a mean value. The outliers could be vulnerable households but they could be non-vulnerable households as well. Therefore, it is appropriate to exclude outliers from the calculation, which TDCV effectively does and a mean figure does not. The TDCV value is periodically updated and published by us. The current medium gas Typical Domestic Consumption Value (TDCV), published in September 2013, is 13,500kWh. This is expected to be revised in 2015.²⁴

6.19. We would like to invite your views on our conclusion to use the medium gas TDCVs published and updated periodically by us as the average gas consumption number.

Question 6:

What is your view on our proposal to use the medium gas Typical Domestic Consumption Value, published and updated periodically by Ofgem, as the average gas consumption number in calculation of the fuel poor voucher?

²³ [TDCV Decision letter 2013](#)

²⁴ [TDCV 2015 Open Letter](#)

7. Overall impact of our review

Chapter Summary

This chapter sets out our view on the impact of the changes we are introducing to the Scheme.

For GDNs: revised fuel poor connections target

7.1. As part of this review, we have concluded that the GDNs can connect more households under the Scheme than their current target of 77,450²⁵ set under RIIO-GD1. We believe this is the case because:

- GDNs have accumulated experience of delivering the Scheme and are now better placed to revise their forecast,
- we are proposing to extend the scope of the Scheme to cover District Heating,
- the revisions we have made to the eligibility criteria and;
- recent announcements made by us and government to assist off-gas grid low income and vulnerable consumers should facilitate more connections.

7.2. We are using the uncertainty mechanism provided under RIIO-GD1 to request GDNs to re-submit their business plan numbers outlining the number of fuel poor connections they can achieve between 1 April 2016 and 31 March 2021.

7.3. In their submission, the GDNs should provide supporting evidence, analysis and the rationale they have used to revise their connections forecasts. At the very minimum, the submission should:

- include evidence and a description of stakeholder engagement activities the GDNs have undertaken and are likely to undertake in the future, in order to identify and deliver the potential connections to eligible households. This stakeholder engagement should include engagement with social housing agencies and iGTs.

²⁵ [RIIO-GD1 Outputs and Incentives](#)

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- take into account changes to the Scheme as highlighted in this document. Provide a forecast including and excluding district heating connections.
- take into account recent announcements for increased funding for off-gas grid vulnerable households.

7.4. The revised business plans submitted by the GDNs will be assessed by us based on an assessment of the efficient costs of the connections.

7.5. We also acknowledge that some of the updates to the Scheme will not be finalised in time for the GDNs to re-submit their revised forecast of connection numbers. The uncertainty may make it difficult for GDNs to forecast with certainty how many eligible households they can connect under the Scheme. However, we believe that our proposal to apply a fuel poor output incentive to fuel poor connections mitigates this risk of uncertainty.

Fuel poor output incentive and the Scheme target

7.6. As part of RIIO-GD1, GDNs have to achieve an output of 77,450 connections. Stakeholders noted that the GDNs are incentivised to achieve this as efficiently as possible but not to outperform the output.

7.7. We would like to incentivise the GDNs to outperform the fuel poor connections output. We therefore propose that in line with RIIO-GD1 principles, we will apply an output incentive to the fuel poor connections. At the end of RIIO-GD1 we will expect the GDNs to report on their performance on delivering their output for fuel poor connections. Where a GDN outperforms against the output, the GDN must demonstrate that there was a need and that it was in the consumers' interest. Following our review, GDNs will be rewarded or penalised depending on any over or underperformance against the output commitment. We propose that GDNs will receive 2.5 per cent reward or penalty of the assessed efficient costs of the out or under performance.

7.8. Any over or under delivery of the output will be offset against any output commitment agreed as part of RIIO-GD2. If the Scheme does not continue beyond RIIO-GD1 we will make the appropriate legacy adjustment at the beginning of RIIO-GD2.

7.9. We would like to invite your views on our proposal to introduce a fuel poor output incentive mechanism.

Question 7:

We welcome your views on the fuel poor output incentive mechanism.

8. Implementation

Chapter Summary

This chapter explains how the changes which we are making to the Scheme will be implemented.


8.1. The following decisions made in this document on the Scheme will take effect from 01 April 2016:

- A standardised voucher calculator to be used by GDNs to calculate vouchers.
- Revised eligibility criteria.

8.2. We will be making further decisions by 30 September 2015 in the following areas, which will also take effect from 01 April 2016:

- on the revised GDN target on the number connections to be achieved during remaining years of RIIO-GD1;
- on aspects of the Scheme on which we are consulting, which are:
 - The source of the average gas consumption figure
 - Administrative details on extension of the Scheme to cover District Heating
 - Fuel poor output incentive mechanism
 - Revised partnership approval process
 - If any modifications to the Scheme are required to further encourage its use on iGT networks.

8.3. GDNs and relevant partner organisations should take the necessary steps to ensure that those updates are ready to take effect from 01 April 2016. Where changes require a change to Charging Methodology Statements, such changes should be submitted to us for approval no later than 3 months before 01 April 2016.



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8.4. We will consult on licence changes which we consider necessary to give effect to the changes to the Scheme. The licence consultation will take place following our decision in September 2015 on the outstanding issues mentioned in this document.

Appendices

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7	Fuel poor voucher calculator	Published as a separate doc.

Appendix 1 - Response Template

1.1. As set out in Chapters 4, 6 and 7, we are consulting further on certain areas of the Scheme and we would welcome your views. We raise 7 questions throughout this paper which we have consolidated in this Appendix. 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 let us know.

1.2. Once you have completed the questionnaire please send it by email to rupika.madhura@ofgem.gov.uk You need to return the completed response template (word version published alongside this paper) to us by 18 June 2015.

1.3. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. *If you would like to discuss the contents of this paper please call Rupika Madhura on 020 7901 7091, or email rupika.madhura@ofgem.gov.uk*

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>	
<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>	
<i>What areas of the country does your business operate in?</i>	

Part 3 – FPNES review questions

Q1 – How do you think the voucher calculation should be amended for funding DH schemes? From which party would the future gas transportation revenue be recovered?

[Please provide response here]

Q2 – What calculations and assumptions should be made for:

- 1. the gas consumption of the CHP unit and for the individual DH connected households.**
- 2. asset life over which the connection costs are recovered.**

Please provide detailed suggestions in your response.

[Please provide response here]

<i>Q3 – Do you think the partnership eligibility criteria for the Scheme should be amended to support the inclusion of DH and if so, how? Please provide detailed suggestions in your response.</i>
<i>[Please provide response here]</i>
<i>Q4 - In addition to the current arrangement, how can the Scheme be modified to better enable gas connections for eligible households that are located adjacent to an iGT network?</i>
<i>[Please provide response here]</i>
<i>Q5 What is your view on our proposal to introduce changes to the partnership approval process and the obligations of the partner organisations?</i>
<i>[Please provide response here]</i>
<i>Q6 What is your view on our proposal to use the medium gas Typical Domestic Consumption Value, published and updated periodically by Ofgem, as the average gas consumption number in calculation of the fuel poor voucher?</i>
<i>[please provide response here]</i>
<i>Q7 We welcome your views on the fuel poor output incentive mechanism.</i>
<i>[Please provide response here]</i>

Appendix 2 – Summary of responses to August 2014 Consultation

- 2.1 In response to our August 2014 consultation, we received 22 responses. All four GDNs responded and we received 18 responses from other stakeholders ranging from fuel poor advocacy groups to independent gas transporters to government ministers.
- 2.2 Below is a summary of responses to the eight questions asked in our August 2014 consultation.

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.

- 2.3 Overall, the GDNs consider that in the medium term gas will remain one of the lowest cost sources of heating available. It was acknowledged that there was a limit as to how far the Scheme can go in alleviating fuel poverty and in helping to meet the stringent zero carbon target for space heating. However, GDNs expressed that the Scheme is broadly in line with current government priorities.
- 2.4 The majority of non-GDN respondents believe that the fuel poverty schemes in general are not effectively aligned and would benefit from alignment. One respondent cautioned that the purpose of the Scheme, ie to tackle fuel poverty, may be diluted if the Scheme instead focused on other objectives such as decarbonising heat. As also mentioned by the GDNs elsewhere in the consultation, respondents noted that they would like to see the GDNs use any surplus voucher values to help fund energy efficiency and in-house works.

Q2 Should the Scheme be targeted at certain types of consumers/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?

- 2.5 The GDNs were broadly supportive of expanding the Scheme to include District Heating schemes, especially in high-rise and multi-occupancy flats. In general, better coordination with private landlords and with social housing was encouraged, alongside a desire for improved coordination between utility providers, network operators and energy suppliers.
- 2.6 The majority of non-GDN respondents believed that the Scheme should be targeted but there was no consensus on how the Scheme should be targeted. Stakeholder suggestions varied from focusing the Scheme on rural

communities, to urban areas, to areas connecting to District Heat networks. Other suggestions included targeting the elderly or homes with children. Other stakeholders suggested the Scheme should not be targeted and should be kept as broad as possible.

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.

- 2.7 GDNs raised concerns focusing on the lack of funding for in-house works. For some there was a clear disconnect between the current relevant energy efficiency schemes (ECO and Green Deal) and the Scheme. Specifically, the move to ECO/Green deal was seen to have had a detrimental impact on the accessibility of in-house funding, especially in England.
- 2.8 The majority of non-GDN responses noted that the Scheme was not interacting as well as it could with existing strategies, suggesting that the Scheme should be better linked to schemes such as ECO.

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

- 2.9 The extension of the Scheme to include support for District Heating schemes was encouraged by several respondents. GDNs noted that 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. It was suggested that any surplus value from the connections undertaken could be used to support in-house measures.
- 2.10 Most non-GDN respondents suggested making changes to better align the Scheme with other schemes such as ECO and to ensure that funding for in-house works was more broadly available.

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

- 2.11 GDNs were broadly supportive of the Scheme, but suggested the Scheme could be made more flexible by allowing some of the funding used for fuel poor network extensions to be used for other related purposes, such as for supporting debt and tariff advice organisations using partner organisations. One GDN suggested exploring the use of regulatory fines to support greater fuel poverty funding. It was also suggested that greater government funding from general taxation should be used to fund in-house works.
- 2.12 Non-GDN stakeholders suggested that the Scheme should be better linked to other schemes such as ECO and the Home Energy Efficiency Programmes Scotland (HEEPS), they wanted to maintain a simple method of identifying

eligible consumers and to see an improved level of data sharing between the actors involved in delivering the schemes.

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?

- 2.13 GDNs suggested that the Scheme should make it easier for iGTs (or other third parties) to access the Scheme's funding to provide network extensions. It was also suggested that energy suppliers should be obliged to promote and consider the Scheme as part of a wider package of energy efficiency measures.
- 2.14 Echoing the comments made by the GDNs, the non-GDN respondents also wished to see partnerships extended to a broader range of organisations. They also specifically sought an increase in accessibility for iGTs. Additionally, if available, any surplus value should be used as funding for energy efficiency and other forms of in-house works.

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?

- 2.15 All GDNs broadly agreed with the proposed changes to the eligibility criteria; however a concern was raised that the changes could have the effect of reducing the overall number of eligible households, as the new criteria are more restrictive and therefore less broad than the previous criteria.
- 2.16 The majority of non-GDN responses supported the proposed changes to the eligibility criteria, with several respondents requesting minor amendments compared to what was proposed.

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

- 2.17 GDNs broadly agreed with the proposed changes to the average domestic gas consumption value; however concerns were expressed that a lower average figure would reduce the value of the voucher and potentially reduce the ability of the Scheme to reduce fuel poverty.
- 2.18 A majority of non-GDN respondents disagreed with the change to the average domestic gas consumption figures, mainly due to concerns that such changes would reduce the value of the fuel poor voucher and as such the value of the Scheme.

Appendix 3 – Background to the Scheme

What is the Scheme?


- 3.1 The Fuel Poor Network Extension Scheme (“Scheme”) enables eligible households to switch to natural gas by helping towards the cost of connecting to the gas network.
- 3.2 The Scheme is delivered by the GDNs. The Scheme was introduced in the previous price control period (GDPCR 1, 2008–2013) during which the GDNs connected 43,615 fuel poor households. One of the principal social outputs for GDNs under the current price control period (RIIO-GD1, 2013–2021) is the connection of fuel poor households to the gas grid. GDNs are expected to deliver a total of 77,450 new fuel poor connections under RIIO-GD1.
- 3.3 The key principle of the Scheme is that each connection delivered under the Scheme is self-financing, ie in time the cost of providing the connection will be recovered from the fuel poor household connected and won’t require generality of consumers to cross subsidise. The cost of the connection is recovered by the GDN over the life time of the asset (45 years) through the gas bills paid by the household connected under the Scheme.

How does the Scheme operate?

- 3.4 The Scheme provides a discount to eligible households against the cost of connecting to the gas network in the form of a “voucher”. To be eligible for a voucher, a household must qualify as per our eligibility criteria for the Scheme. The current eligibility criteria to assess if a household²⁶ is eligible are set out in paragraph 2.5 of our 2011 decision letter.²⁷ The new eligibility criteria that will apply from 1 April 2016 are set out in Appendix 5 of this document.
- 3.5 The maximum value of the voucher is equal to the Net Present Value (NPV) of the future gas transportation revenue for a typical domestic gas household. If the value of the voucher is less than the actual cost of making the connection, then the household must fund the difference. If the value of the voucher is equal to, or higher, than the cost of making the connection then the household does not have to make an up-front payment to be connected. For clarity, if the cost of the connection is lower than the NPV of future gas

²⁶ Only domestic households that qualify as per the eligibility criteria for the Scheme should be eligible for the network extension scheme. Non-domestic, new build domestic properties and richer households outside the most deprived areas will continue to pay for the full cost of their network connection.

²⁷ [2011 fuel poor network extension scheme decision letter](#)



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transportation revenue, the voucher value is capped at the cost of the gas connection.

3.6 The Scheme encompasses two types of connections:

- one-off connections – single households that are connected by service pipe to an existing main.
- community connections – where a number of households are connected, requiring a new mains pipe as well as service pipes to each individual household.

3.7 In administering the Scheme, GDNs need to work with a partner organisation, approved by us. The partner organisations are responsible for:

- verifying that the household is eligible for the Scheme; and
- ensuring that the household is able to make use of the gas when they are connected, providing funding for 'in-house' works if necessary (eg for a gas boiler).

Appendix 4 – Number of connections completed under the Scheme

Table 1 – Number of forecast Fuel Poor Network Extensions annually by GDN over RIIO-GD1²⁸

Company	Licensee	2013/14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	Final Proposal additions	Total
NGGD	East of England	1,160	1,160	1,170	1,270	1,370	1,350	1,350	1,250		10,080
	London	340	340	340	360	380	380	380	360		2,880
	North West	1,670	1,670	1,680	1,690	1,690	1,670	1,630	1,630		13,330
	West midlands	1,040	1,040	1,050	1,060	1,060	1,040	1,040	1,030		8,360
NGN		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500		12,000
SGN	Scotland	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375		11,000
	Southern	800	800	800	800	800	800	800	800	2,600	9,000
WWU		1,500	1,500	1,500	1,500	1,200	1,200	1,200	1,200		10,800
Totals		9,385	9,385	9,415	9,555	9,375	9,315	9,275	9,145		77,450
Cumulative		9,385	18,770	28,185	37,740	47,115	56,430	65,705	74,850		

*The Final Proposals included an additional 2,600 connections from SGN.

Company acronyms

NGGD: National Grid Gas plc
 NGN: Northern Gas Networks Limited
 SGN: Scotia Gas Networks Limited
 WWU: Wales & West Utilities Limited

²⁸ [RIIO-GD1: Supporting document – Outputs, incentives and innovation. 27 July 2012](#)

Table 2 – Number of Fuel Poor Network Extensions GDPCR1²⁹

Company	Licensee	2008/09	2009/10	2010/11	2012/12	2012/13	GDPCR1 Total
NGGD	East of England	0	1,326	1,125	2,214	2,748	7,413
	London	0	362	357	378	200	1,297
	North West	0	1,369	1,981	1,858	1,943	7,151
	West midlands	0	683	1,059	954	1,206	3,902
NGN		0	645	801	1,804	914	4,164
SGN	Scotland	0	672	3,768	4,533	2,801	11,774
	Southern	0	167	626	725	120	1,638
WWU		0	187	1,779	2,205	2,105	6,276
Totals		0	5,411	11,496	14,671	12,037	43,615

²⁹ [End of Period Review of the First Gas Distribution Price Control \(GDPCR1\). 21 March 2014](#)

Appendix 5 - Updated Eligibility Criteria as of 1 April 2016

To get a gas connection under the Scheme a household needs to meet our eligibility criteria. A household will be considered to be eligible for the Scheme if they meet at least one of a range of different criteria. In setting the criteria, our approach has been to use criteria that either reflect commonly used proxies of fuel poverty or are employed for related measures. This approach helps to ensure that households that benefit from the Scheme are equally likely to benefit from other forms of assistance. Table 1 below sets out our updated eligibility criteria and the reasons why we believe such changes are appropriate.

Table 1: Eligibility Criteria

Current criteria	Updated criteria as of 1 April 2016	Reason for the update
Existing households will qualify for the network extension scheme if they:		
1. reside within the 20% most deprived areas, as measured by the Government's Index of Multiple Deprivation (IMD), when measured at the Lower Level Super Output Area (LSOA). ³⁰ The IMD is defined separately for England, Scotland and Wales. Therefore, for instance, a Welsh household will qualify if it falls within one of the 20% most deprived areas in Wales as measured by the Welsh Index of Multiple Deprivation (WIMD); or	reside within the 25%³¹ most deprived areas, as measured by the Government's Index of Multiple Deprivation (IMD). The IMD is defined separately for England, Scotland and Wales. Therefore, for example, a Welsh household will qualify if it falls within one of the 25% most deprived areas in Wales as measured by the Welsh Index of Multiple Deprivation (WIMD), or	The eligible low income areas under ECO's Carbon Saving Community Obligation (CSCO) have been redefined by Government and are now within the 25% of the most deprived areas measured by IMD. ³²
2. are eligible for measures under Warm Front (England), Nest4 (Wales) or the Energy Assistance Package (Scotland); or	are eligible for measures under HHCRO³³ (England, Wales and Scotland), Nest (Wales) or the Home Energy Efficiency Programmes for Scotland, or	Warm Front ended in January 2013. Nest is ongoing. Energy Assistance Package was replaced with Home Energy Efficiency Programmes for Scotland which have operated from April 2013.

³⁰ [CSCO Map](#)

³¹ [The areas which are eligible for support under CSCO](#)

³² [The Future of the Energy Company Obligation: Small Area Geographies Eligible for ECO CSCO Support](#)

³³ [Energy Companies Obligation \(ECO\): Guidance for Suppliers. 1 May 2014](#)

3. fall within the Priority Group (low income households and over 70 years of age) for measures under the Carbon Emissions Reduction Target (CERT); or	not applicable anymore	CERT ended on 31 December 2012. ECO has replaced CERT and Community Energy Saving Programme (CESP). ECO's HHCRO eligibility criteria include low income households and elderly in receipt of state pension credit.
4. are in fuel poverty based on the standard Government definition/indicator - that is spend more than 10% of their disposable income on all household fuel use to maintain a satisfactory heating regime.	<p>are in fuel poverty based on the latest definition/indicator. England uses the Low Income High Cost Indicator.³⁴ Under this definition a household is considered to be fuel poor where:</p> <ul style="list-style-type: none"> • its income is below the poverty line (taking into account energy costs); and • its energy costs are higher than is typical for its household type. <p>For devolved administrations, the definition in use at the time of application for a connection under the Scheme should be used.</p>	This is the latest definition ³⁵ of fuel poverty introduced in 2013 in England. Scotland and Wales still use the previous definition in their fuel poverty strategies.

³⁴ [Fuel Poverty: a Framework for Future Action July 2013](#)

³⁵ [Fuel Poverty: a Framework for Future Action, July 2013, Page 11](#)

Appendix 6 – Proposed Template Partnership Questionnaire as of 1 April 2016

By ticking this box, you confirm that that your proposed partner(s) meets the Scheme eligibility criteria.

☐

Proposed Partner	
Question	Answer
Please provide details of how you will provide and/or source funding for in-house works.	
Please provide details of how you will identify eligible fuel poor households.	
Please provide details of how you will ensure that gas connection is the optimal solution for the fuel poor consumer eligible under the Scheme.	
How is your partner funded?	
On the data collected can you elaborate on what you will be asking for from households?	
As part of our approval process we will request that records are maintained. How do you plan to do this and what details will you be recording?	

