

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>	Stuart Easterbrook
<i>What is your position?</i>	Stakeholder Delivery Manager
<i>What are your contact details?</i>	Stuart.easterbrook@nationalgrid.com 07880 783427

Part 2 - About your business

Question	Your response
<i>What is your company's name?</i>	National Grid Gas Distribution
<i>What is the nature of your company's business? Please state if this involves Fuel Poor Network Extensions Scheme, or Fuel Poverty related work.</i>	Gas distribution, which includes connecting customers under the Fuel Poor Network Extension Scheme.
<i>What areas of the country does your business operate in?</i>	West Midlands, London, East of England, North West

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?

National Grid would like to see improved opportunity for DH schemes to be delivered. We believe that DH provides a good avenue to accessing vulnerable customers that currently live in areas that are too expensive to connect to as single domestic one-off customer (e.g. in London) and also has the potential of supporting customers in multi occupancy buildings where gas supply to each home may not be economical or for safety reasons is not seen as the preferred option. Specifically for London, we also see DH as a means to supporting the Mayor of London's target of supplying a quarter of London's energy from decentralised sources by 2025, with DH being most suitable in areas of high building density.

National Grid does not believe any fundamental change is required to the voucher calculation, where the energy source is predominately gas. However, to ensure we maximise the opportunity for DH, National Grid are keen to see the introduction of a Fuel Poor voucher for each dwelling that is supplied by the DH scheme, rather than the current methodology where a Fuel Poor voucher is available for each eligible connection. The revenue would be recovered under the same methodology as the current Fuel Poor voucher scheme.

We believe this is the most appropriate approach as it provides consistency with the calculation of the Fuel Poor voucher for individual households, which also does not differentiate between size of premise or number of inhabitants.

An alternative approach which we have discounted is using a forecast load for each

District Heating unit used. The risk of adopting this approach is that it could lead to oversizing of schemes.

We have noted that one of the benefits of DH schemes is the encouragement of different or multiple energy sources, and therefore, it is not appropriate to assume the same gas usage for every household. Studies have shown a DH scheme with multiple energy sources, can provide ongoing cost savings of 30-40% per annum.

Understanding the variety of projects that could come about, National Grid propose a hybrid approach that uses a standard calculator to determine the voucher value based upon the forecast of gas demand, but caps this at a level that is determined by the TDCV voucher level multiplied by number of households benefitting from the scheme. We believe the hybrid approach will be successful in providing the right incentive for DH schemes, whilst also protecting the interests of gas consumers generally.

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.

Part 1

National Grid does not have expertise in CHP units. We have supported the delivery of two DH schemes, facilitated through our partner Affordable Warmth Solutions who separately collaborated with other organisations to deliver the in house solutions. This does not provide us with robust information and therefore, we do not believe we are best placed to provide assumptions around gas consumption for CHP units or connected households.

However, as outlined in Q1, we are keen to see DH provide greater opportunity to access those areas that have been difficult to access and have proposed an approach, as above, that should be simple to administer and provides protection that projects are not over-sized.

There is a risk that a customer who has a DH connection, also qualifies under the current proposals for a separate one-off Fuel Poor connection, which maybe for the purposes of gas for cooking. In this scenario the Fuel poor connection will not be self-funding. Therefore, we recommend Ofgem clarify that a customer may only receive the benefit of one Fuel Poor voucher i.e. for DH or for a one-off connection.

Part 2

We see no reason to treat the asset life of these assets differently than other comparable assets i.e. 45 years

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.

We see no reason why the partnership eligibility criteria should not be extended to include District Heating schemes, in that the partner organisation facilitates and/or provides funding for in-house measures and has the appropriate screening processes in place to apply the Scheme's eligibility criteria.

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?

National Grid has collaborated with the other GDNs to develop a process that works well for both the GDNs and the iGTs, and most importantly makes it easier for the iGTs to support a greater number of Fuel Poor connections.

The ENA will be issuing a joint letter to Ofgem providing information on the agreement with AiGT.

The steps of the process are outlined below:

iGT Fuel Poor Voucher Application Process	
Step 1	The iGT receives Fuel Poor connection request from customer or local authority – the iGT costs the work as normal for infill connection or network extension scheme.
Step 2	The iGT utilises an Ofgem approved Partner to undertake FPNES validity check.
Step 3	Where the Fuel Poor eligibility criteria is met by the customer(s), iGT request FPNES voucher from the relevant GDN. As part of the request, where the GDN requires, the iGT shall submit evidence of the cost of works and proposed project timescales (in the case of network extension schemes).
Step 4	The GDN calculates the value of the voucher(s) based on the 45 year NPV of GDN revenues (to the CSEP) and responds to the iGT's request with the value of the FPNES voucher(s) within 5 working days from receipt of the iGT's request.
Step 5	The iGT reflects the Fuel Poor voucher value in the customer's contract with the iGT.
Step 6	The customer accepts the quote (signs contract).
Step 7	The iGT completes the contracted work.
Step 8a	The iGT invoices the GDN for the value of the Fuel Poor voucher within 30 days of the work being completed. The iGT provides meter details and evidence that central heating has been installed to GDN, to demonstrate that the relevant work has been completed. Invoices should be settled within 30 days of receipt.
Step 8b	The iGT invoices the customer the balance (after the iGT has applied any applicable allowances).
Step 9	The GDN allocates the Fuel Poor voucher value to its Regulatory Asset Value (RAV), in accordance with the Ofgem-GDN agreed process.

In order to facilitate these changes, National Grid would propose Ofgem approve the funding mechanism by which the GDNs have set out (i.e. via the RAV on a real time basis). In practice, we would expect the Regulatory Asset Value to be adjusted annually based on the each formula year's RRP submission.

Q5 What is your view on our proposal to introduce changes to the partnership approval process and the obligations of the partner organisations?

National Grid believes the introduction of the additional check that Ofgem has proposed to validate that gas is the correct solution for the consumer adds additional complexity to the scheme that may not be necessary. In our opinion, the market and funding that is available are effective in driving the correct economic decision for a customer (or for the organisation acting on behalf of a customer).

Should Ofgem continue with implementing such criteria, they need to do so mindful that our organisation and/or partner organisation(s) will require a wider set of skills in order to carry out these assessments effectively. National Grid would expect Ofgem, should they implement this change, properly arrange funding for the increased resource and skills to carry out this work.

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?

National Grid's view is that Fuel Poor households are more likely to include vulnerable people with a greater reliance on heating during the day and we therefore do not believe using the average medium gas usage value is appropriate or fair, and would suggest the high range value is used, to recognise the atypical requirements of Fuel Poor households.

The recent decision to reduce the TDCV to 12,500kWh will reduce the voucher level by circa 10% across each network from September 2015 (about £160) and will mean where longer services are required a customer contribution will be required. Services longer than 30m will require a customer contribution in all our networks, whilst in East of England services over 20m will need a customer contribution and most concerning in London, where demand is currently below our RIIO target, service lengths over 10m will require a customer contribution.

Whilst it is believed most Fuel Poor customers will require shorter lengths rather than longer, those customers in East and London are likely to be disproportionately affected which will impact volumes.

Q7 We welcome your views on the fuel poor output incentive mechanism.

National Grid would like clarification on Ofgem's methodology. However, our interpretation of approach is that it is consistent with that of the other Network Output Measures and if so, we would be comfortable with this.

Removing the "cap" on our Fuel Poor targets provides us with greater certainty and removes potential constraints in delivery for customers. With the new incentive mechanism we are now able to more easily deliver our Fuel Poor ambition and meet the demand of Fuel Poor customers.

However, given the considerable uncertainty at present both with the operation of the scheme, and the support for in-house measures, we believe historic trends provide the greatest indicator of future performance. We will be in a much stronger position to provide new forecasts once we have some experience of the new scheme in operation, with supporting funding for in-house works.

Whilst National Grid have provided Ofgem with a recent forecast of Fuel Poor volumes on a best endeavours basis using the information we have available, we have raised that the external environment is still far from certain and there remains a medium level risk around the (over or under) delivery of these volumes.

Therefore, National Grid proposes that Ofgem allow all GDNs and IGTs to formally reforecast their Fuel Poor volumes at least one more time (at the end of 2016/17 based on our RRP submissions). This would enable us to make more informed forecasts based upon the history of how the new changes to the scheme bed in and hopefully with a clearer view at government level for longer term capital in-house

measures.