

# Appendix 1 – SGN Response to Ofgem Questions

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## Part 1 - About you

| Question                       | Your response           |
|--------------------------------|-------------------------|
| What is your name?             | Paul Mitchell           |
| What is your position?         | Regulation Manager      |
| What are your contact details? | paul.mitchell@sgn.co.uk |

## Part 2 - About your business

| Question  | Your response                            |
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| What is your company's name?  | Scotia Gas Networks                      |
| What is the nature of your company's business? Please state if this involves Fuel Poor Network Extensions Scheme, or Fuel Poverty related work. | Gas Transporter                          |
| What areas of the country does your business operate in?  | South & South East of England, Scotland. |

## 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?

### SGN Response

We consider the fuel poor voucher calculation should be expanded to incorporate District Heating (DH) Schemes.

Our experience demonstrates those customers connected to DH Schemes are the most vulnerable fuel poor customers. Many customers connected to DH Schemes live in high rise apartments with poor insulation and old inefficient electric storage heating systems. By supporting DH Schemes, it is possible to take large numbers of customers out of fuel poverty within a single project, and the numbers of customers who can benefit as a direct result of this can typically vary between 100-400 connections per DH Scheme.

The voucher value can either be amended to be representative of the actual connection cost, or the full voucher value can be allocated on deduction of the actual connection cost with the

balance being used to assist the initial cost of installing a DH Scheme. The cost of a DH Scheme is generally greater than that of providing a single one-off gas connection due to the high cost of installing either a gas boiler or Combined Heat & Power (CHP) plant and installing the hot water main throughout multi-occupancy buildings.

We consider the future gas transportation revenue should be recovered from the shipper who supplies gas to the operator of a DH Scheme.

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.

#### SGN Response

The gas consumption of a CHP unit and that of an individual DH connected household should be provided by the operator of the Scheme, and who will be able to provide AQ / SOQ quantities.

On the basis that the operator is a District Council, Housing Association or CIC who have in place a legitimate replacement plan with insurance policy to cover same in place, we consider a 45 year asset life should apply for the recovery of connection costs.

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.

#### SGN Response

We consider the partnership eligibility criteria for the Scheme should be amended to support the inclusion of DH.

Our response to Question 5 below provides further detail on how this could work.

We also consider Ofgem's proposed Partnership Template (included as Appendix 6 of the consultation) would be suitable, and we would also suggest this should be expanded further to identify the type of project. This would enable Ofgem to identify whether this related to a one-off connection, DH Scheme, iGT or an alternative.

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?

#### SGN Response

SGN has recently completed the first major iGT project at Port Glasgow in conjunction with

Riverclyde Housing Association and ES Pipelines (ESP) containing 55 social and 62 private households. The project saw over 85 % of all customers switching to a mains gas supply.

The process entered into between the parties was shared with gas transporters, via ESP Pipelines, with the Association of Independent Gas Transporters (AiGT) and has brought about a consensus between the various parties.

After a series of meetings and discussions, agreement has been obtained between gas transporters and iGTs on a process that should facilitate better co-ordination of fuel poor gas connections. The Energy Networks Association (ENA) has submitted this to Ofgem and, if approved, it is anticipated this will provide a platform for all gas transporters to work in a collaborative manner going forward.

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

#### SGN Response

We currently operate a Partnership Approval Process which is very similar to that being proposed by Ofgem under Appendix 6 of the consultation paper. We therefore support the changes being proposed by Ofgem.

The introduction of a question to “provide details of how you will provide and / source funding for in-house measures” is something that we would agree with and are happy to see incorporated. We are therefore in agreement with the proposed partnership approval questionnaire and the respective obligations of the partner organisations that are being proposed.

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?

#### SGN Response

We agree with the proposal to use the Typical Domestic Consumption Value (TDCV) as the average gas consumption to be used in the calculation of the NPV for the fuel poor voucher value.

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

#### SGN Response

We welcome the introduction of any measures that promote the FPNES and incentivise correct behaviours amongst gas transporters to achieve higher numbers of fuel poor connections.

While we agree with the principle of the incentive being proposed by Ofgem, we consider the mechanism itself could be enhanced further as follows:

1. No penalty should apply where a gas transporter has achieved its original RIIO-GD1 target as defined within the Final Proposals. Gas transporters have played an active role in promoting the uptake of fuel poor connections to date. The option to re-forecast the number of connections for the remainder of RIIO-GD1 is in part a result of the significant progress made in promoting the FPNES. We think it would be unfair for gas transporters to effectively be penalised for their own success and where they have exceeded their original RIIO-GD1 targets. This may result in gas transporters being overly conservative in estimating their re-forecasted fuel poor connections targets. In the specific case of SGN, we do not consider we should be penalised for achieving fewer than 9,000 fuel poor connections in our Southern licence area or 11,000 fuel poor connections in our Scotland licence area. Any penalties should only apply to the difference between actual connections and our re-forecasted fuel poor connection numbers with a lower 'collar' being applied to our RIIO-GD1 Final Proposal targets;
  2. The cap for potential penalty/reward should not be set at 2.5%. Gas transporters should be incentivised to achieve the maximum number of fuel poor connections. Placing a cap on the potential reward will not incentivise additional fuel poor connections above the 2.5% threshold of the re-forecasted fuel poor connection targets. This could have the effect of some fuel poor customers not achieving a gas connection;
  3. Re-forecasted fuel poor connection numbers should be validated by Ofgem. We consider Ofgem should expect all gas transporters to provide re-forecasts that build upon previous RIIO-GD1 targets. We would expect all re-forecasts to propose an increase in fuel poor connection targets. This will need to be validated by Ofgem to ensure all parties increase the number of fuel poor connections through the remainder of RIIO-GD1; and
  4. Ofgem should re-assess fuel poor incentive arrangements before the end of RIIO-GD1. Given the continued changing energy policy environment, we consider it would be prudent for Ofgem to review any incentive mechanisms in three years time to ensure they remain fit for purpose. It is difficult to ascertain with any certainty the future availability of Government funding, and this could impact upon the ability of gas transporters to deliver fuel poor connections for reasons beyond their control.
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## Appendix 2 – SGN Re-forecast of Fuel Poor Connection Numbers for the Remainder of RIIO-GD1

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Please refer to attached spreadsheet.