



Bringing Energy
Together

Consultation response | Ofgem's minded-to decision on the future of the Fuel Poor Network Extension Scheme

03rd September 2015

The Association for Decentralised Energy (ADE) welcomes the opportunity to respond to Ofgem's consultation on its minded-to position for the determination of revised connections target and associated additional allowed expenditure for the Fuel Poor Network Extension Scheme under the RIIO-GD1 price control uncertainty mechanism.

The ADE is the leading decentralised energy advocate, focussed on creating a more cost-effective, efficient and user-orientated energy system. Our members have particular expertise in combined heat and power, district heating networks and demand side energy services, including demand response. The ADE has over 100 members active across a range of technologies, including both providers and users of energy.

The Association is responding to the first question of the consultation. The key elements of our response are:

- The revised target (an 18% increase on the base target) could be set at a higher level in views of the Gas Distribution Networks' (GDNs) achievement in the first year of RIIO-GD1, in 2013-14.
- We welcome Ofgem's intention to make district heating a new measure under the Scheme. However, we recommend that district heating should be placed on an equal footing with gas, both in the way targets are set and measures validated by Ofgem.

Consultation response

Question 1: Do you agree with our assessment of revised connections target for the GDNs for the Scheme?

Overall, GDNs delivered nearly 20% of their eight year fuel poor connections target in the first year of RIIO-GD1, with Scotland predicting that it will achieve its output within the first two years of the scheme¹. Ofgem is minded to increase the eight year connections target by 18% under RIIO-GD1, which seems low compared to connections delivered by GDNs in 2013-14.

We recognise that it may be more difficult to find fuel poor households after the "easy" connections have been made, but technology innovation can unlock new opportunities. District

¹ Ofgem, RIIO-GD1 Annual Report 2013-14, 19 March 2015, [page 33](#)

heating is a proven technology that can connect customers in high-rise buildings, which we understand GDNs find challenging to serve².

District heating sub-target and obligation to investigate opportunities

We welcome Ofgem's intention to make district heating a new measure under the Scheme. However, under the current proposals GDNs are not incentivised to go down the more complex route of district heating. Therefore, we recommend that Ofgem set up a sub-target for a percentage of fuel poor households within a GDN's area to be connected to district heating schemes.

The sub-target would be aligned with the number of district heating connections proposed by GDNs, which means that it would only be set for those GDNs that considered they can deliver district heating connections.

We also recommend Ofgem create an obligation to investigate possible connections to district heating schemes for the GDNs who didn't include heat networks in their revised connections forecasts.

It is our understanding that Ofgem is minded to set the boundaries of the Fuel Poor Connection Scheme at the point where the gas distribution pipework connects to a gas-fired CHP, which produces heat that is delivered to end-customers through the heat network.

There are 180 Local Authorities in England and Wales which are receiving support from DECC to develop their heat network. The requirement put on GDNs should consist of an obligation to engage with Local Authorities in their distribution areas who were awarded support from the Heat Network Delivery Unit. The list of successful Local Authorities is publicly available³.

Validation of a measure

Ofgem is minded to accept that the costs of new district heating connections be added to the Regulatory Asset Value (RAV) of GDNs at the end of the RIIO-GD1 period, in 2021, which could create a two-tier system unfavourable to district heating.

This accounting mechanism creates uncertainty for district heating investment, and could lead to investors requiring higher cost of capital for gas connections to district heating in a financial resources constrained environment.

This effect could be avoided by allowing GDNs to add the efficient costs of district heating connections to their RAV in the year of delivery of a connection from gas to end-customer.

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² Energy and Climate Change Committee - Fuel Poverty in the private rented and off-grid sectors, 2012

³ Heat networks delivery funding, pdf document, [here](#)