

Rupika Madhura  
Head of Gas Distribution Policy  
Smarter Grids & Governance  
Ofgem  
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3<sup>rd</sup> September 2015

Dear Rupika,

### **Consultation on Fuel Poor Network Extension Scheme Uncertainty Mechanism**

Thank you for the opportunity to comment on the above consultation. You requested views on two specific questions:

***Question 1 - Do you agree with our assessment of revised connections target for GDNs for the scheme?***

As the proposed target for NGN is the same as we proposed then clearly we agree. Nationally it does seem odd that three GDNs are not able to increase their proposed outputs.

Given the uncertainties we support the decision to not include district heating and IGT connections in the proposed targets and consequently within the proposed additional funding.

***Question 2 – Do you agree with our assessment of the additional allowed expenditure for the GDNs to facilitate additional connections under the scheme?***

Calculating an upper quartile unit cost based on 13/14 data only is flawed as it is not statistically valid, subject to inherent cost differences in the make-up of the community schemes completed during that year and reflects the willingness of GDNs to promote and take on more capital intensive or projects with greater levels of uncertainty. The scale of cost differential can not simply be explained by relative efficiency.

However, more fundamentally we are obliged under the rules of the scheme to fund a voucher value of £2,236 (14/15 prices). NGN currently has an allowed unit cost of £1,348 (14/15 prices) from final proposals which means that we are already completing valid schemes that are exceeding the unit cost allowance and therefore we are incurring the relevant penalties under the IQI incentive. The proposed unit cost for the additional 2,500 connections we will deliver is £1,187 (14/15 prices)

which is below allowance from final proposals and will therefore exacerbate the issues we are facing.

Our suggested approach would be to set a unit cost for one-off connections using data from 13/14 and 14/15 and quartile benchmarking as there is direct comparability between GDNs for such connections. Use this also to calculate an efficiency factor for each GDN and apply this to the forecast costs for community schemes.

As a minimum a GDN should be given the allowed unit cost from final proposals as otherwise they will be penalised for increasing their proposed targets compared to those GDNs that did not propose any increase.

If you wish to discuss any aspect of our response please do not hesitate to give me a ring. Our response is non-confidential.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Parker', is positioned above the printed name and title.

**Stephen Parker**  
**Regulation Director**

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