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Dear Rupika,

SGN response to Ofgem consultation on minded-to position for the determination of revised connections target and associated additional allowed expenditure for Fuel Poor Network Extension Scheme under RIIO-GD1 price control uncertainty mechanism

Thank you for the opportunity to respond to your minded-to on the findings of the Fuel Poor Network Extensions Scheme (FPNES) that you published on 5 August 2015.

As you will be aware, we have already provided you with our views on the future of the FPNES and additional information requests to inform your findings.¹²³⁴⁵ We have detailed our views and thinking on all aspects of the FPNES in our previous responses. This response seeks to directly address the subject areas contained within Ofgem's minded-to position paper, but it should also be read in conjunction with our previous submissions and considering that our views have evolved with ongoing discussions on this subject.

Ofgem's Revised Fuel Poor Connection Targets

We agree with Ofgem's assessment of revised connection targets for each of the gas distribution networks (GDNs) under the FPNES. We are pleased to note that Ofgem recognises SGN's proposal for the largest additional increase in fuel poor connections across all GDNs in RIIO-GD1 (an increase of 37%). We consider this reflects our commitment to meet the needs of our customers who experience fuel poverty across our networks, and the efforts we will continue to make to ensure fuel poor customers are able to reap the benefits that a gas supply has to offer.

¹ "Information on the Fuel Poor Network Extension Scheme"; SGN, 2 October 2014.

² "Review of the Fuel Poor Network Extension Scheme"; SGN, 31 October 2014.

³ "Further Request for Information regarding the Fuel Poor Network Extension scheme"; SGN, 9 January 2015.

⁴ "SGN Response to Further Request for Information on the Fuel Poor Network Extension Scheme"; SGN, 21 May 2015.

⁵ "SGN response to Ofgem consultation on the Fuel Poor Network Extension Scheme"; SGN, 18 June 2015.

Ofgem's Assessment of Additional Allowed Expenditure for GDNs

In respect of SGN, we agree with Ofgem's assessment of the additional allowed expenditure to facilitate increased connections under the FPNES. However, we consider the adjustment to our totex should be adjusted and increased slightly to £8.8m (rather than £8.7m and which should represent £7.2m in our Scotland network and £1.6m in our Southern network).

District Heating Connections

We also appreciate Ofgem's recognition that SGN has been leading the way amongst GDNs in facilitating district heating connections. While it is disappointing to note that Ofgem is unable to include specific fuel poor connection targets for each GDN, we remain committed to increasing the number of district heating fuel poor connections across our networks throughout RIIO-GD1.

We are unsure as to why Ofgem is only allowing eligible costs to be added to the RAV for district heating connections that are made after October 2015. In our view, there is no reason or explanation provided by Ofgem as to why all efficient costs associated with district heating connections from the outset of RIIO-GD1 (i.e. from 1 April 2013) should be added to the RAV. In our view, this does not fairly or appropriately recognise the work SGN has already undertaken in this area, and we would welcome further clarification from Ofgem as to why district heating connections completed before October 2015 are excluded.

Connections on iGT Networks

As noted in our previous responses to Ofgem regarding the FPNES, we support the principle that each fuel poor connection should be self-funding where possible, and that the voucher scheme remains a fit for purpose vehicle to achieve this. We support the continuation of the partner approvals process and the requirements that gas transporters should be expected to continue working with other organisations to meet the needs of customers who experience fuel poverty.

We are therefore disappointed that Ofgem is minded not to approve the process that has been agreed between iGTs and GDNs. Both iGTs and GDNs have expended considerable time and resources into developing this proposal, and we do not consider this contravenes the overriding principle that fuel poor connections should be self-funding where possible. The current FPNES framework is not entirely self-funding in that under RIIO-GD1, an allowance is given to each GDN to facilitate fuel poor connections. This means that, in effect, non-fuel poor customers are subsidising this activity. We consider the joint iGT/GDN process that has been proposed does not give rise to any additional self-funding issues to that which already exists under RIIO-GD1.

We would therefore suggest that Ofgem should revisit its minded-to position in this regard. It is important for GDNs to ensure that the financial risks associated with undertaking fuel poor connections are appropriately balanced and do not result in GDNs assuming the financial risks of iGTs when undertaking fuel poor connections.

Update on Incentive Mechanism

In Ofgem's previous consultation on the FPNES, it was proposed to implement an incentive mechanism.⁶ We note Ofgem's minded-to consultation makes no further reference to this mechanism. Recent discussion with Ofgem has lead us to the view that it is intended to progress with an incentive

⁶ "The findings of our review of the Fuel Poor Network Extension Scheme", Ofgem, 26 March 2015.

mechanism similar to that previously consulted on, and we would encourage Ofgem to formally update all industry participants and stakeholders on their intentions for any incentive mechanism before any final decision is published.

For the benefit of doubt, while we agree with the principle the incentive being proposed by Ofgem, we consider the mechanism itself should not apply any penalty where a gas transporter has achieved its original RIIO-GD1 target as defined within the Final Proposals. We also consider the cap for potential penalty/reward should not be set at 2.5% as 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.

Should you require any further information with regards to our response then please do not hesitate to contact either Robbie Stevenson at robbie.stevenson@sgn.co.uk or myself at paul.mitchell@sgn.co.uk.

Yours sincerely,

Paul Mitchell
Regulation Manager