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## **Non Gas Fuel Poor Network Extension Scheme Statutory Consultation**

We are consulting on changes to the Gas Distribution Networks (GDNs) transporter licences to introduce the Non Gas Fuel Poor Network Extension Scheme (the Scheme) incentive mechanism. The incentive mechanism sets out the fuel poor connection targets the GDNs should deliver during the RIIO-GD1 price control period<sup>1</sup>. The mechanism also encourages the GDNs to exceed these connection targets by providing a financial incentive to connect additional eligible fuel poor households.

The statutory consultation published alongside this letter sets out the changes we propose to make to the GDNs licences. We are seeking views on these changes until 30 November 2015.

### **Background**

The Scheme enables low income vulnerable households to switch to natural gas by helping to fund the cost of connecting to the gas network, where connection to gas main is the best solution for them. It does so by providing a discount to eligible households against the cost of the gas network connection.

We recently concluded a review of the Scheme which considered if it was aligned with wider Government strategies on heating and fuel poverty, and whether there were any changes we could make to maximise its benefits.<sup>2</sup>

We made a number of changes to the Scheme based on stakeholder feedback to the review and our analysis. These changes included revising the fuel poor connection targets as stated in the RIIO-GD1 final proposals<sup>3</sup> to the targets set out in our the Scheme review decision document.<sup>4</sup> This increased the total fuel poor connection targets from 77,450 connections to 91,203 connections.

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<sup>1</sup> RIIO-GD1 is the current Price Control Review (2013-2021). RIIO stands for Revenue = Incentives and Innovation and Outputs.

<sup>2</sup> A copy of our final decision letter can be found here: <https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-final-decision-document>

<sup>3</sup> A copy of the final proposals document can be found here: <https://www.ofgem.gov.uk/network-regulation-riio-model/riio-gd1-price-control>

<sup>4</sup> A description of all the changes made the Scheme can be found in the final decision document linked in the footnote above.

We also decided to establish an incentive mechanism which encourages GDNs to connect additional eligible households over and above those included in the revised targets.

### **The Scheme incentive mechanism**

We have set targets for each GDN to deliver a specific number of fuel poor connections by the end of the RIIO-GD1 price control period.<sup>5</sup> However, we consider it is appropriate to encourage GDNs to outperform the connection targets in order to assist as many fuel poor and vulnerable households as possible.

To encourage the GDNs to exceed their connection targets, we will implement the Scheme incentive mechanism. The statutory consultation and draft licence text which accompany this covering letter sets out in full the changes we will make to introduce the Scheme incentive mechanism.

In summary, at the end of RIIO-GD1 price control period we will require the GDNs to report on their performance on delivering fuel poor connections. We will then assess if the GDNs have over or under delivered against their fuel poor connections targets using the principles established for the RIIO-GD1 price control period.

The GDNs will either be rewarded or penalised depending on any over or underperformance in delivering fuel poor connections against their connection targets. The GDNs will receive an additional 2.5 per cent reward or penalty of the assessed efficient costs related to the over or under delivery.

The over or under delivery will be offset against any output commitment agreed as part of the next price control period. If the Scheme does not continue beyond RIIO-GD1, we will make the appropriate legacy adjustment at the beginning of the next price control period.

We consider these changes will encourage the GDNs to exceed the fuel poor connection targets we have set. This will maximise the amount of vulnerable and fuel poor households who benefit from the Scheme by being connected to the gas network.

### **Licence drafting**

Draft licence text which will implement the Scheme incentive mechanism is included in the appendices to the statutory consultation published alongside this letter.

We have numbered the licence condition which introduces the Scheme incentive mechanism as 'Special Condition 4J' to make sure it has the same numbering across the gas transporter licences held by the GDNs. As a result, we propose to include Special Condition 4I into the licenses held by National Grid Gas Distribution, Southern Gas Networks and Northern Gas Networks. It will be shown as 'Not Used'. The other two GDNs, Wales and West Utilities and Scotland Gas Networks, have an existing Special Condition 4I in their gas transporter licences.<sup>6</sup>

Paragraph 4J.11 in the licence text states that the 'Domestic One-off connection' and 'Community connection' definitions can be found in the Regulatory Instructions and Guidance (RIGs). The RIGs are the collection of documents issued by us to the GDNs to enable them to complete the reporting requirements associated with the RIIO-GD1 price control arrangements. It includes excel reporting packs, instructions and guidance, and performance commentaries.

We consider it is appropriate to define 'Domestic One-off connection' and 'Community connection' terms in the RIGs. The RIGs inform the GDNs about the information we plan to collect from them for the purposes of monitoring the price control, guide them on how to

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<sup>5</sup> The targets we have set are set out in the final decision document linked in the footnote above.

<sup>6</sup> Special Condition 4I. Gas conveyed to Independent Systems.

provide this information and enable them to put systems in place to collect the data to the detail we require. This includes information on the number of fuel poor connections they deliver under the Scheme. Given this, we consider the RIGs are an appropriate location for the definitions.

Including the definitions in the RIGs will also provide flexibility to make changes to the definitions in the future as the RIGs are periodically updated.

We intend to add the definitions below to the RIGs before the 31 March 2016 as part of its review process. It would be useful to have any comments interested parties have on the appropriateness of these definitions.

- Domestic One-off connection: A service pipe connection from an existing main to a single household
- Community Connection: A connection to a number of households requiring new mains pipe and service pipes to each individual household.

### **Consultation process**

We are consulting on these changes until 30 November 2015. Responses should be sent to James P Thomson, Office of Gas and Electricity Markets, Cornerstone, 107 West Regent Street, Glasgow, G2 2BA or by email to [james.thomson@ofgem.gov.uk](mailto:james.thomson@ofgem.gov.uk). All non-confidential responses we receive will be published on our website.

We will consider the responses we receive to the statutory consultation. If we decide to proceed with the changes, we will then publish our decision on licence changes to implement the FPNES incentive mechanism into the GDNs transporter licences.

Yours faithfully

**Paul Branston**

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