



Making a positive difference
for energy consumers

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Dear Paul

Approval of National Grid Gas PLC's revised Connection Charging Methodology Statement

You submitted a revised copy of National Grid Gas Distribution's (NGGD's) Connection Charging Methodology Statement (the "Statement") to us¹ on 18 January 2016. The Statement had been revised to incorporate the recent changes we made to the Fuel Poor Network Extension Scheme (the "Scheme").

Standard Condition (SC) 4B of your Gas Transporter Licence states that any modifications to the Statement can be vetoed by us. On this occasion, we have decided not to veto the changes you propose to make to the Statement. Our decision is explained below.

Background

SC 4B of your Gas Transporter Licence sets out the obligations for you to put in place and maintain a connection charging methodology. In particular, SC 4B states that you must review the connection charging methodology at least once in every year and make modifications in order to make sure it continues to achieve the relevant charging objectives.²

It also states that any modifications must be submitted to us alongside a report which sets them out, explaining why they will better facilitate the relevant objectives, and including a timetable for implementing the changes. We have a 28 day period starting from the date this information is submitted to veto the proposed modifications, ie to issue a direction to the licensee that the modification shall not be made.³

We recently reviewed and made a number of changes to the Fuel Poor Network Extension Connection Scheme.⁴ A full description of the changes we made to the Scheme can be found in the final decision document published on our website.⁵ The changes we made to

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets.

² SC 4B, paragraph 4

³ SC 4B, paragraph 6

⁴ The Review was launched in August 2014. The consultation letter can be found here:

<https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-review-consultation-letter>

⁵ The Fuel Poor Network Extension Scheme final decision document can be found here:

<https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-final-decision-document>

the Scheme's eligibility criteria have required you to revise the connection charging methodology statement.

The changes you propose are described in more detail below.

Revisions to NGGD's connection charging methodology

You propose to make a number of changes to section 6.2 of the Statement which explains the designation of domestic loads as "fuel poor". You propose to revise text in this section so it reflects the Scheme's eligibility criteria we will implement from 1 April 2016. In particular, changes are made to:

- explain that domestic consumers who reside within the 25% most deprived areas as measured by the Index Of Multiple Deprivation qualify for support.⁶ Similar changes are also made in sections 4.1 and 4.3
- explain that domestic consumers who are eligible for measures under the Home Heating Cost Reduction Obligation (HHCRO) qualify for support
- explain that the Low Income High Cost indicator will be used as the fuel poverty measurement
- delete the priority group eligibility criterion
- delete the previous fuel poor government definition criterion.

We note that section 6.3.2 of the statement sets out the calculation of the standard domestic Net Present Value (NPV) transportation revenue. Subsection i of this section states that "a standard domestic AQ value (in kWh) equal to the prevailing Typical Domestic Consumption Value (TDCV) in use by Ofgem at the point the Fuel poor Test is applied" will be used to calculate the transportation revenue NPV.

The text in subsection i is broadly correct in that the prevailing TDCV will be used as part of the fuel poor test. However, it is the *medium* TDCV value which will be used as a proxy for average gas consumption by the standard domestic consumer. We publish three TDCV figures – low, medium and high. Our decision letter on the changes to the FPNES made clear we decided to use the medium TDCV as the source of the gas consumption number because, in our view, it will most accurately reflect typical household gas consumption.

Our decision

We have considered the modifications you propose to make to the Statement. We are content that they update the Statement to reflect the changes we have made to the Fuel Poor Network Extension Scheme. In particular, that the Statement now sets out the revised Scheme eligibility criteria that will apply from 1 April 2016.

We have also considered the description of the TDCV in section 6.3.2. While the text is not incorrect, we consider you should revise this section when the Statement is next reviewed to make it clearer that the medium TDCV will be used as the standard domestic AQ value.

Decision Notice

In accordance with Standard Condition 4B of the Gas Transporter Licence, the Authority has decided not to veto this modification to the connection charging methodology of National Grid Gas PLC.

⁶ Households must reside within the 25% most deprived areas, as measured by the Government's Index of Multiple Deprivation (IMD). The IMD is defined separately for England, Scotland and Wales.

Yours sincerely

Paul Branston

Associate Partner, RIIO Networks

Signed on behalf of the Authority and authorised for that purpose