

FAO Geoffrey Randall
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

22 March 2017

Dear Mr Randall,

Fuel Poor Network Extension Scheme: Update to the eligibility criteria due to changes to the Energy Company Obligation (ECO) – Ofgem open letter dated 10th March 2017

I am writing on behalf of Gas Distribution Network (GDN) members of the Energy Networks Association (ENA).¹ ENA is the industry body for UK and Ireland's gas and electricity transmission and distribution networks.

The GDNs with support from our fuel poor partner organisations have prepared the following response for consideration by Ofgem, prior to the implementation of any proposed amendments to the Fuel Poor Network Extension Scheme (FPNES). Of particular concern is the proposed removal of Lower Layer Support Output Area (LSOA) linked qualification criteria, which we feel will have a significant and detrimental impact on our ability to support the eradication of Fuel Poverty.

At the launch of the Governments Fuel Poverty Strategy the Secretary of State was quoted as saying "A major focus is on fuel poverty in non-gas homes". In the strategy the Government commits to:

"work with partners to support the development and proliferation of financing mechanisms that make it easier for fuel poor households to meet the up-front of energy efficiency measures, harnessing innovation funding and maximising activity carried out under any social obligations".

In principle, we support the use of appropriate proxies to aid fuel poverty targeting, as well as reflecting criteria employed by related schemes, to encourage joined up working. It is essential however that the correct balance of these elements is maintained to ensure households continue benefit in full.

Unfortunately, the removal of LSOA criteria as proposed in your open letter will have completely the opposite effect, and will exclude a very significant number of households that currently benefit from the FPNES scheme. Furthermore, such an action is highly likely to adversely influence key stakeholders through the reduction in potential for area based schemes, without such schemes, neighbouring off gas households would be dealt with in an unequal manner, causing them to challenge the process and withdraw from upgrade programmes.

We accept that the GDNs were advised of the potential for changes to FPNES eligibility criteria by Ofgem on the 3 February 2017 (via email). The email was however very brief and provided no detail to suggest that such a significant amendment to eligibility criteria was being considered. Had this been clearly communicated at that time then earlier concerns and requests for clarification would have been raised by the GDNs.

¹ Wales & West Utilities, SGN, Northern Gas Networks and National Grid Gas Distribution.

This is in contrast to the extensive consultation and stakeholder engagement that was undertaken when the scheme was revised in April 2016. The GDNs were asked to reforecast their RIIO-GD1 outputs based upon the new proposed criteria and these were agreed and signed off in September 2015.

Our Fuel Poor scheme partners have estimated that only 25% of those properties currently captured by the LSOA criteria would qualify under the new ECO2t criteria. This translates into a 55% reduction in forecast connections numbers compared to the GDNs targets in the last four years of RIIO-GD1.

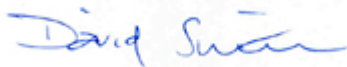
Each of the GDNs has hundreds of jobs that are either accepted or that have been quoted on the basis of the LSOA criteria. In addition, the networks have thousands of potential connections between them that Social Landlords are wanting to progress in LSOA areas that will now need to be revisited with individual assessment of customer undertaken to see which are still economic to progress.

We therefore urge Ofgem to recognise there is currently a disconnect between ECO, the devolved government schemes and FPNES since full heating systems are not to be recognised as a primary measure for installation during the ECO transition period.

We request that Ofgem withdraw the proposal made in the open letter of the 10th March and undertake to engage with the GDNs and other stakeholders to fully consider the impact of any proposed changes to the FPNES criteria and the RIIO-GD1 output commitments of the GDNs.

We look forward to your response. Should you wish to discuss any of these points further, please contact Matthew Hindle, Head of Gas via matthew.hindle@energynetworks.org.

Yours sincerely,



David Smith
Chief Executive

Supporting information

In support of retaining LSOA 25% criteria; we would strongly argue that this is the simplest and easiest method for both customers and social housing landlords to understand. It allows community schemes to be developed with certainty on the eligibility. We know from experience that a number of social housing landlords will neither approach nor allow us to approach non-IMD communities to check individual eligibility within a community because of the expectation it creates amongst their tenants, and the divisive nature where one tenant is eligible and next door is not ('pepper potting'). Our initial view is that without LSOA 25% eligibility community schemes will cease.

Within the current qualification process, we initially consider LSOA 25% criteria and, if met, have no need to consider eligibility under other qualification aspects. As a result, we have no knowledge of those that may qualify under alternative measures, and therefore the true impact of removing the LOSA 25% criteria can only be estimated.

One of the GDNs however has undertaken some analysis which indicates that of those currently qualifying (circa 75%), only 20% would potentially be eligible under alternative measures. The overall impact is estimated to be in the order of a 55% reduction on current capabilities. Schemes will be compounded even further, as they are unlikely to progress any connections, this estimated to reduce capacity by a further 25%.

The removal (permanent or temporary) of the LSOA 25% criteria will have a massive negative impact on the planned 'connection' activity that has already been scheduled by the GDNs and Fuel Poor Partners over the next 12 months. A great deal of time and effort has already been invested in developing key stakeholders and LSOA 25% delivery strategies. The withdrawal from such projects will inevitably damage the FPNES along with provider reputations. Our Fuel Poor Partners estimate that 8,000 fuel poor connections with key stakeholders, which are either in flight or included in their 12 month planning would be put at risk due to the removal of LSOA 25%.

- In summary;
 - LSOA 25% criteria is the most common eligibility route used under the FPNES. Connections completed to date within this regulatory year under LSOA 25% are 1,485 (63%). We estimate this to be even higher (80%) in future years to the end of RIIO-GD1.
 - Gas connection schemes (groups of off gas homes) make up the majority of the connections delivered under FPNES, most of which would not be viable without the LSOA 25% criteria route.
 - There would be no street by street option of targeting areas within the scheme. At best this would lead to pepper-potting off-gas areas.
 - Loss of support from landlords who currently install heating, mainly at their costs, and who are reliant on understanding the viability of schemes prior to engaging with their tenants.
 - ECO delivered measures to primarily gas heated homes, it could be misleading to assume the take up of fuel poor homes in comparison with the FPNES.
 - Limited opportunities from the current ECO scheme to deliver full gas heating and, although the number of boiler replacements in new ECO have been capped, insulation measures are expected to take the lead ahead of the installation full heating systems.
 - Requirements of GDNs and Fuel Poor partners to predominantly work with others when seeking funding for in-house works linked to the FPNES is better enabled through LSOA 25% criterion.

Off gas areas (groups of homes making up a single scheme) represents the majority of the connection activity. These schemes usually include local authority and social housing provider involvement and have lengthy development periods with FPNES being the primary driver to enable other support assistance. The LSOA 25% eligibility is the crucial enabler and without it many of these schemes will not proceed. These schemes rely on density and high levels of uptake. Relying on HHCRO and LIHC rarely provides the eligibility levels required to make them feasible.

When working with residents to develop schemes experience shows us that:

- Consultation with residents immediately raises the expectation that a scheme will be delivered;
- Some residents are difficult to contact for assessment;
- Many residents will not share their personal information to enable an assessment under HHCRO or LIHC;
- Tenants don't always have the information themselves to conclude an assessment; and
- There is a general disconnection with the process by tenants – it is seen as the landlord's responsibility to sort out gas connections.

The LSOA 25% criteria is a positive enabler in helping to target activity through the linking of data when considering area based approaches. Using both the LSOA 25% and 'proximity to the gas network' data has enabled the identification of target areas to focus community level support. Schemes being supported by additional benefits such as behavioural change, education and wider community support, would be much more difficult, if not impossible to deliver should we not be able to work on area based schemes.

| | | NG | NGN | SC | SO | W&W | Total |
|-----------------------------|--------------------------|-----------|------------|-----------|-----------|----------------|--------------|
| Completed to date 2016-2017 | Total Connections | 3,802 | 2,371 | 2,258 | 868 | 1,505 | |
| | LSOA 25% Connections | 3,104 | 1,485 | 1,188 | 489 | 513 | |
| All Forecast Connections | Total Connections | 18,741 | 8,500 | 3,454 | 5,956 | 5,200 | 41,851 |
| | LSOA 25% Connections | 14,993 | 6,630 | 1,816 | 3,356 | 3,231 | 30,026 |
| | Non LSOA 25% Connections | 3,748 | 1,870 | 1,638 | 2,600 | 1,969 | 11,825 |