



Making a positive difference
for energy consumers

All interested parties and
stakeholders

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Consultation on potential change to the Fuel Poor Network Extension Scheme

The Fuel Poor Network Extension Scheme (FPNES) helps households that are not connected to the gas grid to switch to natural gas. It does so by offering funding towards the cost of connecting to the gas network. Access to gas, a cost-effective fuel for heating, is a good way to ensure fuel poor households can access affordable energy supplies.

Households wishing to access the FPNES must meet one of the pre-defined criteria. We are seeking your views on proposed changes to these criteria to ensure the scheme is reaching those who need it most and providing value for money.

Specifically, we propose to remove the FPNES eligibility criterion that the household must "reside within the 25% most deprived areas, as measured by the government's Index of Multiple Deprivation (IMD)". We are proposing to remove the criterion from 1 April 2018.

We first considered making this change in March 2017.¹ Due to stakeholder feedback at the time, we decided to pause the change so we could further assess the options.² We have now done so, and we continue to believe this change will ensure the scheme offers the best value for money through effective targeting.

Although we recognise that this change may present challenges to the Gas Distribution Network companies (GDNs), as they need adapt their method of engagement to identify those eligible for a connection, we consider this presents a good opportunity to demonstrate proactive and effective engagement. We expect GDNs to continue engaging effectively with stakeholders and adopt new and innovative approaches to ensure that the scheme facilitates more affordable heating to fuel poor households through gas connections.

Context

Fuel poverty remains a significant challenge in Great Britain. Governments, both national and devolved, have a range of policies to address this challenge. As the energy regulator, we have an obligation to protect the interests of current and future energy consumers, with a particular regard to the interests of vulnerable consumers, which includes those in fuel poverty.

¹ [Fuel Poor Network Extension Scheme: Update to the eligibility criteria due to changes to ECO](#)

² [Next steps on proposed update to the eligibility criteria of the Fuel Poor Network Extension Scheme due to changes to the Energy Company Obligation \(ECO\)](#)

In light of these obligations, we created the FPNES as part of our price controls for the Gas Distribution Networks (GDNs). Under RII0-GD1 each GDN has a set target for the number of connections it should make under the FPNES by 2021. To date, GDNs are broadly on track to meet these targets and have connected over 52,000 households to the gas grid (since 2013), giving vulnerable households access to cost-effective energy supplies.

To help ensure the scheme reaches those who need it most, access to the FPNES is based on eligibility criteria that reflect commonly used proxies of fuel poverty, and the criteria used by related measures and schemes such as Scottish and Welsh schemes to address fuel poverty. Doing so ensures that households that get a gas connection through the FPNES are more likely to also benefit from related assistance, such as first-time central heating or energy efficiency measures. This should further help alleviate fuel poverty or increase health and comfort.

Under current rules, to be eligible for the FPNES the household must:

- Reside within the 25% most deprived areas, as measured by the government's Index of Multiple Deprivation (IMD) – the "IMD criterion". The IMD is defined separately for England, Scotland and Wales; or
- Be eligible for measures under the Home Heating Cost Reduction Obligation (HHCRO) aspect of the Energy Company Obligation (ECO) (all), Nest (in Wales only) or the Home Energy Efficiency Programmes (HEEPs) (in Scotland only); or
- Be in fuel poverty based on the latest definition/indicator for the relevant area. The definition/indicator differs for England, Wales and Scotland.

These criteria have been in place since 1 April 2016. They were updated following a detailed review of the FPNES that we undertook from August 2014 to September 2015, including examining how to best align it with other government schemes and policy.³ For example, we previously updated the criteria to include relevant schemes in Scotland and Wales, and to reflect changes in the national Energy Company Obligation (ECO).

At the end of the review we also acknowledged that the related initiatives and proxies for fuel poverty could change before the end of the current price control period (2013-2021). We set out then that we consider it appropriate to revise the eligibility criteria for the FPNES should a criterion change or become redundant, and to ensure the scheme continues to align with other related initiatives.⁴ We also set out that this does not mean revising outputs under the scheme and we still expect GDNs to make reasonable endeavours to meet their targets.

Drivers for changing the FPNES criteria

We consider that there are two important reasons behind changing the FPNES criteria:

- they should align with the criteria for relevant government schemes
- the FPNES should be effectively targeted at households that are fuel poor.

Below, we set out against these two principles why we are now considering amendments to the eligibility criteria.

Alignment with criteria for relevant government schemes: changes to ECO

From April 2015 to March 2017, ECO had three elements:

³ The [Fuel Poor Network Extension Scheme Review Consultation Letter](#), August 2014.

[The findings of our review of the Fuel Poor Network Extension Scheme](#), March 2015.

The [Fuel Poor Network Extension Scheme Review final decision document](#), September 2015

⁴ Page 20, [Fuel Poor Network Extension Scheme Review final decision document](#)

- Carbon Emissions Reduction Obligation (CERO): focused on delivering insulation measures to any home in Great Britain.
- Carbon Saving Community Obligation (CSCO): focused on delivering insulation measures to any home within the 25% most deprived areas in Great Britain. It also included a rural "sub-obligation".
- Home Heating Cost Reduction Obligation (HHCRO)(Previously referred to by BEIS as Affordable Warmth): focused on delivering heating measures to low income and vulnerable households.

In January 2017, the government decided to remove the CSCO element of ECO because it was no more effective than CERO at targeting fuel poor homes, but with higher delivery costs.⁵ Removing it would better focus ECO towards low income and fuel poor households.

Removing the IMD criterion from the FPNES would ensure continued alignment with the criteria that government use for related schemes (i.e. ECO). We seek such consistency to ensure that households can access other assistance for their home, such as energy efficiency measures and first-time central heating. This consistency also means common definitions and proxies are being used in the FPNES as in devolved government schemes. We think that the governments have the relevant expertise to develop these criteria to effectively target fuel poor households.

Effective targeting of fuel poor households

As well as ensuring alignment, our proposal for removing the IMD criterion is based on the need to ensure effective targeting and thereby deliver value for money.

Evidence shows that the IMD criterion does not appear to be a good predictor of fuel poverty, since fuel poverty rates in those areas that meet the criterion are only marginally higher than the national average as set out in the table below.⁶ In practice, this means that a considerable number of households that meet the IMD criterion may not be in genuine fuel poverty. However, we acknowledge that the figures will include all residents of these areas, including those that are already connected to the gas grid. The incidence of fuel poverty among those not connected to the gas grid is likely to be higher, but we are not aware of any statistics that allow us to estimate the magnitude of this.

England	BEIS estimated that only 13% of households that meet the current IMD criterion are in fuel poverty. ⁷ This is compared to the national average fuel poverty rate of 11.0%. ⁸
Scotland	Based on Scottish Government data, the proportion of households in fuel poverty in the 15% most deprived areas ⁹ is estimated as 31%, which is the same as the national average for Scotland as a whole. ¹⁰
Wales	Our analysis of data from Wales estimates that the average rate of households in fuel poverty in the 25% most deprived areas, according to the Welsh IMD (WIMD) is 25.7%. ¹¹ This compares to a projected national level of 23%. ¹²

Based on this poor level of targeting, we are concerned that the FPNES is not being sufficiently delivered to those in fuel poverty. Because the costs of the discounts to

⁵ For the ECO2 transition period, until September 2018, as laid out in the government response document, [The Government response to the ECO: Help to Heat Consultation](#)

⁶ Note that the different fuel poverty rates between England, Scotland, and Wales are partly due to differing definitions used in each area.

⁷ Page 8, [ECO: Help to Heat Consultation document](#)

⁸ As outlined in the 2017 [Annual Fuel Poverty Statistics Report](#), based on 2015 data

⁹ According to Scottish IMD (SIMD).

¹⁰ Page 74, [Scottish House Condition Survey: 2015, Key Findings](#)

¹¹ This is based on WIMD data from 2014 and fuel poverty estimates up to 2016.

¹² [The Production of Estimated Levels of Fuel Poverty in Wales : 2012-2016.](#)

connections are recovered from network charges (ie consumers' bills), we are concerned that the use of the current criteria is not providing value for money to consumers.

We have been engaging with the GDNs on the effectiveness of actual targeting under the scheme so far. From this engagement we understand that GDNs do not hold data on the actual incidence of fuel poverty among those who are connected under the FPNES.

Options considered

We have considered two main options:

- Remove the IMD criterion
- Retain the IMD criterion (status quo)

Remove the IMD criterion

Under this option, the eligibility for the FPNES would be based on whether someone met the relevant definition of fuel poverty, or were eligible for a relevant government scheme. A household would no longer be eligible based on residing in the 25% most deprived areas.

We consider that this option would improve the targeting of the scheme, providing greater confidence that a greater number of connections under the scheme are going to those in fuel poverty. The remaining criteria would continue to provide scope for effective targeting and engagement with relevant stakeholders. These criteria could enable a universal approach to targeting, not just in the 25% most deprived areas. As such, those in fuel poverty in the remaining 75% of areas may receive additional attention. This option would also mean that FPNES would be better aligned with government fuel poverty definitions and priorities (eg ECO eligibility).

The GDNs have told us that they consider that removing the IMD criterion will result in fewer total connections under the scheme, particularly due to the change in engagement required by GDNs for community network extension schemes.¹³ Under the current criteria, an entire housing estate or block of flats could automatically be eligible. The GDNs say this makes engaging with relevant authorities or landlords smooth and efficient. Removing the IMD criterion would mean that not all households within a specified area would be eligible and so the GDNs would need to gather evidence that an individual household meets another criterion in order to offer it a connection under FPNES.

We recognise that this option could make it more difficult for GDNs to progress such community schemes. However, we consider that the GDNs should work to find new and innovative approaches to identifying households that would qualify. We also note that updates to the other ECO criteria, particularly HHCRO, will flow through to FPNES eligibility and therefore enable new ways of targeting. For example, all social housing with an Energy Performance Certificate rating of E, F or G is now eligible for HHCRO, and therefore eligible for the FPNES, as well as the introduction of Flexible Eligibility through Local Authority declarations.¹⁴

The GDNs have also told us that they have a pipeline of planned connections under the existing criteria and that proceeding with the change could jeopardise those connections. We recognise this, and consider that suitable implementation lead times could minimise the impact on GDNs and their stakeholders.

¹³ Community network extension schemes require a new gas main to be laid, as well as individual service pipes to each property. A one-off connection under the FPNES is connecting a fuel poor household to an already existing gas main, and requires the installation of a gas service pipe only.

¹⁴ Further detail on flexible eligibility can be found in Ofgem's [ECO2t Guidance: Delivery](#) document, page 43 and BEIS' [ECO: Help to Heat scheme – flexible eligibility](#) guidance documentation.

Retain the IMD criterion (status quo)

The alternative is to retain the IMD criterion. Under this option, eligibility for the FPNES would continue as is. Currently around 70% of connections under the FPNES qualify using the IMD criterion.

Retaining the IMD criterion could facilitate a higher overall number of FPNES connections, particularly community schemes. This is because engagement with potential connecting households is easier under the IMD criterion. It therefore provides guaranteed eligibility in certain areas. The IMD criterion does not necessarily require direct involvement with a household to determine eligibility, as it can be assessed based on location alone. This can help schemes gain traction without needing personal data from tenants.

However, the poor targeting of the IMD means we are less confident that those who are eligible under the criterion are those who most need a connection.

Proposed approach

We are proposing to remove the IMD criterion because we think this will best target those in fuel poverty and best aligns with existing government programmes and definitions. We are more confident that connections would be delivered to the right people, which represents better value for money to consumers in the delivery of the scheme. Additionally, by aligning the FPNES with other government schemes and initiatives, households eligible for a connection would also be eligible for measures under other schemes, such as first-time central heating or energy efficiency measures, further enabling a “whole-house” approach, where possible. Finally, we think this presents an opportunity for new forms of engagement as GDNs adopt new approaches to identifying those in fuel poverty. This includes more focus on those in fuel poverty who do not reside in the 25% most deprived areas.

We acknowledge the stakeholder feedback received to date that some connections are well into the planning stages and that a lead time before changing the criteria would help avoid abrupt cancellation of these connections. If we proceed with the change, we would expect to include a transition period as follows:

- We would expect all new quotations and engagement under the scheme from **1 April 2018** to be based on the updated eligibility criteria.
- Any quotations issued before this date (based on any of the current eligibility criteria) would be allowed the standard 90 day period of acceptance.
- Any quotations accepted under the current eligibility criteria would be given until **31 December 2018** for the works to be completed.

We also acknowledge stakeholder feedback that the change may make it more difficult for GDNs to meet their FPNES connection targets. However, if we proceed with the change, we would not expect to amend the targets or revenue allowances. The FPNES already includes an incentive mechanism that encourages GDNs to connect as many eligible households as possible, and sets out what happens if GDNs miss their targets.¹⁵

We recognise that the proposed change would require a change in approach from GDNs in the way they identify those eligible for connection. We expect GDNs to continue to effectively engage with stakeholders, adopt new and innovative approaches, and take all reasonable steps to meet their targets.

¹⁵ If GDNs exceed their targets, they can be awarded an additional 2.5% of the associated revenue. GDNs that miss their targets could face a 2.5% penalty if we don't accept their rationale for the missed targets. Any shortfall could also be added to targets in the next price control. Further details are available in our FPNES [Incentive Mechanism: licence modification direction](#).

Alongside this consultation we have also published our Impact Assessment on the proposal.

Questions for consultation

We seek your views on this consultation, including the questions below. Please email your response to Pete Wightman (gasnetworks@ofgem.gov.uk) by **2 November 2017**.

Question 1: Do you agree with our proposed approach for the FPNES? Please state why or why not.

Question 2: Are there any consequences that we have not appropriately considered in our proposal?

Question 3: Is there any other evidence we should consider in making our decision? If so, please provide it.

Question 4: Do you consider 1 April 2018 to be an achievable timescale for the eligibility criteria to change?

Question 5: Do you consider a transition period to be appropriate? If so, do you agree with our proposed timescale?

Question 6: Are there any other transition elements we should consider?

We will publish all responses (except confidential ones) in our library and on our website (www.ofgem.gov.uk). You can request that your response, or part of it, is kept confidential and if you choose to do so please clearly mark your documents to that effect.

Yours sincerely,



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