

17 October 2017

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Dear Geoffrey

Consultation on potential change to the Fuel Poor Network Extension Scheme

Ofgem's consultation letter dated 7 September 2017 outlines proposed changes to the Fuel Poor Network Extension Scheme (FPNES)¹. The Gas Distribution Networks (GDNs)² wish to take this opportunity to provide initial feedback ahead of submitting formal responses to the consultation by the closure date of 2 November 2017.

As stated in the Ofgem consultation letter, *'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.'*

Ofgem's Fuel Poor Network Extension Scheme final decision document³, dated 30 September 2015, sets out the eligibility rules that apply to the FPNES, which have been in place since April 2016. Currently, households eligible for the FPNES 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.

Ofgem's current consultation proposes the **complete removal of the 25% IMD criterion for eligibility from 1 April 2018**. The GDNs have significant concerns regarding this proposed change, and have provided in this letter an explanation as to where these arise.

The proposed change was initially outlined in Ofgem's letter dated 10 March 2017⁴, which was retracted to allow for a period of consultation following stakeholder feedback⁵ (which included the GDNs in their letters dated 22 March 2017 and 27 June 2017).

¹ https://www.ofgem.gov.uk/system/files/docs/2017/09/consultation_letter_on_fpnes_-_final.pdf

²Wales & West Utilities, SGN, Cadent, Northern Gas Networks

³ https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/fpnes_3009_published_2_0.pdf

⁴https://www.ofgem.gov.uk/system/files/docs/2017/03/fpnes_eco_change_of_eligibility_criteria_letter_final_1.pdf

The GDNs wish to reiterate the comments made in our previous correspondence, in that we believe the removal of IMD qualifying criteria will have a significant detrimental impact on GDNs' ability to deliver FPNES connection targets, and more importantly will result in many fuel poor and vulnerable customers missing out on benefitting from the scheme. It is a concern that Local Authorities (LAs) and Housing Associations (HAs) will progress with installation of alternative, potentially less efficient, heating systems rather than undertaking 'pepper potting' of projects, which could be discriminative and lead to customer dissatisfaction as some residents would receive a gas supply, whilst others would miss out.

As socially responsible companies, the GDNs understand our obligations to customers and changes mid-term to the scheme disadvantage future generations and act contrary to Government targets to ultimately eliminate fuel poverty.

We understand one of Ofgem's key objectives is for the proposed changes is to align with other government schemes, namely the Energy Company Obligation (ECO). However, we believe there is a disconnect between the ECO scheme, devolved government schemes and the FPNES which will ultimately constrain efforts to assist fuel poor households.

With specific reference to current consultation letter, we would wish to highlight a number of areas of concern:

'GDNs are broadly on target to meet these [the FPNES] targets'

We would suggest that this is due to Scotland significantly exceeding its revised target (increased from 11,000 to 17,130 in April 2016) and the positive impact that the DECC Central Heating Fund (CHF) made on connection numbers in Wales and England in previous years. The CHF is no longer in effect and therefore GDNs are currently experiencing a reduction in FPNES connection numbers in England & Wales due to the unavailability of funding to meet the *full cost* of installing central heating systems. The devolved administration in Scotland has made available government funding for the entire cost of central heating in fuel poor households, meaning uptake of FPNES connections is far higher than elsewhere in the UK.

'These [the FPNES] criteria have been in place since 1 April 2016' and 'They were updated following a detailed review of the FPNES that we undertook from August 2014 to September 2015'

Prior to April 2016, qualifying criteria of the 20% most deprived (IMD) areas applied to the original FPNES, as agreed with the GDNs in 2009, and was not aligned to ECO, with targets being based on providing assistance to vulnerable customers. This IMD criterion was extended to the 25% most deprived areas in April 2016, following the Ofgem consultation in 2015.

As a result of this consultation, the GDNs re-submit their forecast number of connections in relation to the scheme, and in most cases increased targets. The GDNs considered it a significant and positive factor during the consultation process with stakeholders that this change in IMD eligibility criteria meant more households would benefit from the scheme as partnerships with Local Authorities (LAs) and Housing Associations (HAs) would be further encouraged.

The increase to 25% IMD areas reflected a desire to accommodate the Carbon Savings Community Obligation (CSCO) criteria and to offset the negative impact on connections numbers from other changes in FPNES eligibility, such as removal of the 'over 70' age group.

⁵ https://www.ofgem.gov.uk/system/files/docs/2017/04/next_steps_letter_-_fpnes_eligibility_change_-_final.pdf

Whilst we accept that CSCO has now been removed from ECO, we believe the total removal of the IMD criteria is not appropriate.

This is primarily because IMD is the only proxy measure available to GDNs and partner organisations (LAs and HAs) to ensure *all* households will qualify for an FPNES connection, thereby enabling project schemes to progress.

Extending the gas network to communities previously off gas is only economic if the majority or all households are able to connect. 'Pepper potting' households within a community will ultimately result in partners being reluctant to progress, due to perceived inequalities between households in the same street or block, and/or prohibitive costs due to smaller numbers of confirmed (and therefore funded) eligible households, meaning ultimately more genuine fuel poor households will *miss out* on the scheme.

Furthermore, there are infill schemes the GDNs have completed in IMD areas where some customers may not have taken the original opportunity for a gas connection. However, the future opportunity for a household to take a connection was factored in to the investment decision to lay the infill scheme in the first place. Following IMD removal, future customers may lose the ability to take a connection, meaning the GDN's ability to recover the full cost of the original investment is lost.

It is worth noting that for practical reasons a similar concept is addressed within the ECO Flexible Eligibility guidance, which allows for 'in-fill' non-fuel poor properties to be included within a project if it facilitates more effective delivery of solid wall insulation schemes that will benefit multiple fuel poor households. ECO Flex can potentially be used as a proxy in a project context, but can only be applied to private households, and therefore excludes social housing properties owned by LAs and HAs.

{GDNs are expected to} adopt new and innovative approaches' and 'find new and innovative approaches to identifying households that would qualify'

If the proposed change goes ahead, we request that Ofgem provide further guidance in this respect and allow GDNs a review period in which they can collaborate with external bodies to research and trial alternative means by which qualifying customers can be identified. We understand that ECO-obligated companies (Suppliers) spend a significant proportion of their ECO budgets on finding eligible properties and demonstrating the impact of the action taken. The GDNs wish to ensure that the majority of their allowance is spent on actual measures which result in benefits the household, both now and to any future tenants or owners. A funding mechanism for research should also be considered.

Ofgem have provided data in the consultation letter indicating that households under the current IMD criteria are likely to be only slightly above the national average for fuel poverty. However, it is important to note that the data does not allow us to determine the likelihood of a household being in fuel poverty if it resides in an IMD area *and* is not currently connected to the gas network. The link between fuel poverty, IMD and not having a mains gas supply therefore requires more research. The GDNs believe that the final three years of this price control would provide an excellent opportunity to continue with the scheme in its current format, whilst undertaking this further research.

The GDNs have also reviewed the Government's Index of Multiple Deprivation data, which is stated in the 2015 English guidance⁶ as being utilised by National and Local organisations to target and distribute funding to the most deprived areas i.e. it is used as a proxy elsewhere in same way that it is applied within FPNES.

The seven key domains used to evaluate the level of IMD are income deprivation, employment deprivation, education, skills and training deprivation, health deprivation and

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https://factsandfigures.herefordshire.gov.uk/media/40905/english_index_of_multiple_deprivation_2015_-_guidance.pdf

disability, crime, barriers to housing and services, and living environment deprivation (which incorporates living in housing in poor condition/without central heating). Many of these align with the Government's criteria for being in fuel poverty e.g. household income, cost of energy and energy efficiency. We would respectfully ask Ofgem to advise why they do not consider these two Government policies to be interfaced.

'We recognise that the proposed change would require a change in approach from GDNs' and '[the GDNs will need to] take all reasonable steps to meet their targets'

GDNs would ask Ofgem to consider the reputational impact of failing to meet revised targets. Removal of IMD would mean the GDNs would seek to revise fuel poor connection targets to reflect the reduced ability to deliver (similar in concept to the *increase* in targets in 2016 following extension of the IMD criterion eligibility from 20% to 25%). The reduction however would likely be much higher due to full removal of IMD criteria.

The GDNs wish to emphasise our concerns that vulnerable and fuel poor consumers will be disadvantaged by the proposed change to remove IMD altogether. As discussed elsewhere, removal of IMD will result in community schemes that previously would have progressed no longer occurring. As an industry, we want to maximise our opportunities to provide solutions to ending fuel poverty for consumers. Retaining IMD will help support the Government's Fuel Poverty Strategy and facilitate the targeting of ECO funding to those households who now have access to gas and the additional savings that could therefore be realised.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Smith', with a long, sweeping underline.

David Smith
Chief Executive

Appendix 1

Consultation questions

Interested parties wishing to submit a response should submit these via email 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?