

National Energy Action (NEA) response to Ofgem's RIIO 2 Sector Specific Consultation (GDN)



Action for Warm Homes

About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. NEA's work is also delivered in partnership with local and national government, Ofgem, industry and the third sector to deliver practical solutions to improve the quality of life for those living in cold homes.

Background to this response

In 2012, NEA developed a scoping study with Ofgem to explore how well-placed network companies are to deliver social action cost-effectively and support the alleviation of fuel poverty. Throughout ED1 and GD1, NEA has worked with Ofgem and the network companies to embed many of the recommendations which, despite well-defined gaps in national provision³, exploit the potential for linkages across the whole energy sector and more generally cultivate deliverable propositions for vulnerable households, especially for low income households off the gas network. Subsequently, some of the main drivers for NEA's on-going collaborations and recent work with the networks include:

- Ofgem requiring networks and energy suppliers to enhance their work on the Priority Services Register (PSR);
- Requiring energy suppliers and Distribution Network Operators (DNOs) to be proactive in identifying 'need' and act on the stakeholder and collaborative incentives to trial new approaches which have a positive social impact at the same time as proving alternatives to conventional network reinforcement;
- Ensuring exemplar network innovation projects are developed and disseminated fully and encouraging network companies to ensure fuel poor and vulnerable households directly benefit from these innovation competitions and allowances;
- Encouraging the networks to deliver non-network solutions (either themselves and by partnering with others);
- Requiring Gas Distribution Networks (GDNs) to exceed the previous Fuel Poor Network Extension Scheme (FPNES) targets and supporting this activity on the ground;
- Ensuring GDNs provide more consistent advice and support for vulnerable households when they have to disconnect gas supply at properties when the boiler is deemed to be unsafe;
- Undertaking research and practical projects to raise awareness of the risks of Carbon Monoxide (CO) poisoning and acting on the key links between this and the risk of being in fuel poverty.

As well as directly supporting the delivery of ED1 and GD1, NEA has also ensured network companies are playing a key part in the delivery of the UK Government's Fuel Poverty Strategy. Alongside supporting the industries' efforts to develop new interactive mapping solutions for off gas grid homes⁴, NEA undertook a review last year of progress toward meeting the 2021 gas connection targets. The report "In from the Cold"⁵ underlined the value of First Time Central Heating (FTCH) as a key measure to address fuel poverty⁶. The report also found that at the halfway point, slower progress across England had been made compared to the other GB nations in the delivery of FPNES targets.⁷ The constrained funding landscape for in-house measures was identified as a primary reason for this slower progress. This initially prompted the UK Government's £25m Central Heating Fund and more recently the £150 million National Grid Warm Homes Fund. NEA has also championed the need for revisions to the Digital Economy Act to allow local authorities, public sector health bodies and energy network companies to undertake direct data matching process with the Department for Work and Pensions (DWP), independent of licensed gas and electricity suppliers⁸. Finally, NEA is now in the process of engaging with DNOs, GDNs, Ofgem and the UK Government on the future of RIIO 2. We hope the final RIIO 2 framework will build on and strengthen this positive partnership work.

Summary to this response

The efficiency and cost effectiveness of both gas and electricity distribution networks play a key role in either mitigating or exacerbating fuel poverty levels. Typically, distribution charges accounts for about 15% of the overall electricity and gas bill, costing a fuel poor household c. £400 per year. NEA is reliant on Ofgem to assess value for money; our focus is supporting the current outputs of RIIO 2 so they lead to tangible outcomes for low income and vulnerable households. NEA is therefore pleased to see that following on from our disappointment at a lack of focus on vulnerability in the framework consultation, Ofgem has considered the issue more fully in the sector specific consultation, setting out several incentives and outputs that could help ensure there are better outcomes for vulnerable households in the next price control. Our response focusses mainly on chapter 3 of the GDN sector specific consultation regarding how networks can meet the needs of consumers and network users.

In particular, NEA welcomes the continuation of the Fuel Poor Network Extension Scheme (FPNES). We also note the importance of ensuring that the scheme targets should be at least as ambitious as in the current price control. However, instead of solely providing new gas connections, GDNs could be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings. This would help the transition to RIIO 3, where it is unlikely new gas connections will have such a prominent role. Targeting this assistance is also important for increasing value for money and ensuring that connections go to those who are most in need.

In this context, NEA repeats its recommendation that improved targeting could be achieved by allowing GDNs to access information directly from central government using powers under the Digital Economy Act to illicit which in home energy efficiency measures households are able to access via assistance schemes such as the Energy Company Obligation (ECO). In the event that is not possible, Ofgem could consider an incentive to improve targeting by allowing the full recovery of DUOS where the household who is assisted is living in fuel poverty (based on the GB definition within the country the connection is made) or potentially deflate the ability to recover DUOS from other customers who may just be eligible for FPNES but not living in fuel poverty. In the meantime, we believe that GDNs should achieve better targeting through using their own mapping tools. That Ofgem intend to consolidate some of the good work that has been done in the current price control by creating minimum standards for the treatment of vulnerable customers within the next price control is a positive step. These minimum standards must introduce prescriptive rules and should take the form of a Smart Meter Installation Code of Practice (SMICOP) equivalent for FPNES. This is the best way of ensuring consistent outcomes for those who need them most. In our full response below, we set out in detail the minimum standards that we would like to see within GDNs' licence conditions.

We believe minimum standards for the FPNES should be introduced as prescriptive rules and should take the form of a Smart Meter Installation Code of Practice (SMICOP) equivalent for FPNES. In the case that this service continues to be delivered by a contractor, this would be reflected in an additional or modified contractual responsibility with the GDN being able to demonstrate clear mechanism for auditing their contractors compliance with these stipulations. This can ensure there are much more consistent outcomes for low income and vulnerable customers and maximise the welcome existing support provided under the FPNES.

NEA also welcomes the inclusion of a use-it or lose-it fund and the retention of a vulnerability output through the business plan incentive. These incentives should work alongside the minimum standards to ensure that GDNs do not receive incentives for progress that should be common place whilst giving a reasonable incentive to go above and beyond for vulnerable and fuel poor customers. It is also important that the use-it or lose-it allowance is increased or as a minimum lies at the higher end of the range that Ofgem quotes if it is meaningfully going to assist vulnerable and fuel poor customers. It is important that the use-it or lose-it allowance is increased or as a minimum lies at the higher end of the range that Ofgem quotes if it is meaningfully going to assist vulnerable and fuel poor customers. Given the funding will be spread over the full duration of the price control, we would also like to see GDNs be encouraged to work together to deliver this assistance to existing gas customers, especially those that face the prospect of a prolonged loss of space heating and hot water as a result of having their current heating appliance condemned as part of the smart meter roll-out

Finally, our submission also aims to ensure that any innovation funding and incentives support consumers in the transition to a low-carbon future, particularly those in or at most extreme risk of fuel poverty. In this context, NEA cites our 'Technical Innovation Fund' which aimed to facilitate community-level trials of innovative technologies not traditionally within the scope of current retrofit or

energy saving programmes⁹. This work demonstrates the potential for innovative approaches to have direct benefits to low income and vulnerable people and we highlight the need for future innovation funds to directly demonstrate these outcomes, not simply socialise the cost of technology-led trials.

Key recommendations made in this response

- 1.** GDNs must be required to continue to deliver direct assistance to fuel poor households via a reformed FPNES mechanism. Whilst it is important that the connection targets are no less than in GD1, instead of solely providing new gas connections, GDNs could be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings. This would help the transition to RIIIO 3, where it is unlikely new gas connections will have such a prominent role.
- 2.** Ofgem should introduce minimum standards for compulsory energy efficiency advice when GDNs (or their contractors) complete a connection under the FPNES, similar to the Smart Meter Installer Code Of Practice (SMICOP) for smart meter installations. As a minimum, this would require the GDN (or their contractors) provide a clear demonstration and leave behind advice for customers who benefit from a First Time Central Heating System; including instructions on how to operate the new boiler, any new heating or radiator controls and basic advice about which energy tariffs will be most appropriate to maximise the affordability outcomes of the new system (dual fuel tariffs etc). The customer should also be made aware that they should contact their energy supplier and seek information about where to apply for wider assistance programmes such free insulation, the Warm Home Discount (WHD) and free gas boiler checks. We support the proposal to either support or incentivise an increase in energy efficiency for houses receiving an FPNES connection, which could be achieved through ensuring that basic levels of wall and/or loft insulation are installed.
- 3.** We support proposals for vulnerability principles to lie within standard licence conditions. This would ensure all network companies are required to identify and act on vulnerability in a similar way that is required of all licenced energy suppliers. The new licence condition would also highlight GDN's should not be relying on DNOs to populate their PSR register as there are different vulnerabilities that relate explicitly to hot water/space heating that aren't relevant to DNOs, so are currently not picked up. GDN's should also be required to identify vulnerability in the home when making connections, condemning appliances, or at other contact points, where it is reasonable to do so.
- 4.** GDNs should be able to access information directly from central government using powers under the Digital Economy Act to illicit what in home energy efficiency measures households are able to access via assistance schemes such as the Energy Company Obligation (ECO). This would help ensure basic levels of wall and/or loft insulation are installed within the properties that are supported by the FPNES. In the event that is not possible, Ofgem could consider an incentive to improve targeting by allowing the full recovery of GDUOS where the household who is assisted is living in fuel poverty (based on the GB definition within the country the connection is made) or potentially deflate the ability to recover GDUOS from other customers who may just be eligible for FPNES but are not fuel poor. In the meantime, we believe that GDNs must achieve better targeting through using their own mapping tools to improve targeting of the FPNES and providing assisted referrals for the installation of insulation.
- 5.** Beyond these steps, Ofgem should continue to provide incentives to ensure that GDNs go further in helping vulnerable customers. The use-it-or-lose-it allowance should be open for networks to help fund repairs or replacements to condemned boilers. The allowance should also be increased or as a minimum set at the £30m level. The funding should also be used efficiently by encouraging networks and suppliers to work together to deliver this assistance as this will ensure this limited support reaches more households. The NIA (if retained) should also be used to fund consumer vulnerability innovation projects, but if the NIA is not retained, these projects should undoubtedly form part of either the NIC or its replacement. As a minimum, the abolishment of the NIA should not mean that innovation projects centring around vulnerable customers are not be funded and Ofgem should ensure that any wider innovation funding (particularly to support GDNs transition to a low-carbon future) benefits those in or at most extreme risk of fuel poverty, not simply socialise the cost of technology-led trials.

Full response to this consultation

Outputs: Meet the needs of consumers and network users

GDQ1. What are your views on the overall outputs package considered for this output category?

NEA is broadly happy with the overall outputs package considered for the category “Meet the needs of consumers and network users”. At a high level, we are pleased that the Fuel Poor Network Extension Scheme will be retained but note the importance of ensuring that the scheme targets should be at least as ambitious as in the current price control. It is also pleasing to see that Ofgem are considering creating a complementary incentive based on the energy efficiency rating of homes that receive connections. However, we also think that instead of solely providing new gas connections, GDNs could be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings, and are disappointed in Ofgem’s decision not to allow investment in domestic energy efficiency within the price control; we believe it would be sensible to include a reopener on this topic if roles and responsibilities of network companies with regards to fuel poverty and energy efficiency change before or during the price control.

Overall, we are happy with Ofgem’s proposals for vulnerability principles to lie within standard licence conditions, which should help to better embed and standardise best practice within the day to day running of gas networks. There are some specific things that we believe should absolutely belong within the licence conditions of GDN’s which we outline fully in our answer to GDQ 2.

NEA also welcomes the inclusion of a use-it or lose-it fund and the retention of a vulnerability output through the business plan incentive. These incentives should work alongside the minimum standards to ensure that GDNs do not receive incentives for progress that should be common place whilst giving a reasonable motivation to go above and beyond for vulnerable and fuel poor customers. It is also important that the use-it or lose-it allowance is increased or as a minimum lies at the higher end of the range that Ofgem quotes if it is meaningfully going to assist vulnerable and fuel poor customers. Given the funding will be spread over the full duration of the price control, we would also like to see GDNs be encouraged to work together to deliver this assistance to existing gas customers, especially those that face the prospect of a prolonged loss of space heating and hot water as a result of having their current heating appliance condemned as part of the smart meter roll-out.

GDQ2. For each potential output considered (where relevant):

- a) Is it of benefit to consumers, and why?
- b) How, and at what level should we set targets? (e.g. should these be relative/absolute)
- c) What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance)
- d) Where we set out options, what are your views on them and please explain whether there are further options we should consider?

We have based our answers to these questions on the outputs that are most pertinent to our charitable aims. These are:

- Consumer vulnerability minimum standards
- Consumer vulnerability incentives
- Consumer vulnerability and carbon monoxide safety awareness use-it or-lose-it allowance
- Fuel Poor Network Extension Scheme

Consumer vulnerability minimum standards

We support proposals for vulnerability principles to lie within standard licence conditions. This would ensure all network companies are required to identify and act on vulnerability in a similar way that is required of all licenced energy suppliers.

In addition to a broad vulnerability principle, there should be some prescriptive rules outlining activities that GDNs should be taking to support vulnerable households. The new licence condition should also highlight GDN’s should not be relying on DNOs to populate their PSR register as there are different vulnerabilities that relate explicitly to hot water/space heating that aren’t relevant to DNOs, so are currently not picked up. GDN’s should also be required to identify vulnerability in the home when

making connections, condemning appliances, or at other contact points, where it is reasonable to do so.

In addition, there should be some prescriptive activities contained within the vulnerability principle that GDN's should undertake when assessing and connecting households under the fuel poor network extension scheme. NEA strongly believes that these should include:

- Compulsory energy efficiency advice when completing a connection under the FPNES, like the Smart Meter Installation Code of Practice (SMICOP) arrangements for smart meter installations. At a minimum this should include:
 - The time frames associated with getting a connection;
 - The implications of moving to gas for billing arrangements;
 - Clear information about owning and operating a boiler (How thermostatic radiator valves work, how boiler controls work, information on the benefits of moving to a dual fuel deal);
 - Information about the household's eligibility for a free gas safety check under ECO.
- Advice provided when installing a connection through FPNES should also ensure that the customer understands which other schemes they might be eligible for, including:
 - Providing an active referral for WHD;
 - Ensuring that they are on the PSR;
 - Informing them of further support that could be accessed through ECO¹⁰ so that connected homes can meet a minimum energy efficiency standard. (This would be consistent with other schemes, such as the feed in tariff and the renewable heat incentive, and could be met through ensuring that smaller measures such as loft insulation and draught proofing is in place.);
 - Consistent information about the feasibility of gaining a connection, the cost of the connection and, if a gas connection is not appropriate, the alternatives to a connection.

In the case that this service continues to be delivered by a contractor, this would be reflected in an additional or modified contractual responsibility with the GDN being able to demonstrate clear mechanism for auditing their contractors compliance with these stipulations. This can ensure there are much more consistent outcomes for low income and vulnerable customers and maximise the welcome existing support provided under the FPNES.

Whilst this is not a consultation on the RIIO 2 framework for DNOs, we believe that there should be a similar methodology for vulnerability in their sector specific framework to ensure that good practice is banked, whilst incentives lead to truly exceptional performance.

Consumer vulnerability incentives

Within RIIO GD1, the consumer vulnerability output (the discretionary award scheme) has led to several excellent projects, providing benefits for vulnerable customers, including the GDNs' work on mapping fuel poverty. NEA believes that whilst it is important to move some of this good practice into a set of minimum standards, it is crucial to maintain an element of incentivisation to ensure that GDNs go further in helping vulnerable customers as much as possible.

It is our opinion that whilst relative incentives are useful in some areas of activity, an absolute measure is required for a vulnerability incentive to facilitate a culture of sharing information and best practice between GDNs. Promoting competition in this area could lead to a postcode lottery and we do not see the benefit of one network area being different to other network areas regarding the treatment of vulnerable customers.

Regarding the structure of the incentive, we are broadly supportive of Ofgem evaluating the GDNs' approach to vulnerability through the business plan incentive as it will helpfully secure action from GDNs on vulnerability from the beginning of the price control. There is a risk that as the price control moves forwards, GDNs could have done more for vulnerable customers, but are not incentivised to do so. Whilst we appreciate that the reputational ODI is an attempt to rectify this, we do not believe that it would be strong enough to prompt significant action from a GDN. We do, however, believe that if Ofgem were to go down this route, that Option 1 would work best, using the expertise of the CEGs to assess ongoing performance. As the consultation states, this would make good use of the CEGs expertise and would helpfully extend the utility of the already formed groups. We also welcome the

ambition to use the NIA (if retained) to fund consumer vulnerability innovation projects, but if the NIA is not retained, these projects should undoubtedly form part of either the NIC or its replacement. The abolishment of the NIA should not mean that innovation projects centring around vulnerable customers should not be funded.

Whilst we are broadly supportive of incentivising action on vulnerability through a business plan incentive, we do have concerns with the number of things that Ofgem intend to capture within this incentivisation scheme. This could cause a dilution the impact of the overall incentive on any one area. This risks GDNs not planning to go above and beyond for vulnerable customers within their business plan, if the incentive can be reached more easily though work on other topics. Ofgem needs to clarify how this incentive will work, and how it will ensure that the incentive will deliver for vulnerable consumers.

Consumer vulnerability and carbon monoxide safety awareness use-it-or-lose-it allowance

The proposed PCD in the form of a use-it-or-lose-it allowance to fund initiatives for customers in vulnerable situations is, on the face of it, a good idea and should result in positive outcomes for those customers. However, the consultation document does not go into much detail about what sort of projects this allowance could fund, so it is hard to comment on its likely effectiveness. We believe that the use-it-or-lose-it allowance should be open for networks to help fund repairs or replacements to condemned boilers. Some GDNs and other actors have already taken steps to create funds for this purpose, but there would be a benefit in a wider scheme, allowed under the use-it-or-use-it allowance where more networks could participate and work together.

The allowance should also be set at minimum of £30m of funding and should be used efficiently by encouraging networks and suppliers to work together to deliver this assistance as this will ensure this limited support reaches more households. The NIA (if retained) should also be used to fund consumer vulnerability innovation projects, but if the NIA is not retained, these projects should form part of either the NIC or its replacement. As a minimum, the abolishment of the NIA should not mean that innovation projects centring around vulnerable customers are not be funded and Ofgem should ensure that any wider innovation funding (particularly to support GDNs transition to a low-carbon future) benefits those in or at most extreme risk of fuel poverty, not simply socialise the cost of technology-led trials.

Fuel Poor Network Extension Scheme

NEA repeats its recommendation that GDNs should be able to access information directly from central government using powers under the Digital Economy Act to illicit what in home energy efficiency measures households are able to access via assistance schemes such as the Energy Company Obligation (ECO). This would help ensure basic levels of wall and/or loft insulation are installed within the properties that are supported by the FPNES. In the event that is not possible, Ofgem could consider an incentive to improve targeting by allowing the full recovery of DUOS where the household who is assisted is living in fuel poverty (based on the GB definition within the country the connection is made) or potentially deflate the ability to recover DUOS from other customers who may just be eligible for FPNES but are not fuel poor. In the meantime, we believe that GDNs must achieve better targeting through using their own mapping tools to improve targeting of the FPNES and providing assisted referrals for the installation of insulation.

The Fuel Poor Network Extension Scheme has been extremely valuable to low income off gas households in RIIO 1, with a net benefit to society in all scenarios modelled by Sia in their report prepared for Ofgem¹¹. It is clear that extending this scheme will mean that more customers can see this value. It is an absolutely essential part of achieving statutory fuel poverty and carbon targets, and NEA is delighted that Ofgem intend to extend the scheme into RIIO 2.

Regarding targets, NEA believes that these should be at least as ambitious as they were in the RIIO 1 price control. The level of fuel poverty has remained steady since the start of RIIO 1, and the number of rural households in fuel poverty is still significant, implying that many fuel poor households could still benefit from a gas connection.

The design of the FPNES incentive should stay broadly similar, but to improve the effectiveness of the scheme, GDNs should be able to access information directly from central government using powers

under the Digital Economy Act to illicit what in home energy efficiency measures households are able to access via assistance schemes such as the Energy Company Obligation (ECO). This would help ensure basic levels of wall and/or loft insulation are installed within the properties that are supported by the FPNES. In the event that is not possible, Ofgem could consider an incentive to improve targeting by allowing the full recovery of DUOS where the household who is assisted is living in fuel poverty (based on the GB definition within the country the connection is made) or potentially deflate the ability to recover DUOS from other customers who may just be eligible for FPNES but are not fuel poor. In the meantime, we believe that GDNs must achieve better targeting through using their own mapping tools to improve targeting of the FPNES and providing assisted referrals for the installation of insulation. We are very supportive of GDN's using mapping tools to help with targeting, but they should only be used to supplement an eligibility criterion which identifies high density fuel poor areas, rather than being the criteria themselves.

We are broadly supportive of Ofgem's proposal to ensure that, where a household receives an FPNES connection, the property also achieves an energy efficiency target, by either improving the Energy Performance Certificate to a band C where practical, or by two rating bands where not. This would bring the scheme in line with other schemes such as the feed-in-tariff or the RHI where there are minimum EPC rating requirements. This would also represent a move forward into the "whole systems approach" and foster a greater level of coordination between two previously separate parts of the energy system.

Our favoured approach would be to fund energy efficiency improvements through the price control, giving GDNs more responsibility to improve the energy efficiency of houses as they gain connections, or as we have stated previously be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings which would contribute towards their target for fuel poor connections. We disagree with Ofgem's stance on this, but understand that Ofgem do not feel empowered to take this decision without Government direction. In order not to force the Government's hand on the issue, we believe that the RIIO 2 framework should allow for a reopener so that if the Government does provide for this direction, the regulatory framework can more easily adapt. Otherwise, the regulator could be directing the government away from a decision that it may have otherwise felt is the best one to take. We accept that it is not the regulator's decision to take a policy decision as we would like, but equally Ofgem should not make decisions that could significantly affect future Government policy making when this could be avoided.

GDQ3. What other outputs should we be considering, if any?.

We do not consider the need for any further outputs at this stage, unless it transpires that the use-it or lose-it allowance will not be made available for carbon monoxide educational projects, in which case we strongly believe that the current incentive should be maintained, but better targeted towards the vulnerable customers who need it most.

GDQ4. What are your views on the RIIO-GD1 outputs that we propose to remove

We agree with the removal of the discretionary award scheme, as this does not represent a lever that properly incentivises GDNs to go above and beyond for vulnerable customers. The high perceived risk of not receiving a financial award due to the lack of specificity will lead to avoidance of projects rather than pursuing them.

GDQ5. What activities beyond those outlined in paragraph 3.12 should we consider when defining the role of the network companies in supporting consumers in vulnerable situations?

As we have stated in our response to GDQ2, NEA has long argued that network companies should have a role in energy efficiency improvements for fuel poor households. Specifically, we have said that GDNs should be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings. We hope they would also aim to maximise affordability outcomes by standardising related energy advice and ensuring homes assisted via FPNES also have basic levels of insulation.

It is clear, however, that because of the lack of legal requirement to do so, Ofgem will not take the decision to fund such energy efficiency improvements through a network price control. We are not satisfied with Ofgem's reasoning and continue to believe that they should ensure that GDNs can fund energy efficiency improvements to homes within the price control to help the government meet its statutory fuel poverty targets.

However, if Ofgem were to go ahead with the decision as set out in the proposal, the framework should contain a reopener on the subject of whether energy efficiency is funded through the price control, as this could be subject to change as Government looks at ways to meet its fuel poverty milestones and targets. If, for example, a new fuel poverty strategy was to come into force before or during the new price control and this were to give Networks a greater role with respect to fuel poverty, this would need to be addressed. A reopener, in the same way as has been proposed for “decarbonisation of heat” would help to guard against any risk of misaligning with Government policy.

GDQ6. Can you provide any evidence that shows how the boundary we have set out for the networks' role in consumer vulnerability could impact the benefits received by consumers in vulnerable situations?

As stated in GDQ6, we believe that the boundary could be set wider to allow network companies to fund energy efficiency improvements through the price control. The literature review from our project 'Connecting Homes for Health' articulates the effect that heating measures can have on a family living in a cold home:

"Intervention studies have found an association between the provision of heating measures and respiratory health. Evaluation of a small-scale Boilers on Prescription scheme in Sunderland for sufferers of COPD found a 60% reduction in GP appointments and a 30% reduction in visits to A&E during the first year of the scheme. Similarly, evaluation of the Warm Front scheme found that the 70% of households that did increase indoor temperatures to WHO levels following the receipt of heating measures did not show an increase in mortality risk with colder outdoor temperatures, whereas the mortality risk for those households who did not increase indoor temperatures actually increased by 2.2% with every 1°C fall in outdoor temperatures. The study estimated that the provision of heating and insulation to households increased the life expectancy of men by 10 days and women by 7 days."

In addition to this, the Committee on Fuel Poverty has recently said that there is a £3bn gap in meeting the 2025 fuel poverty milestone of all fuel poor households reaching EPC D. In order to meet this milestone, more money is required, and it would be highly beneficial for networks to play a part in addressing this funding gap. To reiterate what we have articulated in May consultation responses to Ofgem, the impacts of living in a cold home are stark:

- A baby born today and living in cold housing is also almost three times more likely to suffer from coughing, wheezing and respiratory illness. Existing evidence also highlights infants living in cold conditions have a 30% greater risk of admission to hospital or primary care facilities¹²
- As the child develops, this in turn impacts on long-term educational attainment, either through increased school absence through illness or because they are unable to find a quiet, warm place to study in the home¹³. In adolescence, one in four teenagers living in cold housing are at risk of multiple mental health problems¹⁴
- As an adult enters work, low wages and sluggish growth currently mean many are in-work but still struggle to afford the increasing cost of living, including heating and powering their homes¹⁵. Fuel poverty mirrors this trend with 47% of fuel poor households in full or part-time work¹⁶
- Many other low-income households also face increasingly unmanageable situations; repaying large or growing debts whilst being excluded from signing up to the cheapest energy deals¹⁷. This can create huge anxiety which exacerbates existing mental health problems, leading to further depression and potentially suicide;¹⁸
- In later life, the impact of a cold home often compounds poor physical health and loneliness. The cold badly enhances the risks of health conditions including cardiovascular and respiratory diseases, falls and injuries and mental ill health, costing the NHS an estimated £1.36 billion each year.¹⁹
- Cold, damp homes are also a significant contributor to Excess Winter Deaths (EWDs) that occur each winter across the UK²⁰. Within the last month, new ONS figures revealed the second highest EWDs in England and Wales for 5 years²¹ and we estimate at least 10,290 of these were attributable to cold homes.

We urge Ofgem to reconsider their part in defining of the role of GDNs, and maintain that it should be extended to fill this crucial gap in the energy system.

GDQ7. What is your preference on the two approaches we have outlined to implement the allowance, and why?

We agree with Ofgem that option 1 is preferable. Asking GDNs to lock in their projects from the offset in their business plans could lead to sub-standard outcomes from the allowance. A flexible approach would likely give GDNs the best chance of delivering meaningful projects.

GDQ8. What examples can you provide of initiatives that could be funded through the allowance, and please explain why these activities would not go ahead without specific price control funding?

We believe that the use-it-or-lose-it allowance should be open for networks to help fund repairs or replacements to condemned boilers. Some GDNs and other actions have already taken steps to create funds for this purpose, but there would be a benefit in a wider scheme, allowed under the use-it-or-use-it allowance where more networks could participate and work together.

GDQ9. What is your preference on the three potential options we have outlined for a consumer vulnerability package, and why?

NEA agrees with Ofgem that option 3 is the best option to be taken forward. It is clearly the most comprehensive offering for vulnerable customers and will benefit from the twin approaches of banking the good work that has been done in RIIO 1 and incentivising further good work in RIIO 2.

We are particularly supportive of the combined package, leading to vulnerability being built into innovation, if the NIA is retained. It is, however, important that as well as there being innovation projects dedicated to the treatment of vulnerable customers, that vulnerability is also built into wider ranging projects, especially those that centre around decarbonisation and the future of gas networks. Vulnerable customers are often disregarded in these projects even though fuel poor households, for example, make up more than 10% of households in England.

GDQ10. What should we include in the FPNES eligibility criteria in RIIO-GD2 to facilitate a well targeted, but effective scheme?

As we set out in our answer to GDQ2, NEA believes that it is sensible to link the scheme eligibility to other government schemes such as ECO, so that referrals can be made to access funding for energy efficiency improvements, or even for a new gas boiler to complement the connection. We are also supportive of GDN's using mapping tools to help with targeting, but they should only be used to supplement an eligibility criteria which identifies high density fuel poor areas, rather than being the criteria themselves.

GDQ11. How should we incentivise the GDNs to improve the targeting of the FPNES?

As set out in our answer to GDQ2, improved targeting could be achieved by allowing GDNs to access information directly from central government using powers under the Digital Economy Act to illicit which in home energy efficiency measures households are able to access via assistance schemes such as the Energy Company Obligation (ECO). In the event that is not possible, Ofgem could consider an incentive to improve targeting by allowing the full recovery of DUOS where the household who is assisted is living in fuel poverty (based on the GB definition within the country the connection is made) or potentially deflate the ability to recover DUOS from other customers who may just be eligible for FPNES but not living in fuel poverty.

GDQ12. How can we ensure that the FPNES is better coordinated with other funding sources to provide a whole house solution for the household?

We believe that two things are required to better coordinate with other funding sources to provide whole house solution. Firstly, the criteria needs to be aligned with at least ECO, and potentially any other schemes that may come to fruition. Secondly, GDNs should have a licence condition obligating them to give compulsory energy efficiency advice and to inform them if they are eligible for ECO.

GDQ13. What are your views on us requiring or incentivising the GDNs to ensure that households receiving FPNES connections also achieve a target level of energy efficiency?

We are broadly supportive of Ofgem's proposal to ensure that, where a household receives an FPNES connection, the property also achieves a target level of energy efficiency, by either improving the Energy Performance Certificate to a band C where practical, or by two rating bands. This would bring the scheme into line with other schemes such as the feed-in-tariff or the RHI where there are minimum EPC rating requirements. This would also represent a move forward into the "whole systems approach" and foster a greater level of coordination between two previously separate parts of the energy system. We believe that a requirement, rather than an incentive, would be more appropriate and that this could be brought into the minimum standards for vulnerability. Whichever mechanism Ofgem decides to use to require or incentivise GDNs should consider that not all households can reach EPC C. GDNs should not be disincentivised to increase the efficiency of these households to, for example, a band D, to prevent these harder to treat households from missing out.

NEA believes that Ofgem should go beyond this proposal and give GDNs some flexibility to deliver alternative actions which lead to equivalent heat cost savings. If this were well targeted, it could be important for increasing value for money and ensuring that connections go to those who are most in need.

GDQ14. Do you think the value of the FPNES voucher would need to be amended if the targeting of the scheme is increased? Please provide any evidence to support your view.

As we note in the introduction, NEA supports the idea that the recovery of DUOS can be linked to improving the targeting of the scheme. If our proposal to incentivise targeting of FPNES as stated in GDQ13 is taken up, then the voucher value will need to vary, either increasing or decreasing depending on the success of the targeting. Ideally, the value of the FPNES voucher should be higher for fuel poor households in owner occupied homes and considerably less for connections made with ECO flex areas where the households may not be fuel poor and have a high household income and could therefore afford a top up. However, Ofgem would need to be sure that households in need of a connection and who could not afford a top up were not unduly penalised by such a change in the rules.

Outputs: Deliver an environmentally sustainable network

GDQ26. What are your views on the overall outputs package considered for this output category?

Whilst we understand why Ofgem has split environmental outputs away from the consumer vulnerability outputs, it concerns us that there is no mention of the treatment of vulnerability within the decarbonisation of heat section. Fuel poor customers make up around 10% of households in the UK and it would be wise to try and understand the distinct needs of this customer segment within the early stages of the decarbonisation of heat rather than as a later add on. NEA would like to see a greater focus on meeting vulnerability issues within decarbonisation projects.

We also believe that Ofgem should take energy efficiency into account within the decarbonisation strand of the price control. Improving the energy efficiency of houses is regarded as a no regrets option by experts throughout the industry, and would therefore meet Ofgem's definition of what should be included in the decarbonisation framework. We also believe that this would be a good example of a whole systems approach, especially if the energy efficiency of houses can be improved, as we have suggested, as part of an FPNES connection, further meeting Ofgem's ambition of a cross sector price control that can deliver least regrets decarbonisation.

Uncertainty Mechanisms

GDQ49. Are there any additional uncertainty mechanisms that we should consider across the sector and if so, how should these be designed?

As we stated in our response to GDQ5, NEA has long argued that network companies should have a role in energy efficiency improvements for fuel poor households, but it is clear that, Ofgem will not take the decision to fund such energy efficiency improvements through a network price control without a Government steer. If Ofgem were to go ahead with the decision as set out in the proposal, the framework should contain a reopener for whether energy efficiency is funded through the price control, as this could be subject to change as Government looks at ways to meet its fuel poverty milestones

and targets. If, for example, a new fuel poverty strategy was to come into force before or during the new price control and this were to give networks a greater role with respect to fuel poverty, this would need to be addressed. A reopener, in the same way as has been proposed for “decarbonisation of heat” would help to guard against any risk of misalignment with Government policy.

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ In Wales and Scotland, the Energy Company Obligation (ECO) is supported by other key national energy efficiency schemes. ECO is the only remaining domestic energy efficiency delivery mechanism in England. The 'notional annual spend' on the overall ECO programme was reduced from the original £1.3bn to £640 million in the 2015 spending review. Given the notional 'spend envelope' of £640m per annum is defrayed across the whole of GB – it is clear this policy alone will not provide the required investment necessary to meet statutory fuel poverty targets or the near-term milestones in England, and the Committee on Fuel Poverty has stated that we are £1bn short of reaching the 2020 statutory fuel poverty milestone, and £3bn short of the 2025 milestone. The milestones require the upgrading of as many fuel poor homes as is reasonably practicable to Energy Performance Certificate Band E by 2020 and to Band D by 2025. As noted in the response, whilst it is welcome the Government's stated intention is to shift the current programmes towards making a bigger difference for fuel poor households; the impact assessment highlights this will not provide the required investment to meet current statutory targets or the near-term milestones.

⁴ For more info see: <https://www.nongasmap.org.uk/>.

⁵ In from the Cold: The funding gap for non-gas fuel poor homes under ECO and a proposal to fill it, NEA, February 2017

⁶ The report noted that because those off the gas network are more reliant on expensive fuels such as electricity, fuel poor households off the gas grid experience average fuel poverty gaps that are double those of on-gas fuel poor. Since then, the latest fuel poverty statistics highlight the same pressing gap, (on gas fuel poor have average gaps of £296 vs off-gas £607).

⁷ NEA. 2017. In From The Cold: The Funding Gap for Non-gas Fuel Poor Homes under ECO and a Proposal to Fill it. Available: http://www.nea.org.uk/wp-content/uploads/2017/02/In-From-The-Cold_ECO-Funding-Gap-Paper_Final-1.pdf.

⁸ At present it is not possible for these key groups to do this without being subject to the enhanced General Data Protection Regulations or a time consuming appraisal of the household's circumstances and securing individual 'opt in' consent.

⁹ For further information visit: <http://www.nea.org.uk/hip/technical-innovation-fund/>.

¹⁰ The GDN would need to check whether the household is eligible and the supplier should have to install measures within a certain timeframe

¹¹ For more info see <https://www.ofgem.gov.uk/ofgem-publications/145146> pg 17

¹² Child Health Impact Working Group (2006) Unhealthy Consequences: Energy Costs and Child Health. Boston, MA: CHIWG.

¹³ NEA (2013) The Many Faces of Fuel Poverty. Page5.

¹⁴ NEA (2013) The Many Faces of Fuel Poverty. Page5.

¹⁵ NEA estimates that some families in fuel poverty are facing an income shortfall of up to £9,331 per year (£778 per month) to cover basic essentials, including energy. As noted below, NEA has also warned many low income households could miss out on energy rebates and the proposed new safeguard price cap. The findings are included as part of our “Bridging the Gap” report which highlights the scale of the impossible choices families will be making this winter. The report also illustrates the catastrophic impact Universal Credit could have on these families who have no savings to insulate them from falling into debt, going hungry and not heating their homes over the current 6 week waiting period.

¹⁶ Across the UK, 22% of individuals (14 million people) are in relative poverty after housing costs (they have a household income below 60% of the median). Net disposal income after housing costs of a low income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposal weekly income of £194.

Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are located in the first and second income deciles and 78% of English households in those two deciles are fuel poor.

¹⁷ Many low income and vulnerable consumers, have a poor credit history; they are worried about losing out on support like the Warm Home Discount; or they face cost barriers if they attempt to switch back to a standard meter.

¹⁸ Christians Against Poverty (2015) The poor pay more: Prepayment meters and self-disconnection.

¹⁹ Age UK. 2012. [The cost of cold: Why we need to protect the health of older people in winter](#).

²⁰ Worry about high fuel bills and fuel debt also continues to significantly damage mental health, which is affecting an increasing number of households. The cost of morbidity also places a huge burden on the NHS. In England alone it costs health services approximately £3.6 million per day treating cold related morbidity and in the past four years alone over £5 billion of tax payers' money has been spent treating the symptoms of cold. Conversely, addressing these costs through further action on energy efficiency will help save money. Previous estimates suggest that each £1 invested to enable affordable warmth at home generates 42p in cost savings for the NHS.

²¹ While large fluctuations in the number of excess winter deaths is common and the relationship between EWM, temperature and influenza rates is complex, this year's provisional figures for the winter of 2016/17 show that excess winter deaths are 39.5% higher than last year (up by almost 10,000 from 24,580). You access the full ONS data release [here](#). Using the World Health Organisation (WHO)'s estimate that 30% of winter deaths are caused by cold housing, NEA estimate over 10,000 households died needlessly last year in England and Wales and over 9,600 frail and vulnerable people across the UK are dying on average throughout the winter months due to cold homes; 80 people per day