



3rd Floor North  
200 Aldersgate Street  
London EC1A 4HD  
Tel: 03000 231 231  
[citizensadvice.org.uk](https://citizensadvice.org.uk)

Rebecca Pickett  
RIIO Price Controls, Networks  
Ofgem

**2 November 2020**

Dear Rebecca,

We welcome the opportunity to provide feedback on the Governance for the Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA). The following numbers in bold relate to the paragraph numbers in the governance document and comments relate specifically to that paragraph unless otherwise stated.

#### General comments

**UIOLI allowance** - As the VCMA is a use it or lose it allowance, we would envisage that Ofgem intend it to operate in a way that allows GDNs to begin a project and later register to expand it with more funds from their share of the allowance. The guidance does not seem to acknowledge this or state how GDNs would register the expansion or altering of a project. It would be helpful to have clarity on whether this is a function that the allowance has, and if so, what the process is for GDNs.

**Project registration** - We are concerned that the guidance makes no reference to any associated processes with registering projects. We understand from the GD2 Customer and Social Working Group that Ofgem's preference is not to sign-off on projects at the point of registration, although this is our preferred approach as indicated in our draft determinations response. The guidance, however, is missing some crucial information about if, how, and when projects would be assessed by Ofgem for their eligibility, and what the consequences of this

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would be if found ineligible. Similarly, no mention is made of how and when Ofgem would assess whether costs associated with a project are deemed to be appropriate and efficiently incurred, or what would happen in the case of an underspend. Ofgem should make clear if a clawback mechanism is intended to form a part of this. We would welcome further information in the governance documents and the Final Determinations on these points.

### Paragraph Comments

**1.1 and 2.1** - As we have set out in our draft determinations response<sup>1</sup> and discussed in the GD2 Customer and Social Working Group, there has been a lack of clarity on what Ofgem deems to be “beyond business as usual”. This has arguably been a factor in the rejection by Ofgem in draft determinations of many bespoke outputs put forward by GDNs. We would therefore welcome an explanation of what is meant by “beyond business as usual” in the governance document.

**2.2** - We note that there is no explicit reference requiring GDNs’ Project Portfolio to align with their vulnerability strategies and would welcome this inclusion.

**2.4 (c)** - We would welcome the inclusion of “outcomes where appropriate” as part of this qualifying criteria to ensure GDNs are considering consumer outcomes and not just outputs. For example, delivering an energy efficiency project to 1,000 customers does not in itself provide assurance that the activity has led to positive and desirable outcomes, such as customers switching to cheaper energy tariffs and applying for support from Government schemes. Where possible VCMA-funded projects should have definable customer outcomes and should be evaluated for success against both outcomes and outputs.

**2.4 (d)** - As we raised in the GD2 Customer and Social Working Group, there is existing evidence in GDNs’ business plans of proposed carbon monoxide activities with negative SROI figures. While this may not be the case across the board, this criteria could incentivise SROIs being artificially inflated in order to get funding, or risk that some activities cannot be funded. While we

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<sup>1</sup> Citizens Advice, [Response to RIIO-2 Draft Determinations for Transmission, Gas Distribution and Electricity System Operator](#), September 2020



would query the value of an activity which has a zero or negative SROI, this needs to be considered given the evidence in business plans. It is also important that guidance is driving GDNs to use a common SROI methodology. This has been a priority in ED2 and we understand that GDNs have also been working on such a methodology or tool. Unless the governance document or the GD2 price control is explicit about requiring the use of a common tool, there can be little confidence for Ofgem or stakeholders that SROI values are meaningful or comparable.

**2.4 (f)** - As above for 1.1 and 2.1, we are concerned that Ofgem should be more explicit about what is meant by *“beyond what we expect from GDNs as business as usual”*. While the examples are welcome, this is not a substitute for explicit parameters. This is of particular concern due to the risk that GDNs, with an absence of certainty or clarity, may be risk averse in the activities they seek to fund via the VCMA.

**2.4 (g)** - We have concerns that this criteria could be interpreted many different ways, opening up the risk that GDNs may be risk averse in using the VCMA. For example, *“the activity cannot be delivered through other funding sources”* could effectively prevent most activities that GDNs have conducted in GD1 from being funded and undertaken in GD2 as they do not receive baseline funding for them.

As an example, energy efficiency advice is a universal activity among GDNs. It is also an activity delivered by many other organisations and funded in many ways. We would therefore query whether Ofgem considers this to be an activity which cannot be funded by the VCMA in GD2. We are also concerned that the presence of funding pots is not a guarantee that funding is available. Funding sources could be exhausted during GD2 or differ in availability between GDNs and within GDN licence areas. For example one local authority may have funding available but others may not.

While carbon monoxide activities may be solely unique to GDNs, other activities may be less unique. However, the current wording could prevent many of these from being funded by the VCMA. In fact, for many rejected ODIs in the draft determinations, Ofgem has cited that the activity could be funded by the VCMA, for example Cadent’s proposed ODI to train surveyors to



visit households and undertake tailored surveys of ways to improve energy efficiency and maximise income. The current wording of the criteria risks that this would not be possible.

**2.5** - We note that the language here differs from that in the SSMD. In the SSMD it states that the price control will not fund *“the installation of boilers and heating systems and energy efficiency measures”*<sup>2</sup>. Current drafting only excludes energy efficiency measures. It would be helpful to clarify whether this difference is intentional. However, we have also been clear in our draft determinations response<sup>3</sup> that explicit exclusion could risk leaving some consumers with unsafe or condemned appliances in vulnerable situations. While we welcome companies shareholders contributing to assistance as part of their corporate social responsibility, we would also welcome targeted funding for vulnerable consumers being made available through the price control.

**2.7** - We welcome the Project Eligibility Assessments (PEA) and agree that the projects should be published. We would encourage the full collated list of projects to be published on both company websites as well as centrally by Ofgem. The annual showcase event acts as a key part of the GD2 price control as proposed in the draft determinations. Centrally held information (by Ofgem) would assist Ofgem and stakeholders to scrutinise progress and hold GDNs to account at the annual showcase events.

**2.8 (Table 1: Information required for the registration of VCMA Projects), “Outputs, deliverables and Success criteria”** - This does not make reference to requiring interim milestones for the projects. It would seem reasonable that if projects must have outputs and deliverables that as a minimum there would also be milestones. If the reputational showcases are to prove effective as the only incentive in this area, then there needs to be a way to hold companies to account not just for overall delivery of a project but the progress of the delivery as well. Ideally, given an annual showcase, annual project targets would create the best alignment. We would expect milestones to be a requirement when registering the project.

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<sup>2</sup> Ofgem, [RIIO-2 Sector Specific Methodology Decision - Gas Distribution](#), May 2019, para 2.12, page 12

<sup>3</sup> Citizens Advice, [Response to RIIO-2 Draft Determinations for Transmission, Gas Distribution and Electricity System Operator](#), September 2020, page 23



**2.8 (Table 1: Information required for the registration of VCMA Projects), “Scale of the Project”** - We note that although GDNs may interpret this as a requirement to use SROI, this has

not been explicit, and nor does it require GDNs to be using a common SROI methodology or tool as we have highlighted in comments on 2.4 (d). We would recommend that Ofgem is explicit that a common SROI tool must be used.

**2.9** - As Ofgem is prescribing what should be included in annual reports, we would also welcome that reporting is produced in a common format in order to make comparisons and scrutiny much easier.

**2.10** - We welcome annual reports being published publicly. We also think it is important that GDNs are required to publish this information before the annual showcase event, to ensure the showcase event is a platform for scrutiny from stakeholders and not just an opportunity for GDNs to present information. We would recommend that Ofgem prescribes an appropriate period of time for this in order to allow scrutiny. At present, GDNs have full discretion over when to hold the annual event. The governance document should drive transparency and ensure the event is an opportunity for scrutiny.

**2.12** - As we have highlighted for paragraph 2.8, GDNs should have to set out interim milestones. In the annual report it should therefore also include progress against these interim milestones or targets.

**2.13** - We welcome GDNs reporting on collaborative projects. We think the guidance should also require that collaborating GDNs each state clearly a) their role in the collaboration, and b) what explicit benefits there were as a result of collaborating, such as economies of scale or learning from each other. Collaborating should bring additional benefits to consumers and these should be explicitly drawn out in reporting.

**3. Annual showcase event** - We are concerned that the guidance is not prescriptive enough to ensure that the annual showcase events operate with as sharp a reputational incentive as may be necessary as the sole incentive. We welcome the requirement for GDNs to engage with stakeholders including Citizens Advice, but think that in both the Final Determinations and this

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governance document, that Ofgem should prescribe the format and a list of required information to be presented, building on the annual reporting obligations (paragraphs 2.9 - 2.13).

We have seen the value of the Open Meeting format, where GDNs have presented information, in addition to answering questions from Ofgem, CEGs, the Challenge Group and wider stakeholders. The risk of not being prescriptive is that this reputational incentive is not sharp enough and information can be presented selectively. As the Challenge Group highlighted in the Open Meetings, companies may face significant financial efficiency challenges in GD2 and reputational incentives could be deprioritised by companies. It's essential that they are therefore calibrated in such a way that means they still have teeth.

**3.1** - We note that Ofgem is not explicitly listed as an interested party, despite the showcase acting as the sole incentive. Ofgem's attendance at these annual events is important and should be reflected in the governance document.

**3.3** - In line with our draft determinations response, we do not support GDNs charging attendees to attend the conference for what is a key function of the price control and the only incentive for this area of work. As Ofgem did not expect attendees to pay to attend the Open Meetings, we do not think it is appropriate to permit this for the showcase event.

Yours sincerely

Sam Hughes

Policy Researcher