

Reference

071 FPNES consultation
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Cadent Gas Limited

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Date

02 November 2017

Pete Wightman

Ofgem

Email: gasnetworks@ofgem.gov.uk



Dear Pete

Cadent's response to Ofgem Consultation on potential change to the Fuel Poor Network Extension Scheme

Cadent is a gas distribution company providing gas to 11million homes and business through 130,000km of pipelines. We own and operate four regulated gas distribution networks covering a geographically defined service territory that spreads across the East of England, North London, the North West and the West Midlands.

Ofgem's consultation letter dated 7 September 2017 outlines proposed changes to the Fuel Poor Network Extension Scheme (FPNES)¹. Cadent welcome the opportunity to respond to this consultation and can confirm we're content for this response to be published.

As a socially responsible company, Cadent understands our obligations to customers and indeed made a key strategic decision in 2008, to establish Affordable Warmth Solutions, a Community Interest Company, focused on the delivery of the FPNES. It is this industry leading partnership that we believe helps provide the level of support that Fuel Poor customers require.

Within Cadent we believe tackling Fuel Poverty is best achieved through a strategy that provides 'whole house' support not only in the immediate term but to protect future generations. This is particularly relevant to households within the top quartile identified through the Indices of Multiple Deprivation (IMD) where changes in personal circumstances, increase in household costs mean a household not qualifying for the FPNES today could well qualify at a later date. This, together with the transient nature of residents within this sector, results in frequent changes in the profile of the home. In these circumstances we believe IMD to be an appropriate proxy for qualifying homes for the FPNES as it provides the critical volume of homes that can enable a GDN to make an economic investment decision and provide infrastructure to ALL homes within that IMD area. We believe this to be entirely consistent with the Government's Fuel Poverty Strategy and our shared ambition to support consumers in or at risk of Fuel Poverty.

Cadent understand the objectives to align the FPNES with other government schemes, namely the Energy Company Obligation (ECO), however, we believe this should only be considered where there is a measurable benefit to consumers. We believe the changes proposed in this consultation will ultimately constrain efforts to assist fuel poor households.

Cadent are actively involved in the collaborative GDN working group on Fuel Poverty and we wish to reiterate the comments made in the group's correspondence on this matter, in that we believe the removal of IMD qualifying criteria will have a significant detrimental impact on a 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

¹ https://www.ofgem.gov.uk/system/files/docs/2017/09/consultation_letter_on_fpnesc_final.pdf

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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 arguably could be discriminative and lead to customer dissatisfaction as some residents would receive a gas supply, whilst others would miss out.

Specific observations: The following provides Cadent's view on some of the key points of Ofgem's consultation letter.

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

A pre-requisite for completing FPNES is the installation of new gas heating systems and for many reasons, including the failure of ECO to attract funding to 'off gas grid' Fuel Poor Households. Cadent are currently experiencing a reduction in the demand for FPNES connection numbers due to the unavailability of funding to meet the *full cost* of installing central heating systems. Conversely, we believe 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 and disproportionate in comparison to elsewhere in the country.

- **'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, the qualifying criteria included the 20% most deprived (IMD) areas and was not aligned (or intended to align) with ECO. GDN output forecasts (RiiO) were correspondingly provided based on the criteria set out within the FPNES. Latterly, in April 2016 this IMD criterion was extended to the 25% most deprived areas and largely to compensate for the removal of the >70 years of age criteria. And because of this change, GDNs were invited to re-forecast the number of connections in relation to the scheme. Whilst emphasizing the point that removing IMD is not in the best interest of consumers; should IMD ultimately be removed then Cadent (and other GDN's) should be given an opportunity to reforecast connection numbers.

Due to the complexities of extending the gas network, together with the support that our partner organisations provide to Fuel Poor Households, our experience shows 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 stakeholders 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 fuel poor households will **miss out** on the scheme and face the reality they will never be able to connect to the gas network.

Furthermore, there are existing schemes we have completed in IMD areas where some customers may not have taken the original opportunity for a gas connection, under the proposed changes these households will now not have the same opportunity to connect as their neighbours.

- **'[GDNs are expected to] adopt new and innovative approaches' and 'find new and innovative approaches to identifying households that would qualify'**

Cadent continue to explore opportunities to innovate in its delivery of the FPNES and we believe our unique partnership with AWS provides evidence of this. We firmly believe investment should be targeted at homes within IMD rather than other methods of identification that historically have proven inefficient and costly. We maintain that the regulatory allowance for the FPNES should be targeted on actual measures which result in benefits to the household, both now and to any future tenants or owners.



Cadent believes our response together with the collaborative GDN response provides sufficient reason not to implement the proposed changes to the FPNES. We believe an approach that future energy proofs homes within IMD areas is the correct strategy for delivering the Government's Fuel Poverty Strategy and indeed provides a 'environment' where future ECO schemes can better target delivery of measures and support to Fuel Poor homes.

We have set out our responses to the consultation questions in Appendix 1, in the meantime If you have any further questions please do not hesitate to contact me using the details at the top of this letter.

Yours sincerely
By email

Jeremy Nesbitt
On behalf of Cadent Gas Limited



Appendix 1

Consultation questions

Question 1:

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

No – for the arguments clearly set out within our response.

Question 2:

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

Yes – these are set out in our response, in addition we do not believe Ofgem has provided sufficient and robust evidence to support the change that we believe works contrary to the intention of the original FPNES and the Government's Fuel Poverty Strategy. Should Ofgem implement its IMD proposal and despite their best efforts GDNs consequently report FPNES connections below the unadjusted target then we would expect Ofgem to explain the contextual reason for this in its annual network performance report.

Question 3:

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

Cadent believes it's the lack of evidence and robust data that fails to support change and therefore we propose the current qualifying criteria remains in place until the end of the current RiiO period and furthermore this period would provide an opportunity for Ofgem to work with GDN's and BEIS to collate data that can underpin future informed decisions.

We acknowledge that the FPNES is not a perfect scheme and that there are already fundamental differences between the qualifying criteria for GDN's operating across the country, however the removal of the IMD criteria will further disadvantage GDN's and its customers operating/living in England. We would also take the opportunity to remind Ofgem that the current Energy Company Obligation has established precedent in introducing specific arrangements for external wall insulation within 'infill' areas i.e. qualifying and non-qualifying homes. Accepting this approach is very much aligned with the current use of IMD 25% (low income homes with a mix of Fuel Poor / non Fuel Poor), then we see very little consumer benefit in removing IMD as a proxy for the FPNES.

Regarding the broader question around consumer benefit we would strongly argue that removing the IMD criteria would significantly increase administration costs and decrease the actual number of new gas connections to Fuel Poor homes. We believe maintaining the existing criteria is the most cost effective method of future energy proofing homes situated with low income areas and will not have a negative impact on other consumers.

Question 4:

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

No – key long term strategic decisions have been made e.g. partnership / contract decisions, stakeholder investment programmes that have been established and agreed to deliver the regulatory outputs to the end of the current RiiO period. Consequently, should the criteria change then Cadent would anticipate being given the opportunity to reforecast its FPNES output numbers.

Question 5:

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

No – for the reasons set out in Q4.

Question 6:

Are there any other transition elements we should consider?

Yes – such key strategic decisions that impact directly on vulnerable customers should only be taken where there's robust evidence to underpin that decision, therefore Cadent would propose Ofgem work with industry partners to ensure appropriate evidence / data is collated and shared that can influence and informed appropriate output measures for RiiO2 and beyond.

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