



Making a positive difference  
for energy consumers

All interested parties and  
stakeholders

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## **Decision to change the criteria for the Fuel Poor Network Extension Scheme**

We have decided to change the criteria for the Fuel Poor Networks Extension Scheme (FPNES). Specifically, we are removing the FPNES eligibility criterion that the households “reside within the 25% most deprived areas, as measured by the government’s Index of Multiple Deprivation (IMD)”. The change will take effect from 1 July 2018.

The primary reason for the change is to ensure that the scheme more effectively targets fuel poor households. There is evidence that residing in the 25% most deprived areas is not a good predictor of fuel poverty, and therefore under the current criteria there is a strong risk that the funds allocated to Gas Distribution Networks (GDNs) for FPNES could be used to subsidise connections for non-fuel poor households. We consider it is in consumers’ interests to change the scheme criteria to ensure that the scheme is more likely to reach fuel poor households.

To respond to some of the feedback provided by the GDNs and other stakeholders in response to consultation, we have also decided to extend the implementation period of the criteria change. The new criteria will take effect from 1 July 2018, and GDNs will have until 1 July 2019 to complete any agreed works. We recognise that this change may make it more challenging for the GDNs to meet their targets, but we will still expect the GDNs to take all reasonable measures to achieve their targets. However, if the GDNs can demonstrate that despite taking all reasonable steps they were unable to meet their targets, where appropriate we will take account of this criteria change.

## **Background to FPNES**

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 existing and future energy consumers as a whole, and in doing so having regard to the interests of vulnerable consumers.<sup>1</sup>

In light of these obligations, we created the FPNES as part of our price controls for the Gas Distribution Networks (GDNs). FPNES helps households that are not connected to the gas grid to switch to natural gas by providing funding towards the cost of the connection. Access to gas, a cost-effective fuel for heating, is a good way to ensure fuel poor households can access affordable energy supplies.

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<sup>1</sup> Vulnerable consumers include individuals of pensionable age, disabled or chronically sick, those on low incomes, and living in rural areas.

The FPNES is aimed at fuel poor households, and therefore those accessing the scheme must meet certain pre-defined criteria, which currently state that 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.

Under RIIO-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 are intended to 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 help to further alleviate fuel poverty or increase health and comfort.

### **Our consultation proposing a criteria change**

In September, we consulted on removing the IMD criterion from FPNES based on data which indicates that fuel poverty rates in IMD areas are only marginally higher than the national average, and so is not a good predictor of fuel poverty.<sup>2</sup> We also explained that government changed the Energy Company Obligation (ECO) to remove eligibility based on a similar IMD criterion because doing so would better focus ECO towards low income and fuel poor households.

We received 15 responses to the consultation. Respondents included the Gas Distribution Networks (GDNs), the Energy Networks Association, local councils, charities, the Welsh government, an FPNES partner, a housing association and a community interest group. Of these responses, 14 opposed the change to the criteria.

Respondents noted a number of points in response to our consultation, including:

- The evidence we provided to support our proposal was not specific to off gas households. Respondents suggested that fuel poor targeting under the IMD criterion would be higher if looking at households that are not currently connected to a gas network.
- The targeting under the remaining criteria would still be poor and quoted a government document<sup>3</sup> which stated that only approximately 29% of homes in England eligible for HHCRO are fuel poor. In addition, some areas of government still use IMD to target schemes.

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<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-potential-change-fuel-poor-network-extension-scheme>

<sup>3</sup> ECO, Help to Heat 29 June 2016

- The proposed change would make it more difficult and costly to progress a number of connection projects, which would mean fuel poor consumers would lose out on connections. This is because a certain critical mass of connections is required to make a project economic, and it will be more difficult to achieve that using the remaining criteria. It was also noted that local authorities and housing associations would be less likely to work with GDNs without the IMD criterion.
- The reasoning we provided does not recognise that even if a household does not meet the fuel poor definition, it still may face challenges such as low income.
- We should ensure FPNES is aligned with other schemes, including the flexible eligibility aspect of ECO, Arbed in Wales, and Affordable Warmth Solutions' Warm Homes Fund.
- We should provide a longer timeframe for implementation. Reasons for this include: some planned projects require more time to acquire necessary permissions or wayleaves; the GDNs require more time to retrain staff and amend external facing materials; and certain powers that may potentially become available under the Digital Economy Act (and may assist GDNs in identifying fuel poor households) should be a prerequisite to this change.
- The GDNs should have an opportunity to revise their RIIO-GD1 connection targets to reflect the revised criteria.

## Reasons for our decision

### *Targeting fuel poverty*

We are removing the IMD criterion from the FPNES eligibility criteria because we consider that it will increase the effectiveness and value for money of the scheme. In our consultation we published the following statistics that explained that fuel poverty rates in those areas that meet the IMD criterion are only marginally higher than the national average.<sup>4</sup>

England	BEIS estimated that only 13% of households that meet the current IMD criterion are in fuel poverty. <sup>5</sup> This is compared to the national average fuel poverty rate of 11.0%. <sup>6</sup>
Scotland	Based on Scottish Government data, the proportion of households in fuel poverty in the 15% most deprived areas <sup>7</sup> is estimated as 31%, which is the same as the national average for Scotland as a whole. <sup>8</sup>
Wales	Our analysis on 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 25.70%. This compares to a projected national level of 23%. <sup>9</sup>

As respondents pointed out (and as we explicitly recognised in our consultation and impact assessment) this data is for all households, not only those households without gas network connections, which would be a more relevant comparator. We recognise that the incidence of fuel poverty is likely to be higher amongst those who do not have gas central heating.

<sup>4</sup> Note that the different fuel poverty rates between England, Scotland, and Wales are partly due to differing definitions used in each area.

<sup>5</sup> Page 8, [ECO: Help to Heat Consultation document](#)

<sup>6</sup> As outlined in the 2017 [Annual Fuel Poverty Statistics Report](#), based on 2015 data

<sup>7</sup> According to Scottish IMD (SIMD)

<sup>8</sup> Page 74, [Scottish House Condition Survey: 2015, Key Findings](#)

<sup>9</sup> [The Production of Estimated Levels of Fuel Poverty in Wales: 2012-2016.](#)

However, we remain unaware of comprehensive data that demonstrates the magnitude of this difference. One respondent provided data on the incidence of fuel poverty among a small sample of households that were connected through the FPNES' IMD criterion. For the 317 properties examined in the sample, approximately 30% would have been eligible under relevant fuel poor definitions. This specific example is limited so we cannot generalise from it, but it does demonstrate that those connected under the IMD criterion are more likely to be in fuel poverty than the national average.

We consider that this data provides further justification for changing the criteria. We do not consider a 30% target rate to be effective because it suggests that 70% of the connections in the sample went to households that are not in fuel poverty. We do not think this represents value for money on a scheme that aims to assist fuel poor households.

In addition, a respondent noted that 29% of homes in England eligible for HRCO are fuel poor. This has increased to 34% following the changes made to the HHCRO eligibility criteria, and it includes all households, not just those without gas central heating. We would expect the incidence of fuel poverty to be higher for households that do not currently have gas central heating. If the difference between the IMD all household average in Wales (25.7%) and the Welsh off gas example (30%) is 4.3 percentage points, one might expect there to be a similar difference between the ECO all household fuel poverty rate and the off gas fuel poverty rate. Therefore, under ECO we might expect the target rate for off gas households to be higher than 34%.

Government changed ECO to remove eligibility based on a similar IMD criterion in order to better focus ECO towards low income and fuel poor households. The government's change does not on its own necessitate a change to FPNES and we recognise that the IMD criterion within FPNES is separate from ECO. However, we consider that removing the IMD criterion from FPNES is in the interests of consumers and therefore commensurate with our regulatory duties.

Overall, in removing the IMD criterion from FPNES we expect targeting to increase, for example with more focus on GDNs identifying and connecting fuel poor households not in IMD areas which will result in better value for money from the scheme and a better scheme for fuel poor households.<sup>10</sup> Should the GDNs meet their connection targets under the scheme, it would result in more fuel poor households receiving a gas networks connection, and fewer non-fuel poor households receiving subsidised connections.<sup>11</sup>

Therefore, having considered our duty to protect the interests of existing and future energy consumers including having regard to the interests of vulnerable consumers we consider it is in consumers' interests to change the scheme criteria to better target fuel poor households.

#### *Volume of fuel poor connections*

We recognise the points that the GDNs and other respondents have made regarding the effect the criteria change may have on their ability to progress particular connection projects.

However, we do not accept that this change will necessarily result in a lower absolute level of fuel poor connections. First, we think that removing the criterion will lead to more fuel poor connections for the same overall level of connections because the remaining criteria

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<sup>10</sup> We do not dispute the points that some respondents made stating that households that do not meet the definition of fuel poverty may face other challenges such as low income. However, in order to better target ECO towards fuel poor and low income households, government removed the ability to qualify for ECO based on IMD because of its poor targeting capabilities.

<sup>11</sup> We recognise that some public service provision, such as health care, use IMD to target services. We accept that it may be reasonable to use IMD for some purposes, but we do not consider it a good predictor of fuel poverty.

are better targeted at fuel poor households. Second, we think that how GDNs respond to the change will influence how many overall connections are made under the scheme.

In addition, we consider that regardless of any potential decrease in the overall number of connections, the remaining criteria will still result in a lower number of non-fuel poor households receiving a subsidised connection. We think that removing the IMD criterion is in the interests of consumers as a whole, who ultimately pay for the scheme through their bills.

We accept that for some connection projects, a critical mass of connections may be needed to make the project economically viable. However, given the data on targeting under the IMD criterion, we do not think it is proportionate for consumers to fund a large proportion of non-fuel poor connections just so that some projects can proceed. Some respondents noted that this may affect the willingness of local authorities and housing associations to engage with FPNES, but we do not accept that this should be a reason to continue with poor targeting.

#### *GDNs' FPNES connection targets*

We do not consider it appropriate to revise the GDNs' connection targets under the scheme because of the criteria change. We also consider that maintaining the current targets provides an incentive for GDNs to continue to strive to meet them. In addition, the GDNs' licence includes a mechanism to review performance against the targets at the end of RIIO-GD1.<sup>12</sup> Under the mechanism, a GDN that doesn't meet its targets would either (a) have its allowances for the missed connections returned to consumers, or (b) the missed connections would be added to the next price control's targets. The GDN would also face a financial penalty if it cannot justify why it missed its targets. GDNs are also eligible for potential financial rewards where they exceed their targets.

We will review GDNs' performance against their targets at the end of RIIO-GD1 and we expect the companies to demonstrate that they have taken all reasonable steps to meet their targets. This includes exploring alternative options for identifying and planning potential FPNES connections. However, we recognise that removing the IMD criterion from the FPNES eligibility criteria may affect how GDNs will need to plan and engage on FPNES connections. In applying the incentive mechanism where GDNs do not meet their targets, where appropriate, we will take into account the removal of the IMD criterion where it may have contributed to the GDN missing targets. The GDNs will need to show that they have taken reasonable additional actions in response to the change. We will also compare performance amongst GDNs in terms of how they have identified and engaged with relevant stakeholders, recognising regional differences in England, Wales and Scotland.

#### *Other schemes*

Two respondents have notified us that if we remove the IMD criterion from the FPNES it could affect the delivery of their fuel poverty schemes.

One scheme is the Welsh government's Warm Homes Arbed 3, which is due to commence in April 2018 and will run until at least April 2021 in Wales. The criteria for Arbed 3 is still under development. Once the criteria are established we will examine it in further detail to determine whether we should include eligibility for it in the eligibility criteria for FPNES.

The other scheme is Affordable Warmth Solutions'<sup>13</sup> Warm Home Fund, which was launched in July 2017 and provides £150m of funding over three years for fuel poor households that are not currently using gas as a primary heating fuel across England, Scotland and Wales. Funding is allocated by Affordable Warmth Solutions through an annual bidding process.

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<sup>12</sup> GDN special condition 4J: Non Gas Fuel Poor Networks Extension Scheme Incentive Mechanism

<sup>13</sup> Affordable Warmth Solutions is a Community Interest Company established by National Grid in 2008.

We have decided that qualifying for the Warm Home Fund will not automatically qualify a household for an FPNES connection. The Warm Homes Fund is a scheme funded by a network company and is not a government scheme. The scheme uses IMD as a qualifying criterion. We therefore do not think it is appropriate to use this scheme as a qualifying criterion for FPNES as we do not think it will improve the targeting of FPNES towards fuel poor households and therefore would not be in consumers' interests.

## **Implementation**

We recognise some respondents' concerns about the timescales we had proposed for implementing the criteria change and we consider it is reasonable to provide more time to implement the changes.

Therefore, we are allowing implementation along the following timelines<sup>14</sup>:

- All new quotations and engagement under the scheme from 1 July 2018 must be based on the updated eligibility criteria.
- Any quotations issued before this date (based on any of the current eligibility criteria) will be allowed the standard 90 day period of acceptance.
- Any quotations accepted under the current eligibility criteria will be given until 1 July 2019 for the works to be completed.

We also recognise that government schemes, including ECO, may change further in the future. We will keep the FPNES criteria under review to ensure they remain fit for purpose, including to ensure that they continue to appropriately take into account the objectives and eligibility of related government schemes.

If you have questions or comments about any aspect of this letter then please contact Ayesha Uvais ([ayesha.uvais@ofgem.gov.uk](mailto:ayesha.uvais@ofgem.gov.uk)).

Yours sincerely

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<sup>14</sup> We do not consider that potential data access enabled by the Digital Economy Act is a prerequisite to GDNs identifying potential fuel poor households under the new criteria.