



Action for Warm Homes

National Energy Action Response to Ofgem Consultation on Potential Change to the Fuel Poor Network Extension Scheme

About NEA

National Energy Action (NEA) is the national charity seeking to end fuel poverty and tackle exclusion in the energy market at a local and national level. We work across England, Wales, Northern Ireland, and with our sister charity Energy Action Scotland, to ensure that all UK households can afford to live in a warm, dry home.

Background to our response

NEA thanks Ofgem for the opportunity to respond to the proposed change to the Fuel Poor Network Extension Scheme (FPNES) to remove the eligibility criterion that the household must “reside within the 25% most deprived areas, as measured by the government’s Index of Multiple Deprivation (IMD)”. NEA provides insight on this issue from working collaboratively with the gas distribution network (GDN) companies to deliver fuel poverty-related programmes under both GDRP5 and RIIO-GD1.

In February 2017, the GDNs asked NEA to carry out an independent review of progress to meet the fuel poor connection targets set under RIIO-GD1. The report of our findings – *In From the Cold* – found that there had been a general downturn in connections taking place in recent years and that a key reason for this downturn was the constrained funding landscape for in-house measures (gas central heating systems).¹ This problem was found to be particularly acute in England where no central government funds are available to subsidise energy efficiency measures in fuel poor homes. Because of this issue, at the halfway point of the distribution period over 70% of connections targeted at Scottish and Welsh fuel poor households had been achieved. By contrast, England was lagging well behind with only 44% of connections completed. Barriers to delivery in England were identified within the context of FPNES criteria that included deprived areas. We therefore

¹ NEA. 2017. [In From the Cold: The funding gap for non-gas fuel poor homes under ECO and a proposal to fill it.](#)

expect that removing these areas would present further challenges to meeting FPNES targets.

Response

NEA recognises the merits of improving targeting of the FPNES scheme, delivering better value for money for existing and future gas customers and better integrating the criteria to reflect national and Great Britain (GB)-wide energy efficiency schemes. Without adapting the current approach, it is likely that remaining connections under FPNES will continue to disproportionately benefit social housing tenants and their landlords within eligible IMD areas. Recognising the limitations of using England statistics for a GB-wide scheme, we nonetheless note that only 17% of properties in England are social rented and that this tenure contains the fewest number of fuel poor households in England.^{2,3} By contrast, private renters are the most likely tenure group to find themselves in fuel poverty but NEA understands that very few fuel poor connections have been delivered to this tenure. As such, we recognise that the current IMD criterion has not incentivised GDNs to deliver connections to deprived households who may be harder to engage (in particular, fuel poor private tenants) but who have much to benefit from the scheme.

The merits of better targeting notwithstanding, NEA remains concerned about the pace of Ofgem's proposed change. Without an adequate transition period, there is significant risk that FPNES targets will not be met and that the criterion change will lead to the perverse outcome of reducing the number of non-gas households lifted out of fuel poverty and provided with a more efficient heating system. We make the following points:

1. Ofgem state they have been unable to gather data from the GDNs on the incidence of fuel poverty in households receiving a connection through FPNES. The regulator therefore has no baseline from which to measure the success of its proposed change. Furthermore, the scheme to which Ofgem is seeking to align the criterion – Energy Company Obligation (ECO) – continues to face challenges in effectively targeting fuel poor households. Currently only circa 70% of ECO is targeted at a fuel poor proxy group (the Affordable Warmth Group) and previous estimates suggest that, within this group, only circa 29% are fuel poor.⁴ As such, NEA questions whether the change will have its intended outcome of effectively targeting households in fuel poverty.

² DCLG. 2017. [English Housing Survey: Headline Report, 2015-16](#).

³ BEIS. 2017. [Annual fuel poverty statistics report: 2017](#).

⁴ DECC. 2016. [ECO: Help to Heat Consultation](#).

2. NEA agrees with the principle of aligning the FPNES criteria with ECO so a household can benefit from the heating measure required to complete a fuel poor connection. However we stress that, even with the proposed criterion change, the two schemes will not be aligned. This is because the scoring methodology used in ECO does not incentivise suppliers to discharge their obligation by installing first time gas central heating. This constrained funding landscape under ECO for non-gas homes is detrimentally impacting GDNs delivering their fuel poor connection targets.⁵ The problem is particularly acute in England network areas that do not have access to funds for energy efficiency measures through national programmes (unlike in Scotland and Wales which deliver heating measures through the schemes HEEPS and Nest respectively).⁶

Due to these misalignments with ECO, GDNs and their partners must look for alternative avenues to source funding for the first time heating system to accompany a fuel poor connection. In particular, one option is to work with local authorities and social housing providers on area-based schemes and community connections. Such schemes rely on the IMD criterion to proceed and Ofgem's own consultation shows that 70% of households assisted under FPNES qualify using this criterion and that community connections comprise 40% of total FPNES connections. NEA is therefore concerned that removing the IMD criterion altogether or too quickly could lead to connection numbers falling off a cliff edge; to the detriment of deprived and vulnerable non-gas communities. It is disappointing that Ofgem has not considered this issue in more detail in its Impact Assessment and has provided no estimates on how the change will impact on GDNs delivering against their targets.

3. NEA agrees that GDNs should adopt new and innovative approaches to identify and target fuel poor customers and not rely on the IMD criterion. However NEA is concerned that Ofgem appears to ignore the utility of that criterion in supporting innovation. Specifically, NEA is currently working with NGN on 'Connecting Homes for Health'. This project is a pilot which aims to measure the health and wellbeing impacts of a gas grid connection and first time gas central heating system in households vulnerable to ill-health from living in a cold home. To identify a suitable target area for this pilot NEA and NGN have undertaken mapping to overlay fuel poverty, health, off-gas, deprivation, tenure and property data. Removing the IMD criterion will threaten this area-based approach – limiting economies of scale and reducing the population sample for the evaluation. A narrow focus on aligning FPNES criteria with other government schemes

⁵ NEA. 2017. [In From the Cold: The funding gap for non-gas fuel poor homes under ECO and a proposal to fill it.](#)

⁶ Ibid.

therefore undermines the potential for GDNs to work with partners to deliver a wider set of health, environmental and economic benefits to deprived communities and vulnerable households.

4. As noted previously, and considering the above issues, NEA questions the suitability of the proposed start date of 1 April 2018 for the new criterion. Specifically, we note that data sharing powers under the Digital Economy Act – which could help GDNs to identify fuel poor customers – are unlikely to be in place by this date or in a form conducive to use for FPNES.⁷ Furthermore, the future of ECO from April 2018 remains uncertain. Mechanisms such as Flexible Eligibility, which Ofgem suggests could support delivery of FPNES, are not guaranteed when the new criteria will take effect. We therefore suggest Ofgem could consider delaying removal of the IMD criterion until there is greater certainty how changes to future policy and programmes will facilitate the innovation and information sharing required to effectively identify fuel poor non-gas homes. Alternatively, Ofgem could phase the IMD removal over the remaining years of the distribution period, potentially alongside introducing specific criterion about which tenures GDNs should target in eligible IMD areas.

Finally, in making these points, NEA's concern is that the perfect should not become the enemy of the good. Non-gas homes contain some of the poorest, coldest and most vulnerable members of our communities. They rely on more expensive fuels such as electricity to heat their homes, are vulnerable to detriment in unregulated markets such as oil and are more likely to live in the most energy inefficient and expensive-to-treat properties. Targeting these homes in the most deprived areas of Great Britain will help UK Government deliver its statutory fuel poverty targets and also meet aspirations contained in the Clean Growth Strategy to upgrade all homes to EPC Band C by 2035. If Ofgem's proposed change to FPNES instead means fewer households in fuel poverty receive a connection to the gas grid then this change will be, in NEA's view, counter-productive to delivering positive and cost-effective social and environmental outcomes for UK society.

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⁷ Currently, the powers under the Digital Economy Act will only allow disclosure of information from public authorities to gas and electricity suppliers for the purposes of delivering fuel poverty services. Electricity and gas network companies are not listed in Part 5, Section 36(1) of the Act. However, NEA is of the view that there is opportunity through regulation to disclose information to the networks for the purposes of delivering fuel poverty services to their customers, including through FPNES. Such information disclosure would enable better targeting of FPNES. NEA made this point during the passage of the Bill through Parliament and will continue to make it as regulation pertaining to the Act is laid.