

OFGEM's Gas Network and Carbon Monoxide Allowance (VCMA) and the Fuel Poor Network Extension Scheme (FPNES) Governance Document Consultations

RESPONSE FROM AGILITY ECO SERVICES LIMITED

2 November 2020

Introduction

Thank you for the opportunity to respond to these consultations, which we have combined in this paper.

Agility Eco Services Ltd (AgilityEco) is a leading organisation in the area of low carbon and energy efficiency services, providing practical support and advice to vulnerable and fuel poor households. As a sector leader in our field, we have significant first-hand experience of the benefits that utility companies can provide to these consumers, through their licence obligations, price controls and partnership working. Please see Appendix 1 for more information about AgilityEco.

We believe any organisation that comes into contact with a vulnerable household has the responsibility to act, to safeguard and offer impactful support to address their main issues. We are therefore pleased that Ofgem have placed an increased focus on vulnerability for RIIO-GD2 and that a funding allowance has been made available for Gas Distribution Networks (GDNs) to play their part in supporting vulnerability.

Since March 2020 there has been a significant increase in those who are experiencing financial hardship, emotional distress, isolation, and serious health concerns. We know that the impacts of the Covid-19 pandemic will be deep and long lasting and aiding a growing number of vulnerable households through the drive towards 'net zero' and through the energy transition offer immense challenges.

On financial vulnerability alone, the Office for National Statistics (ONS), has reported between March, when the lockdown began, and August, the number of people claiming benefits for being out of work rose 120% to 2.7 million. This is continuing to rise, as there are more redundancies and unstable employment.

It is now more important than ever to understand the vulnerabilities of customers and be able to provide support where needed.

1. Vulnerability and Carbon Monoxide Allowance (VCMA)

We are very concerned that the total VCMA is only £30 million over 5 years – this is less than £1 per vulnerable customer per year. We feel this is nowhere near sufficient for GDNs to play their role in protecting the most vulnerable, with whom they may interact during the customer journey.

If a GDN employee finds a customer to be living in a cold and damp home, or with condemned or broken gas appliance which they cannot afford to repair or replace, an intervention should occur to safeguard that household.

We know from our partnerships with SGN and Cadent that delivering solutions for customers in vulnerable circumstances where gas appliances have been condemned is essential. We believe that in future it should be seen as completely unacceptable, particularly in light of Ofgem's Consumer Vulnerability strategy, for a GDN to simply walk away after disconnecting the gas supply of a vulnerable household.

[SGN's Voucher Scheme](#) offers immediate help for vulnerable customers with broken or condemned gas appliances. SGN arranges for a qualified Gas Safe engineer to attend the property, diagnose the issue, repair if possible or arrange for replacement of the appliance/s. Customers are also offered a broader range of services including energy efficiency, income maximisation and health and wellbeing support through the Local Energy Advice Partnership (LEAP) and Connect for Help services. Funding is provided by SGN for the initial repair up to a pre-determined amount, whilst also providing a contribution towards more expensive repairs and replacements. Where a gas boiler replacement is required, AgilityEco accesses other schemes such as the Energy Company Obligation (ECO) to ensure there is no contribution required from the householder.

Similarly, AgilityEco works with NEA to deliver similar solutions through the Reactive Response Scheme, funded by the Cadent Foundation. Vulnerable customers will have their supply reinstated, their broken appliances repaired free of charge and they can be referred into a wider support and advice service, offering energy advice, tariff switching, benefits checks, etc.

We commend both SGN and Cadent for supporting their vulnerable customers when they need it most through these schemes. We believe it is the responsibility of all the GDNs to identify vulnerability during both emergency work and planned works and to take action. Given the economies of scale, it would appear to be a responsible initiative to run as a national service through the collaborative funding and make a significant impact on the quality of people's wellbeing and lives.

These programmes could be extended to also address the risk of carbon monoxide poisoning by identifying, servicing and possibly replacing heating and cooking appliances that are in very poor and potentially dangerous condition.

High impact support can be life changing for the most vulnerable and GDNs have proven that supporting those in greatest need can provide huge financial benefits to households and a strong social return on investment. AgilityEco also evidences this from impact tracking and reporting via the LEAP service, which tackles poor building fabric, high energy costs and low income. In 2019-20 LEAP delivered £13.5m of lifetime energy bills savings to clients through tariff savings, energy reduction and income maximisation. With a total spend of £3.8m, this means LEAP delivered a benefit to cost ratio of 3.6:1.

In total, through all AgilityEco’s initiatives during 2019-20 (please see Appendix 1) we helped over 47,000 households in need, installing over 122,000 energy efficiency measures and achieving £150 million worth of lifetime energy bill savings.

Unfortunately the current VCMA allowance will only allow GDNs to deliver meaningful support to a very small number of customers. We can see this through SGN’s RIIO-GD2 [Business Plan](#) (pages 54 and 55).

When SGN prepared its GD2 business plan prior to Covid-19, in December 2019, it estimated it had over 1 million vulnerable customers. In terms of the VCMA allowance, SGN’s allocation will be around £1.6m per annum. Twenty five percent (£400k) of the allowance will be directed towards collaborative initiatives with other networks and £200k for CO safety initiatives. That’s £1m a year remaining for SGN specific programmes to support their most vulnerable when they need it the most - in reality this equates to £1 per customer.

Therefore, GDNs have to make some hard choices. Support fewer vulnerable customers, but with a higher degree of support as we have described above, and make a real difference to people’s lives with a high return on investment or, support a larger number of people with a low level of support, with low returns on financial and social value.

To illustrate this, here is SGN’s cost and analysis for vulnerability initiatives, based on a 3-tier level of support. It is lifted from its RIIO-GD2 business plan:

Vulnerability Allowance	Tier 1	Tier 2	Tier 3	Total per annum
Approximate Funding	£255,000	£300,000	£445,000	£1m
Approximate number of households supported	1,500	4,000	44,500	50,000
Target Cost per household	£170	£75	£10	
Target direct financial benefit per household	£1,100	£300	No comparator on GD1. Target to cover costs = £10	
Target social value per household	£7,500	£1,300	No comparator in GD1. Target to provide social value of twice cost £20	
Total of direct benefits to households	£1.65m	£1.2m	£0.45m	£3.3m
Total of social value to all households	£11.25m	£5.2m	£0.9m	£17.3m

From its modelling, with the funding it will have through VCMA, SGN will be supporting up to 5,500 vulnerable customers per annum (27,500 over the 5-year period) through tier 1 and tier 2 support, improving lives by providing quality, long term outcome support.

It will support 44,500 vulnerable customers per annum, (222,500 over the 5-year period) with a low level of support.

- Potential tier 1 initiatives, tailored support during and after supply interruptions
- Potential tier 2 initiatives, additional services through referral partners for energy efficiency advice, income maximisation and referrals for social welfare
- Potential tier 3 initiatives, CO awareness and energy efficiency campaigns

GDNs will be guided by their stakeholders as to how and who they provide targeted support to, but the analysis is telling in that with the VCMA allowance planned, only a very small number of vulnerable customers will receive significant, long term impact support over the 5-year period.

We are therefore pleased and see it essential that Ofgem has included a focus on projects addressing customer vulnerability in the reformed Network Innovation Allowance scheme.

Eligibility Criteria

We are concerned with one element of the criteria for the use of VCMA funding:

2.4 (g) The activity cannot be delivered through other funding source, including through innovation funding or other government (national, devolved, or local) funding.

A key role of a GDN is to leave households safe and back on supply after a gas emergency. As worded this element would potentially exclude a GDN providing emergency heating repair or replacement for ECO-eligible households, as in theory they could receive funding from ECO. Of course, this could take a number of weeks to achieve and might only part-fund the required intervention, potentially leaving a vulnerable household without heat and hot water.

Project Registration

We are supportive of Ofgem's proposed Project Registration. However, we believe there should be a clear process for third parties to be able to present appropriate projects for the VCMA scheme. We would like Ofgem to encourage GDNs to arrange forums whereby parties have an opportunity to present to an individual GDN, or to the group of GDNs for collaborative projects, which may be suitable for a national trial or roll out and spend.

Annual Reporting Obligations

We support Ofgem's proposals for the annual reporting obligations.

2. Fuel Poor Network Extension Scheme (FPNES) Governance

AgilityEco supports Ofgem in continuing the FPNES scheme.

At a time when warm homes are even more important to vulnerable households as a result of Covid-19, and with many vulnerable people spending even more time in cold and unsuitable homes, it is essential that the FPNES continues. Those having to make stark choices between eating and heating are doing so in the context of Government statistics showing that only a minority of fuel poor homes are likely to achieve the statutory target of being at energy efficiency Band C by 2030. Gas central heating remains the cheapest way to effectively heat a home that is not yet energy efficient.

There is a need to explore other heating approaches to reduce domestic carbon footprint, but we believe it is too early to suggest that a choice needs to be made between low carbon electricity and gas supply. Whilst over 30 million domestic heating systems need to be replaced by 2050 to hit the UK's 'Net Zero' target, the average lifespan of a boiler means that most households with gas central heating will have replaced their boiler 2 or 3 times by then.

There is also significant development underway on the use of 'green' hydrogen and methane to decarbonise the current gas network. In the meantime, households in fuel poverty should not be forced to use expensive electric heating if it's not the most cost-effective method of heating their home.

The Committee on Climate Change (CCC) has acknowledged that "strategic decisions on the future of the natural gas grid and the future balance between hydrogen and electric heating" need to be taken in the mid-2020s. The CCC recognises that the answer is likely to be a mix of both.

We believe the FPNES scheme should include referrals into other funded programmes to enable customers to benefit from wider support to tackle fuel poverty including retrofitting energy efficiency and heating measures, tariff switching, benefits checks, and budgeting advice.

Ofgem's Partnership Approval Process seems sensible.

In Summary

We agree with the purpose and objectives of the VCMA, but we are increasingly concerned about the amount of funding available to support the growing issue of vulnerability.

We strongly believe programme of emergency gas appliance repair and replacement to support the most vulnerable would be an ideal initiative to run as a national service through the VCMA collaborative funding.

Related to this we think there should be consideration given in the VCMA eligibility criteria to allow VCMA funding to be used to fund emergency heating for fuel poor households, should alternative funding sources not be timely or sufficient to quickly cover the full costs.

We also support the continuation of FPNES until there is a clear strategy and policy on what should be the fuel solutions for a low carbon future. Gas central heating is currently the most cost effective means for fuel poor households to effectively heat their homes.

Thank you once again for the opportunity to comment on this important consultation.

I would very much like AgilityEco to be involved in any future stakeholder consultations or workshops on the VCMA and FPNES.

Gearóid Lane
CEO, AgilityEco

Appendix 1 - About AgilityEco

AgilityEco is a market leader in the management and delivery of innovative services to support low income and vulnerable households that need a helping hand. We provide practical help with energy and water efficiency, utility bills, household finances and vulnerability.

We work with energy suppliers, network companies, water companies, local authorities, and housing providers to plan, fund and manage services to **support households with affordability and vulnerability issues**. We deliver these services through our carefully chosen national network of trusted and experienced partners.

In 2019-20 we supported over 47,000 households and achieved £150 million worth of lifetime energy bill savings across the UK, through our support programmes including [LEAP](#), [ECHO](#), and [HEART](#).

We have developed a unique approach that brings together, funding and delivery of energy efficiency and heating measures, high quality vulnerable customer support, delivered at scale through partnership working with local authorities and local agencies. You can see more in our [Impact Report for 2018-19](#)

The chart below gives an example of the kind of life-changing outcomes that can be achieved by bringing the various strands of help and support together for vulnerable households:

