

All interested parties and
stakeholders

Email: paul.branston@ofgem.gov.uk

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Fuel Poor Network Extension Scheme Review: final decision document

The document published alongside this letter sets out our final decision on our review of the Fuel Poor Network Extension Scheme (the "Scheme"), for the RIIO-GD1 price control period.

We initiated the review of the Scheme in August 2014, as per our commitment to do so in the RIIO-GD1 price control. We wanted to assess how well the Scheme is aligned with wider Government strategies on heating and fuel poverty and whether there were any changes we could make that would maximise the benefits it can deliver. We also took this opportunity to implement some amendments that we wanted to make to the Scheme.

Since then, we have undertaken a number of consultation exercises with stakeholders to identify what changes are required to the Scheme to deliver maximum benefit for fuel poor and vulnerable households.

Our final decision document concludes our review and explains all the changes we will make to the Scheme.

In October 2015, we will consult on changes to the GDNs' gas transporter licences in order to implement some of the proposed changes to the Scheme. This will be subject to our standard statutory consultation processes.

All the changes to the Scheme outlined in the final decision document will take effect from 1 April 2016.

If you have any further questions on the Scheme or this review then please contact Rupika Madhura (rupika.madhura@ofgem.gov.uk).

Yours sincerely

Paul Branston

Associate Partner, Gas Networks
Smarter Grids and Governance



Fuel Poor Network Extension Scheme Review final decision document

Final decision

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Contact: Rupika Madhura, Head of Gas
Distribution Policy

Team: Gas Networks

Tel: 020 7901 7091

Email: rupika.madhura@ofgem.gov.uk

Overview:

This document contains our decision on the:

- outstanding policy topics from our review of the Fuel Poor Network Extension Scheme, following our publication in March 2015 on the findings of the review of this Scheme
- revised fuel poor connection targets for Gas Distribution Network Companies and associated adjustment to their total allowed expenditure for RIIO-GD1, following our consultation on it in August 2015.

Context

Reducing the number of households that are in fuel poverty remains one of the most important energy challenges that we face in Great Britain.

Governments – both national and devolved - have put in place a range of policies to address fuel poverty. These include measures to improve the energy efficiency of housing, such as the Energy Companies Obligation (ECO) scheme, financial assistance, for example the Warm Home Discount, and cold weather payments for the most vulnerable. As the energy regulator it is important that we also take steps to support those on low incomes and in other vulnerable situations when developing our policies.

The type of energy that households use for heating and cooking can make a significant difference to fuel poverty levels. Gas consistently remains one of the least expensive sources of energy, however not every household is connected to the gas network. Getting connected to the grid and having access to gas can make a real difference in the quality of living standards for those in fuel poverty. Using our price control mechanisms (GDPCR1 and RIIO-GD1¹) we have provided a mechanism that assists households to connect to the networks owned by the Gas Distribution Network companies (GDNs). This is called the Fuel Poor Network Extension Scheme (“the Scheme”).

We are committed to ensuring the Scheme is aligned with other government schemes to maximise the benefits to households eligible for our Scheme. In August 2014,² we issued a consultation to understand how the current arrangements for the Scheme could be improved.

In March 2015³, we published a document which set out our findings on a number of areas of the Scheme (“March 2015 Document”). This included:

- increasing the targets for GDNs to connect fuel poor customers during the RIIO-GD1 price control and requested GDNs to resubmit their business plans
- to extend the Scheme to include district heating solutions to assist more vulnerable and low income households
- introducing a voucher calculator to be used by GDNs to calculate fuel poor vouchers
- revised the eligibility criteria to make the Scheme more consistent with other schemes offering assistance to low income and vulnerable consumers.

The March 2015 Document also proposed some changes to the Scheme on which we sought further stakeholder views. This included asking:

- what changes may be required to the fuel poor voucher calculation and partnership eligibility criteria to incorporate district heating projects in the Scheme

¹ GDPCR1 is the Gas Distribution Price Control Review (2008-2013). RIIO-GD1 is the current Price Control Review (2013-2021). RIIO stands for Revenue = Incentives and Innovation and Outputs.

² [August 2014 open consultation letter](#)

³ [The findings of our review of Fuel Poor Network Extension Scheme](#)

- what changes could be made to the Scheme to increase the number of fuel poor connections made on Independent Gas Transporter (iGT) networks
- views on changes we proposed to make to the partnership eligibility criteria
- views on using the Typical Domestic Consumption Value (TDCV) as the average source of gas consumption in the fuel poor voucher calculation
- comments on implementing the fuel poor output incentive mechanism.

Following the March 2015 Document, we published a consultation in August 2015 on our minded-to decision on:⁴

- the revised fuel poor connection targets which will apply to the GDNs to connect customers under the Scheme in the RIIO-GD1 price control period
- the increase in each GDNs allowance that would be required to deliver these connections.

This document summarises the stakeholder feedback we received to these questions and constitutes our final decision on the changes we will make to the Scheme.

Associated documents

You may find the following associated documents helpful:

September 2015: [Fuel Poor Network Extension Scheme from 1 April 2016 Factsheet \(Ofgem\)](#)

August 2015: [Consultation on changes to the RIIO-GD1 connection targets under the Fuel Poor Network Extension Scheme \(Ofgem\)](#)

March 2015: [The findings of our review of the Fuel Poor Network Extension Scheme \(Ofgem\)](#)

August 2014: [Fuel Poor Network Extension Scheme Review Consultation Letter \(Ofgem\)](#)

June 2011: [Final position on the non-gas fuel poor network extension scheme \(Ofgem, 2011\)](#)

March 2015: [Cutting the cost of keeping warm \(DECC\)](#)

March 2012: [The Future of Heating: A strategic framework for low carbon heat in the UK \(DECC\)](#)

⁴ [August 2015 Minded to decision](#)

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Executive Summary

Background

We believe that our Fuel Poor Network Extension Scheme is a significant tool to help combat fuel poverty. It is important that the Scheme is as effective as possible. In recent years, we have seen a number of developments in government policy and other initiatives to tackle fuel poverty. As part of RIIO-GD1 Final Proposals⁵, we said that we would review the Scheme during this price control (1 April 2013 until 31 March 2021) to take into account such developments.

Review of the Scheme

We launched our review of the Scheme on August 2014⁶, by publishing a consultation letter asking stakeholders for their views on how well it is aligned with broader government initiatives focused on helping low income and vulnerable consumers, and whether any changes could be made to maximise its benefits.

After considering the responses to this consultation, we published a document in March 2015 which set out our decision to make a number of changes to the Scheme, including:

- to reset the connection targets for GDNs to connect more eligible households to the network during the RIIO-GD1 price control
- extending the Scheme to include district heating connections
- applying a mechanism which will incentivise GDNs to outperform their revised targets
- extending the scheme to support district heating solutions
- introducing a voucher calculator for the GDNs to use when establishing how much assistance each eligible household can receive
- revising the eligibility criteria to make it consistent with the changing landscape of other schemes offering assistance to low income and vulnerable consumers.

The March 2015 Document⁷ also sought stakeholders views on other changes we proposed to make to the Scheme including:

- the source of the average gas consumption figure
- administrative changes required to extend the Scheme to cover district heating
- views on the fuel poor output incentive mechanism
- revised partnership approval process

⁵ [RIIO-GD1 Final Proposals Overview](#)

⁶ A copy of the open letter can be found here: <https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-review-consultation-letter>

⁷ A copy of this document can be found at: <https://www.ofgem.gov.uk/publications-and-updates/findings-our-review-fuel-poor-network-extension-scheme>

- if any modifications to the Scheme are required to further encourage its use on iGT networks.

In order to understand how many additional fuel poor connections could be made during the RIIO-GD1 price control, we asked the GDNs to submit their business plans to us of how many fuel poor connections they could make.

Following our analysis of the GDNs' resubmitted business plans, we published a consultation in August 2015 on our minded-to decision on additional connection targets we believed GDNs could achieve during RIIO-GD1.

Key conclusions in this document

This document sets out our final decision on the changes we consulted on in the March 2015 Document and the August 2015 consultation. Our key conclusions are:

- we have decided to increase the fuel poor connections targets for GDNs by 18% to 91,203 (from 77,450) as proposed in our minded to decision of August 2015. We will also increase the total expenditure allowance for RIIO-GD1 by £17.6 million to facilitate the delivery of the additional connections. The increased allowed expenditure will have a neutral impact on the bills of the generality of GDN consumers because of the self-financing principle of the Scheme
- we have decided to introduce a fuel poor incentive mechanism, to encourage the GDNs to deliver more connections to fuel poor and vulnerable households, beyond the target of 91,203 connections set by us
- we continue to consider that the Scheme should cover District Heating projects to assist fuel poor and vulnerable households. Although we have not set a specific target for District Heating connections for GDNs, we have introduced a mechanism within the Scheme to encourage the GDNs to offer this option to the eligible household, where this is the best solution for them
- we continue to consider that fuel poor and vulnerable households who are on a network adjacent to a GDN network, operated by an Independent Gas Transporters (iGTs) can benefit from the Scheme. Our existing mechanisms within the Scheme and wider incentive mechanism on the GDNs ensure that such consumers are not disadvantaged. We expect GDNs to work with relevant organisations to provide best solution for the eligible household
- we also conclude on the various administrative changes to the Scheme, for example the introduction of new eligibility criteria for partners that GDNs work with to deliver the Scheme, source of average gas consumption number to calculate the voucher value etc
- given that the revisions to the Scheme take effect from 1 April 2016 including those on the eligibility criteria, to ensure there is no gap in assistance provided to the fuel poor and vulnerable households between now and 31 March 2016, we have introduced transitional arrangements on eligibility criteria

Next Steps

The changes to the Scheme will apply from 1 April 2016. We will be consulting in October 2015, on the changes we propose to make to the licence of the GDNs to implement the new connections target and fuel poor incentive mechanism for RIIO-GD1.

1. Introduction

Chapter Summary

This chapter summarises how we have conducted our review of the Scheme, the issues that have emerged, and how we have addressed those issues in order to reach our final decision.

The Fuel Poor Network Extension Scheme

1.1. The Fuel Poor Network Extension Scheme (“Scheme”) enables low income vulnerable households to switch to natural gas by helping to fund the cost of connecting to the gas network.

1.2. The Scheme provides a discount to eligible households against the cost of connecting to the gas network in the form of a “voucher”. To be eligible for a voucher, a household has to meet our eligibility criteria.

1.3. The Scheme is delivered by the GDNs. The Scheme was introduced in the previous price control (GDPCR1, 2008–2013) and continues in the current price control period (RIIO-GD1, 2013–2021). In recent years we have seen a number of developments in how fuel poverty is being tackled. As part of RIIO-GD1 Final Proposals,⁸ we said that we would review the Scheme during the price control period, to take account of these changes.

Our review

1.4. We initiated our review of the Scheme on 14 August 2014⁹ with an open letter to the stakeholders. We asked interested stakeholders to respond to eight questions which sought views on how well the Scheme was interacting with government fuel poor policy and other changes required to maximise the delivery of fuel poor connections.

1.5. We received 22 responses to the consultation questions contained in the open letter.¹⁰ We confirmed that the Scheme will continue for the rest of the RIIO-GD1 price control period, that it would remain self-financing, that vouchers will continue to be used to provide a discount to eligible households and we will approve the partner organisations the GDNs propose to work with to deliver the Scheme.

⁸ [RIIO-GD1 Final Proposals Overview](#)

⁹ A copy of the open letter can be found here: <https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-review-consultation-letter>

¹⁰ Full copies of the responses can be found at: <https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-review-consultation-letter>.

1.6. However, based on the feedback contained in the consultation responses, and views expressed in a stakeholder workshop we held in November 2014, we decided to make a number of changes and clarifications to the Scheme. We outlined these changes and clarifications in 'The findings of our review of the Fuel Poor Network Extension Scheme' document we published in March 2015. The changes included:

- a decision to increase the fuel poor connection targets set for each GDN at the start of the RIIO-GD1 price control period
- to extend the Scheme to support district heating solutions
- amending the eligibility criteria GDNs and their partner organisations use to identify households who can access support offered by the Scheme
- publishing a standardised voucher calculator to be used by the GDNs to calculate the value of fuel poor vouchers

1.7. The March 2015 Document also asked for the views of interested stakeholders on how the proposed changes could be incorporated into the Scheme. The specific issues, on which we sought views were:

- what amendments were required to the voucher calculation to make sure it can calculate a value for district heating schemes
- what assumptions should be made for the gas consumption of district heating connected households and Combined Heat and Power (CHP) units attached to a gas mains connection
- if any changes are required to the Scheme's partnership eligibility criteria to support district heating projects being taken forward
- can the Scheme be modified to better enable connections for eligible households located on iGT networks
- views on the proposed changes to the partnership approval process and obligations of the partner organisations
- views on using the Typical Domestic Consumption Value (TDCV) as the source of average gas consumption in the voucher calculation
- views on implementing a fuel poor incentive mechanism to encourage the GDNs to outperform their fuel poor connection targets.

1.8. Following our March 2015 decision to revise the connection targets for the GDNs, we also asked the GDNs to re-submit their RIIO-GD1 business plan connection numbers outlining how many additional fuel poor connections they can make between 1 April 2016 and 31 March 2021.

1.9. We received 11 responses to the March 2015 Document, which included the GDNs revised forecast for the number of fuel poor connections for the RIIO-GD1 price control period. After analysing the GDNs revised forecasts, we published a minded-to decision document in August 2015¹¹ which outlined and sought views on setting new fuel poor connection targets and associated adjustment to the total expenditure of the GDNs.

¹¹ A copy of this document can be found here: <https://www.ofgem.gov.uk/publications-and-updates/consultation-changes-riio-gd1-connection-targets-under-fuel-network-extension-scheme>

1.10. This decision document contains our final decision on the:

- consultation questions we asked in March 2015
- revised fuel poor connections targets for the GDNs and the associated adjustment to the total expenditure allowance for the GDNs.

Structure of this document

1.11. The document is structured under the chapter headings below.

- **Chapter 2:** Recap of the decisions made in March 2015

In this chapter we summarise the decision made in the document we published in March 2015.

- **Chapter 3:** Decision on administrative changes

In this chapter we explain our decision on the changes we made to the partnership approval process, source of the average gas consumption number used to calculate the voucher value and transition arrangements for eligibility criteria between now and 31 March 2016.

- **Chapter 4:** Decision on introduction of the Fuel Poor Incentive Mechanism

In this chapter we explain our decision to implement the Fuel Poor Incentive Mechanism and outline the licence change consultation process.

- **Chapter 5:** Extending the Scheme to cover District Heating

In this chapter we explain our decision on district heating connections that are eligible for support under the Scheme.

- **Chapter 6:** Independent Gas Transporter Networks

In this chapter we set out our view on how more fuel poor connections can be taken forward on iGT networks

- **Chapter 7:** Decision on fuel poor RIIO-GD1 revised connection targets

In this chapter we explain our decision on revised fuel poor connection targets.

- **Chapter 8:** Implementation

In this chapter we outline the process and timescales for implementing the changes we will make to the Scheme.

2. Recap of the decisions made in March 2015

Chapter Summary

This chapter summarises the decisions we made in the 'Findings of our review of the Fuel Poor Network Extension Scheme' document published in March 2015 to revise the Scheme.

2.1. In March 2015, we published our findings of the review of the Scheme which we initiated in August 2014. We confirmed that the Scheme will continue for the rest of the RIIO-GD1 price control period, that it would remain self-financing, that vouchers will continue to be used to provide a discount to eligible households and that we will approve the partner organisations the GDNs propose to work beside to deliver the Scheme.

2.2. In the March 2015 Document, we also set out some decisions in relation to the Scheme, on which we consulted stakeholders through our open letter of August 2014. This chapter summarises those decisions.

Increased connection targets

2.3. We stated that we believe the GDNs could connect more eligible households during the price control period than originally envisaged when we set the Scheme's connection targets. This was because of:

- GDNs' increased experience of delivering fuel poor connections under the Scheme
- the announcements made by us and national and devolved governments to assist off-gas grid low income and vulnerable consumers
- the revisions we proposed to the eligibility criteria
- our proposal to extend the Scheme to cover district heating.

2.4. We asked the GDNs to re-submit their business plan numbers outlining the number of fuel poor connections they can make in the RIIO-GD1 price control period. This was in order to help us determine the revised connection targets that should be set for each GDN.

Incorporating district heating projects

2.5. We stated our decision to extend the Scheme to incorporate district heating projects connected to a mains natural gas supply, where this is the best solution to assist the eligible fuel poor and vulnerable household. We asked for stakeholders

views on the specific changes that could be required to the voucher calculation and other aspects of the Scheme to extend it to cover district heating projects.

Fuel Poor Incentive Mechanism

2.6. We decided to introduce and consult on the Fuel Poor Incentive Mechanism to encourage the GDNs to exceed their fuel poor connection targets. Our March 2015 Document sought views on the Fuel Poor Output Incentive Mechanism we proposed to implement.

2.7. GDNs would be rewarded under this new mechanism for continuing to deliver connections (at efficient costs) above a target set by us, providing assistance to an even greater number of fuel poor and vulnerable consumers. GDNs who under-perform against the target we have set will be penalised under the incentive.

2.8. We outlined that the incentive would require the GDNs to report to us on their performance on delivering fuel poor connections at the end of the RIIO-GD1 price control period. The GDNs would then receive a 2.5% reward or penalty on the number of connections exceeded or under-performed against their connection targets. A GDN who over or under delivers against their target, will also have the excess or shortfall offset against output commitments set in the next price control period, or trued up at the end of RIIO-GD1 depending on the role of the scheme in RIIO-GD2.

Revised eligibility criteria

2.9. In our March 2015 Document we set out our decision to revise eligibility criteria for the Scheme to make sure it incorporated changes to the government's definition of fuel poverty in England and other changes related to the amendment and or discontinuation of related initiatives. Our decision to review the criteria was made after considering stakeholder responses to the August 2014 consultation.

2.10. The revised eligibility criteria will apply from 1 April 2016. The March 2015 Document summarises the consultation responses we received and the changes we will make to the criteria. The new eligibility criteria can be found in the Scheme summary document that can be found in the March 2015 Document.

Standardised voucher calculator

2.11. To ensure consistency in the calculation of the fuel poor voucher, we published a standardised voucher calculator which we expect the GDNs to use from 1 April 2016. The calculator provides guidance on the inputs GDNs should use when calculating the NPV of future transportation revenues.

2.12. A copy of the calculator can be found in the March 2015 Document.

3. Decision on administrative changes

Chapter Summary

This chapter summarises the administrative changes we are making to the Scheme including changes to the Ofgem partnership approval process and the source of the average gas consumption value. This chapter also sets out transition arrangements on the eligibility criteria, between 30 September 2015 and 31 March 2016.

Partnership approval process

3.1. In the March 2015 Document we sought views on the changes to the:

- partnership approval process and
- the obligations of the partner organisations.

3.2. Our current approach to the approval of partners is outlined in section 4 of the *Final position on the non-gas fuel poor network extension scheme*.¹² In summary, once a GDN has identified a partner it would like to work with, they complete a standardised questionnaire which is submitted to us for assessment. The GDN must demonstrate in its responses to the questionnaire that its partner fulfils two key criteria. These criteria are that the proposed partner:

- provides funding for 'in-house' works; and
- has appropriate screening process in place such that funds are targeted at fuel poor/vulnerable households.

3.3. If we consider that the GDN has adequately demonstrated its proposed partner fulfils these two criteria, then the partner will be approved. If we consider that the GDN has not adequately demonstrated that its proposed partner fulfils the relevant criteria, we can either ask for further clarifying information or we can refuse approval of the proposed partner.

3.4. We proposed to introduce some improvements to the process to make sure it follows the principles of best regulatory practice and safeguards the interests of the vulnerable consumers, and deterring any fraudulent activity. The changes we were proposing to introduce to the approval process are listed below:

¹² A copy can be found here: [final-position-non-gas-fuel-poor-network-extension-scheme 2011](#)

- once GDNs have explored the opportunity to work with a partner, they will be required to submit their completed partnership questionnaire to us for approval. We consider this completed questionnaire to constitute the GDNs' partnership application.
- in order for a potential partner to be approved, we will expect the GDN to demonstrate that its partner:
 - provides and/or facilitates funding for in-house works, for example procuring funding for in-house works by contacting suppliers of other schemes such as ECO.
 - has screening processes in place which use the Scheme's eligibility criteria to identify households eligible for the Scheme.
 - in addition to the above already existing partnership approval criteria, we propose to introduce an additional criterion to the assessment of partners, which will aim to ensure that a gas connection is the best solution for the consumer. In order to meet this additional criterion, the partner needs to demonstrate that it has the ability to, and will assess, if a gas connection under the Scheme is the best solution to meet the needs of a household that is eligible for the Scheme. This assessment will entail checking if there are other fuel options which would better serve the needs of that household.
- we will introduce a requirement for GDNs asking them to explicitly confirm that their proposed partner meets the Scheme eligibility criteria. This assurance will be provided when GDNs complete the revised partnership questionnaire. The questionnaire contains a box which the GDNs must tick, confirming that they consider that their proposed partner meets the Scheme eligibility criteria, before the assessment process can begin.
- Finally, we will endeavour to process each application received within one month from the date we deem the submitted application to be complete. We will review the information provided and will make an assessment based on the criteria outlined below.

3.5. We emphasised again our view that a GDN working with an approved partner to be essential to ensuring fuel poor vouchers are awarded effectively to eligible households. Consequently, the GDNs should not undertake any connections with their chosen partners before the partner has been approved by us. Failure to comply with this requirement may lead us to disallow any connection payments made by the GDN and make a legacy adjustment at the next Price Control.

Consultation responses

3.6. Respondents to the March 2015 Document agreed with our proposed changes to the partnership approval process. Some respondents raised a few issues for us to consider further, around ensuring that a gas connection is the best cost option for the fuel poor and vulnerable household concerned.

3.7. Wales and West Utilities (WWU) requested our view on what would happen if a customer requested a gas connection even if it was not the best cost option. They proposed the customer should be provided with a comparative report which clearly outlines the costs of each option. This would outline clearly to the customer that gas was not the best cost option available to them.

3.8. WWU also raised concerns about the consistency and practicality of demonstrating that a gas connection is the best cost option. They noted they are working with partners to establish a model to show the whole life costs for different energy solutions assessed over a 15 year period. However, different GDNs and partners may use their own models with different factors meaning a property qualifying in one area would not qualify in another. They stated they are working with other GDNs to share thinking and to develop a consistent approach.

3.9. National Grid Gas Distribution (NGGD) considered that a check to ensure gas is the best cost option may not be necessary. They believe the market and available funding would be effective in making sure the best cost option was installed for the customer.

3.10. The Welsh Government stated they were content with the one month timescale for us to make a decision on a completed application. The Scottish Government supported the additional check to make sure gas is the best cost option.

Decision

3.11. We have decided to implement all changes outlined in the March 2015 Document on partnership approvals. In our view, these changes will improve the partnership approval process and make sure GDNs are working with partner organisations who can best deliver fuel poor connections under the Scheme. We also consider that our proposed changes follow the principles of best regulatory practice by ensuring that a check remains in place against the GDN partner submissions up-front, therefore helping to safeguard the interests of the vulnerable consumers and deterring any fraudulent activity.

3.12. We note the concerns raised by respondents about the check to make sure gas is the best cost option for the consumer. In our view, this check will ensure that the best outcome for the eligible household is achieved. We believe it is unlikely that an eligible household will opt for a more expensive connection option if it is clearly demonstrated and explained to them that cheaper options are available.

3.13. We acknowledge that market forces will largely determine the best connection option for the eligible household. However, we believe it is important that it is fully explained to consumers what types of connection are available to them, and the analysis undertaken by GDNs and their partner organisations to determine the best option. Providing this information will help the consumer understand the potential benefits of the solutions being offered to them under the Scheme and reassure them that they will see tangible benefits from it.

3.14. We expect GDNs to work together to develop and identify the best practice which will help to deliver more fuel poor connections under the Scheme. This includes developing processes to identify the best solution for the eligible households. We encourage any work in this area to continue.

Average Gas Consumption Value

3.15. In our March 2015 Document we sought views on our proposal to use the medium Typical Domestic Consumption Value (TDCV), published and updated periodically by Ofgem, as the source of the average gas consumption value in the calculation of the fuel poor voucher.

3.16. One of the variables required to calculate a fuel poor voucher is the average gas consumption value, which reflects the average amount of gas consumed by a household on an annual basis. When we initiated our review of the Scheme in August 2014, we proposed that we would revise the average gas usage figure from 19,000kWh to 15,000kWh. This was to reflect declining levels of gas usage and a consumption figure which was, at that time, being used by DECC.

3.17. We received a number of responses to this proposal. The GDNs agreed that the average gas usage has declined, but noted that a reduction may impact on the number of connections carried out under the Scheme. A number of non-GDN stakeholders disagreed with the proposal. They were concerned the change would reduce the value of the voucher, resulting in more households having to make a capital contribution towards the connection (which would reduce uptake of the Scheme). Stakeholders also highlighted that a reduction in the voucher value would reduce any 'surplus' between the actual cost of the connection and the total value of voucher which could be used for other works such as for in-house works.

3.18. Our view was that gas consumption has decreased in recent years and the figure of 19,000kWh is no longer an appropriate average. We also acknowledge that a lower average gas consumption value reduces the total value of the voucher; however this should not be a reason for persisting with a consumption value that no longer reflects that which it purports to. The Scheme is designed to be self-financing i.e. each connection it delivers should pay for itself over 45 years, without being subsidised by the generality of consumers. If an incorrect average gas consumption figure is used when calculating the voucher, the voucher value will be artificially too high or too low. The voucher value will no longer reflect the value of the future transportation revenues that the GDNs will recover from the household for the connection. As a result, in the scenario where voucher value is artificially high, some of the fuel poor discount will be funded by the general gas consumer. This would entail a fundamental change to the underlying principle of the Scheme.

3.19. In the March 2015 Document, we consulted on our proposal to use the average gas consumption value from the gas TDCVs that we publish. We proposed to use the medium gas TDCV from this source as it would be more reflective of gas consumption of a typical domestic customer. Our rationale was that the medium gas TDCV is derived by averaging the two most recent median gas consumption values. It does not take into account outliers (ie the consumers with particularly high or low

consumption) unlike the 15,000kWh which is a mean value. The outliers could be vulnerable households but they could be non-vulnerable households as well. Therefore, it is appropriate to exclude outliers from the calculation, which TDCV effectively does and a mean figure does not.

Consultation responses

3.20. Respondents to the March 2015 Document were split on our proposal to use the medium TDCV figure published by Ofgem as the source for the average gas consumption number. Three respondents, Northern Gas Networks (NGN), WWU and Scotia Gas Networks (SGN), agreed with the proposal. They noted it supports the Scheme's self-financing principle.

3.21. NGGD, the Scottish Government and the Welsh Government, disagreed with using the TDCV. The Scottish Government recommended we use regional average gas consumption figures, as it would make sure the voucher value takes account of regional differences in gas consumption, NGGD and Welsh Government did not suggest alternative source.

3.22. The Welsh Government noted that using the TDCV may require households to make a larger contribution to cover connection costs and would have a disproportionate effect in parts of the country where connections costs are high. Consumers in these areas would be required to make up a shortfall to meet connection costs compared to consumers in other parts of the country.

Decision

3.23. We have decided to use the medium TDCV, published by us periodically, as the source of the gas consumption number. In our view, the medium TDCV is the best source of data available to us which most accurately reflects typical household gas consumption.

3.24. As explained above, it is important that an accurate estimate of typical gas consumption is used to calculate the voucher value. This will make sure the Scheme remains self-financing. Using an inaccurate estimate could break this principle and mean costs associated with delivering fuel poor connections under the Scheme are spread across the generality of gas consumers. For these reasons, we consider that the TDCVs are the most appropriate source for the average gas consumption number.

3.25. We consider that the TDCVs provide a consistent and transparent source of typical gas consumption. The TDCVs, and the methodology used to calculate them, are available on our website and any changes to them are publically consulted on. The TDCVs are calculated using data contained in DECC's gas consumption statistics. These statistics are classed as National Statistics and allow for robust analysis of gas consumption over time. The data covers Great Britain and is provided annually by DECC.

3.26. We acknowledge that some respondents are concerned that the TDCVs may underestimate gas consumption in certain geographic areas or certain groups of consumers. No evidence has been presented to us, which clearly demonstrates that this is the case. In particular, none of the respondents to the March 2015 Document provided another data source for the average gas consumption number which is as transparent and statistically rigorous as the TDCVs.

Eligibility criteria: Transition arrangements between 30 September 2015 and 31 March 2016

3.27. In our March 2015 Document we set out our decision to revise the Scheme's eligibility criteria from 1 April 2016.¹³ The changes we made included:

- a change to the proportion of low income areas defined by the Government's Index of Multiple Deprivation that is eligible for support.
- changes to update the energy support schemes households must qualify for to receive support through the Scheme given some schemes were discontinued and or replaced by other schemes.
- removing the eligibility criteria related to qualifying for Carbon Emissions Reduction Target (CERT) measures given this scheme had ended December 2012.
- updating the fuel poverty definition to reflect the latest definition used in England.

3.28. We noted above, under the eligibility criteria that are applicable till 31 March 2016, some support initiatives that households could be eligible for in order to qualify for the Scheme have ended. The changes we have made to the eligibility criteria of the Scheme to reflect discontinuation or replacement of such other support initiatives do not take effect until 1 April 2016.

3.29. We do not want the fuel poor connections to not be taken forward due to the timing of changes to the eligibility criteria. It is important to us that the Scheme continually offers support to fuel poor households throughout the price control period. We do not want the changes we propose above to introduce a break in offering support to fuel poor households.

3.30. The current eligibility criteria should be applied until 31 March 2016. However, we are content for GDNs and their partner organisations to apply the revised criteria in place of the current criteria, if:

- a fuel poor and vulnerable household does not qualify to receive support because parts of the current criteria no longer apply, for example one of the eligible energy support schemes is no longer operational

¹³ This can be found in appendix 5 of the March 2015 Document:
<https://www.ofgem.gov.uk/publications-and-updates/findings-our-review-fuel-poor-network-extension-scheme>

- the fuel poor and vulnerable household does not qualify to receive support under the Scheme through any of the other current criteria but might be eligible using the new criteria.

3.31. We consider this solution to be a pragmatic approach to make sure support is always available to fuel poor and vulnerable households through the Scheme. It will resolve a short term issue that could potentially impact on a small number of households who could qualify for support but would be prevented from doing so due to the timing of the changes to the eligibility criteria.

Future potential changes to the eligibility criteria

3.32. In setting the eligibility criteria for the Scheme, our approach has been to use criteria that either reflect commonly used proxies of fuel poverty or are employed for related measures. This approach helps to ensure that households that benefit from the Scheme are equally likely to benefit from other forms of assistance to provide a comprehensive solution to the eligible households and it also ensures various categories of fuel poor and vulnerable consumers are covered by the Scheme.

3.33. We acknowledge that the related initiatives we use in the eligibility criteria could be subject to change before the end of the RIIO-GD1 price control period. We cannot predict if or how these related initiatives might change in the future as they are administered by national and devolved governments.

3.34. However, we consider it appropriate for us to revise the eligibility criteria for the Scheme should a criterion change or becomes redundant due to amendments to relevant initiatives made by its owner. We consider this solution to be a pragmatic approach to make sure support is always available to fuel poor and vulnerable households through the Scheme. However, this does not mean that we will revise outputs on the Scheme because RIIO-GD1 allows for one opportunity to revise the output/Scheme. We would still expect the GDNs to make reasonable endeavours to achieve their targets set out in chapter seven, should the criteria be revised again in the future.

4. Decision on the fuel poor incentive mechanism

Chapter Summary

This chapter sets our decision on the Fuel Poor Incentive Mechanism

4.1. The March 2015 Document outlined our intention to introduce a fuel poor incentive mechanism to encourage GDNs to exceed their fuel poor connection targets and we invited views from the stakeholders on our proposal.

4.2. At the end of RIIO-GD1 we will require the GDNs to report on their performance on delivering fuel poor connections. Where a GDN outperforms their fuel poor connection targets, the GDN must demonstrate that the additional connections were justified and it was in the consumers' interest.

4.3. The GDNs will be rewarded or penalised depending on any over or underperformance in delivering fuel poor connections under the Scheme against their connection targets. The GDNs will receive 2.5 per cent reward or penalty of the assessed efficient costs of the over or under performance.

4.4. Any under or over delivery of the output will be offset against any output commitment agreed as part of RIIO-GD2, the next price control period. If the Scheme does not continue beyond RIIO-GD1, we will make the appropriate legacy adjustment at the beginning of RIIO-GD2.

Consultation responses

4.5. Three respondents to the March 2015 Document, WWU, SGN and the Scottish Government, broadly supported introducing the mechanism. WWU said they would like to see more information in order to be sure there are no unintended consequences if the mechanism is implemented. They also thought it would be sensible to have a review period before any financial penalty for under-delivery of fuel poor connections is levied.

4.6. SGN said they supported the incentive but suggested several ways it could be enhanced. This included applying no penalty where the GDN has achieved its original RIIO-GD1 target, the reward for delivering more fuel poor connections should not be capped, and we should re-assess the mechanism before the end of the RIIO-GD1 price control period to make sure it is fit for purpose.

4.7. WWU asked for further information on the Scheme to understand how it will work. SGN stated that the cap for the potential penalty/ or reward should not be set at 2.5%. SGN said GDNs should be incentivised to achieve the maximum number of fuel poor connections. Placing a cap on the potential reward will not incentivise

additional fuel poor connections above the 2.5% threshold of the re-forecasted fuel poor connection targets.

4.8. NGGD and the Welsh Government requested more information on the incentive, in particular, so they can be certain it is consistent with other Network Output Measures. NGGD requested that GDNs are able to re-forecast their fuel poor volumes at least one more time before the end of the RIIO-GD1 price control period.

4.9. NGN considered no further financial incentive mechanism is required to deliver more fuel poor connections under the scheme.

Decision

4.10. We have decided to implement the fuel poor output incentive mechanism. We consider it appropriate to encourage GDNs to outperform their connection targets to assist the fuel poor and vulnerable households.

4.11. The incentive will apply to the revised target set by us. The revised target is explained in detail in Chapter 7.

4.12. The fuel poor incentive mechanism will require each GDN to submit a report at the end of RIIO-GD1 which must outline how many fuel poor connections they delivered against their targets. Following an Ofgem review of the reports submitted by the GDNs:

- if a GDN has justifiably delivered more fuel poor connections than their revised target, they will be rewarded in RIIO-GD2 with 2.5% of the efficient additional costs related to the additional connections delivered. We will also make a legacy adjustment to the GDNs allowances in RIIO-GD2, with the efficient costs GDNs have incurred, to deliver the additional connections above their target
- if a GDN delivers less fuel poor connections than their revised target, they will be penalised 2.5% of the avoided costs associated with the under-delivery and be expected to deliver the shortfall in their connections targets in RIIO-GD2 but will not be provided additional allowances in RIIO-GD2 to deliver this shortfall in connections. If the Scheme does not continue beyond RIIO-GD1, we will make the appropriate legacy adjustment at the beginning of RIIO-GD2.

4.13. We will publish a statutory consultation in October 2015 to implement this mechanism. This statutory consultation will set out the changes we will be making to the GDN licences to implement the incentive.

5. Extending the Scheme to cover district heating

Chapter Summary

This chapter sets out our final decision on whether changes are required to the Scheme to incorporate district heating

5.1. The March 2015 Document confirmed we would extend the Scheme to include district heating projects. To help us understand how best to do this, the March 2015 Document asked:

- the GDNs to submit a forecast of how many district heating projects they can connect during the RIIO-GD1 price control period
- questions to stakeholders on the potential administrative changes that need to be made to the Scheme to incorporate district heating targets.

District Heating Targets

5.2. Following our decision in March 2015, we published our minded-to decision document in August 2015, which outlined our decision not to set targets on the GDNs to deliver district heating connections. This was primarily because three of the GDNs, NGGD, NGN and WWU, forecast they would not connect any or very few households to district heating projects before the end of the price control period. They highlighted a lack of experience of delivering district heating projects, uncertainty over funding and lack of interest as some of the reasons why it is difficult to forecast a greater number of connections with certainty. SGN forecast they could make 902 district heating connections.

5.3. Based on the information we received from the GDNs, we considered it was not appropriate to include district heating connections in the total connections targets for each GDN for the Scheme for RIIO-GD1.

Consultation responses

5.4. Respondents were split on our decision not to set specific targets for district heating connection under the Scheme. NGN, NGGD, WWU and Energy and Utilities Alliance (EUA), agreed with our proposal not to set targets. SGN, United Kingdom District Energy Association (UKDEA) and the Association of Decentralised Energy (ADE), expressed disappointment with this decision and considered having no district heating targets would disincentivise the GDNs to deliver district heating connections.

5.5. NGGD also sought clarity from us on how district heating costs will be regulated and the voucher mechanism will operate. In particular, they asked us to clarify how efficient costs will be tested and if a fuel poor voucher will be available for every house.

Decision on targets for GDNs on District Heating

5.6. We have considered the responses we received from stakeholders. We continue to believe that it is appropriate for the Scheme to cover district heating connections but we have decided not to set targets on the GDNs to deliver district heating connections under the Scheme. This was because three of the GDNs are likely to make either no connections or a very low number of district heating connections.

5.7. Given we continue to believe the Scheme should cover district heating projects, where it is an appropriate solution for fuel poor and vulnerable households, we are introducing an additional mechanism within the Scheme. Under this mechanism, following our review, we will make a legacy adjustment in RIIO-GD2. This legacy adjustment would be based on the efficient costs of district heating connections that are made under the Scheme, in the remainder of RIIO-GD1. The GDNs would need to demonstrate that any such district heating connection, along with being delivered at efficient costs, also meet the following additional criteria:

- the connection benefits fuel poor consumers who are eligible under our eligibility criteria for the Scheme and has been delivered using an approved partner
- the connection is made post 1 April 2016¹⁴
- the fuel poor connection is self-financing – the GDNs supplying gas to a district heating scheme recovers the cost of connection used in the voucher calculation from the fuel poor connected customer
- the voucher value is calculated using the Ofgem standardised voucher calculator published in as part of our March 2015 Document.¹⁵

5.8. SGN state in their response that they were unsure why we are only allowing eligible costs to be added the Regulatory Asset Value (RAV) of GDNs for district heating connections made after October 2015. They believe that all efficient costs relating to district heating projects delivered from the start of the RIIO-GD1 price control period should be added to the RAV.

5.9. We will review fuel poor district heating connections at the end of the price control. GDN's must also report annually from as part of the RIGs¹⁶ the workload and associated costs on district heating connections made from date of this decision. As

¹⁴ Although if, following our final proposals in September 2015 on revised connections targets, GDNs are able to make district heating connections between October 2015 and 1 April 2016, we will consider efficient cost of such connections for RAV additions where they also meet the additional criteria (a), (c), (d) set out on this page.

¹⁵ The calculator can be found in appendix 7: <https://www.ofgem.gov.uk/publications-and-updates/findings-our-review-fuel-poor-network-extension-scheme>

¹⁶ GDNs report to Ofgem annually their price control performance, this is known as the Regulatory Instructions and Guidance (RIGs)

part of this review of district heating connections at the end of the price control, we will also consider costs incurred by SGN prior to October 2015 on district heating connections, but currently it is not clear to us through SGN's reporting on their first and second year of RIIO-GD1 annual reporting, how the costs and workload for such connections are reported.

Administrative changes to incorporate District Heating

5.10. In the March 2015 Document, we asked for stakeholder views on what changes would be required to the Scheme to incorporate district heating solutions. In particular, we asked for responses to three questions:

- Question 1: Do you think the partnership eligibility criteria for the Scheme should be amended to support the inclusion of district heating and if so, how?
- Question 2: What calculations should be made for: 1) gas consumption of the CHP unit and for the individual district heating connected households; 2) asset life over which the connection costs are recovered
- Question 3: How do you think the voucher calculation should be amended for funding district heating schemes? From which party would the future gas transportation revenue be recovered?

5.11. We outline the responses we received to each of these questions and our final decision below.

5.12. When undertaking district heating project to assist eligible households, we expect GDNs to comply with the decisions we have outlined in this Chapter. This will ensure consistency in delivery and treatment of district heating projects.

Question 1: partnership eligibility criteria

5.13. GDNs work with partner organisations to deliver the Scheme. The partner organisations are approved by us, based on a set of eligibility criteria. In the March 2015 Document we asked for views on whether this eligibility criteria for partners should be amended to support the inclusion of district heating solutions under the Scheme. The eligibility criteria for partners we set, ensures that GDNs select and work with appropriate organisations to deliver fuel poor connections.

Consultation responses

5.14. NGN and WWU suggested that no changes were required to the partnership eligibility criteria for district heating projects. They consider that the current criteria can be applied to both gas and district heating projects without any amendments.

5.15. NGGD, SGN and ADE requested that we make sure the partnership eligibility criteria are set so as to ensure district heating projects can be taken forward. Respondents also noted that it is important that partner organisations demonstrate they have ability to deliver district heating projects. They suggested it is important to 'screen' organisations to make sure they have sufficient expertise.

5.16. SGN considered the proposed Partnership Approval Template should be expanded to identify type of project which would be beneficial for the eligible household, including whether it is a district heating project. This would also allow Ofgem to identify what type of projects – i.e. one-off connection, district heating scheme – are being taken forward by GDNs and their partner organisations.

Decision

5.17. We have considered the stakeholder responses and the existing partnership eligibility criteria. We have concluded that no changes are required to the partnership eligibility criteria in order to take forward district heating projects within the Scheme.

5.18. Some respondents wanted us to ensure the partnership eligibility criteria are set so as to ensure district heating projects can be taken forward. The partnership eligibility criteria seek to make sure partner organisations have the necessary abilities to deliver fuel poor connections. As part of our review of the Scheme we already have introduced a new criterion (as describe in Chapter three of this document) where partner organisation needs to demonstrate the ability to check if a gas connection is the best solution available for the fuel poor and/or vulnerable household concerned. This would ensure all solutions, including district heating solutions to assist the fuel poor and/or vulnerable household are considered.

5.19. In our view, keeping the criteria the same would also make them technology neutral as they would apply to both mains gas and district heating and not favour one solution over the other. This would ensure most appropriate solution is provided to the eligible household.

Question 2: gas consumption and asset life assumptions for district heating solutions

5.20. In the March 2015 Document we asked for views on what calculations and assumptions should be made for the consumption of Combined Heat and Power (CHP) units and individual district heating households.

5.21. We also asked for stakeholders to provide a view on what asset life we should assume for district heating assets. This will be the time period over which the connection costs related to district heating projects will be recovered by GDNs.

Consultation responses

5.22. There was no consensus in the responses about the calculation or assumptions that should be used for the gas consumption of the CHP unit and individual eligible households connected to district heating.

5.23. NGN, ADE and the UKDEA considered it is difficult to have standard assumptions for the gas use of a CHP unit due to differences in size and usage requirements. Other respondents considered the gas consumption figure should be obtained from the CHP unit operator.

5.24. NGN and ADE considered that that gas consumption assumption for individually connected district households could be calculated by converting the TDCV gas consumption figure to a heat load equivalent. One respondent noted that gas and heat consumption should be more or less equivalent with the only difference being gas used for cooking purpose which accounts for only 2.5% of the typical gas consumer consumption.

5.25. The majority of respondents (six in total) agreed that a 45 year asset life should be assumed for district heating projects. This would maintain consistency with the asset life assumption in the RIIO-GD1 price control.

Decision

5.26. We have considered the responses to the consultation. We have concluded that it is appropriate to use the average gas consumption number as a proxy for the average heat consumption number in the calculation of voucher for district heating projects. This is because we consider that the average gas consumption number can be considered broadly reflective of the heat requirements of district heating connected households. We also believe that using the average gas consumption number for calculation of voucher values for gas or district heating connection for eligible households will maintain simplicity and consistency.

5.27. We have decided the asset life assumption in calculation of vouchers for district heating projects should be 45 years. This is because we consider that district heating assets have the same average expected economic life as other gas distribution assets. Our decision is in line with what the stakeholders have said i.e. the district heating systems should not have a significantly different engineering life expectancy to other gas distribution assets.

Question 3: voucher calculation and recovery of transportation revenue

5.28. When taking forward community or one-off connections to the gas network, GDNs use an economic test and voucher calculator to calculate what support is available to the eligible fuel poor consumer. They calculate the value of support that is available using the voucher calculator. The newly connected customer pays for that cost through their bills, which in most instances GDNs recovers through the suppliers, over a 45 year period.

5.29. We wanted to understand if this process needed to be amended when considering district heating connections.

Consultation responses

5.30. Respondents to the March 2015 Document emphasised they want a consistent voucher calculation for gas and district heating schemes. In particular, several respondents considered that no fundamental change was required to the voucher calculation in order to incorporate district heating projects.

5.31. There were several views about which party future gas transportation revenues should be recovered from. WWU considered transportation revenue should be recovered from the customer through the supplier who is contracted to deliver gas to the communal meter. SGN considered future transportation revenue should be recovered from the shipper who supplies gas to the district heating scheme.

5.32. Some other points were noted by respondents to this question as well. UKDEA cautioned that GDNs should not profit unfairly from district heating schemes as the cost of delivering a gas connection to a single point will be lower compared to delivering gas connections to multiple points. The Welsh Government suggested that the voucher value should reflect installation costs and not gas usage assumptions. This is to make sure fuel poor customers in rural areas, where connection costs are typically higher, will not be disadvantaged when accessing funding.

Decision

5.33. We have considered stakeholder responses. We have concluded that no significant changes are required to the voucher calculation where district heating is a solution to assist the fuel poor or vulnerable household is provided. The four variables¹⁷ which are used to calculate the voucher value for one-off and community connections also apply to district heating projects and should be used by the GDNs when determining the level of support available to the eligible households.

5.34. We consider this decision is in line with our aim to keep the Scheme simple and straightforward to administer. This will help GDNs and their partner organisations identify eligible households and calculate the appropriate voucher value. It was also help households understand and access the support that is available through the Scheme.

5.35. We do not consider the voucher calculation should be changed to one based on installation costs. The Scheme operates by calculating a voucher value based on the cost of the connecting the fuel poor household to the gas main, where the CHP unit is fired by the gas main. The Scheme's underlying legal requirement is so that the cost of the CHP unit is not cross-subsidised or subsidised by the generality of GDN consumers. As a result, the voucher calculator will be based only on the connection costs associated with connecting the CHP unit to the gas main and not full installation charges.

5.36. We have also concluded that GDNs should recover the future gas transportation revenue from the party that is responsible for billing the newly connected customer. This would keep consistency with billing and revenue recovery arrangements for gas connection projects under the Scheme.

¹⁷ The voucher calculator is based on four variables: 1) the average gas consumption value; 2) a discount factor; 3) gas distribution transportation charges; 4) the regulatory asset life. The details of these variables are set out in our March 2015 Document on page 21. [The findings of our review of Fuel Poor Network Extension Scheme](#)

6. Independent Gas Transporters networks

Chapter Summary

This chapter sets our view on the process to connect fuel poor households on the Independent Gas Transporters (iGT) networks.

6.1. In our consultation of August 2014 we asked if we should make any other changes to the Scheme to maximise its benefits. We received some responses requesting us to consider how eligible households on a network, adjacent to a GDN network, operated by an iGT can benefit from the Scheme. We note that to date limited connections have been made under this Scheme to iGT networks.

6.2. We are committed to ensuring the needs of vulnerable households are met, regardless of whether they connect to a GDN or iGT network. We have explained previously (in Appendix 3 of our 2011 decision) how iGTs can participate in the Scheme. We stated that “with respect to gas transportation, iGTs would be able to compete to own/operate a network extension against GDNs in this market by allowing them to offset the cost of the connection with a contribution received from the GDN.” The GDN contribution should be based on a proportion of the cost of the connection based on the GDN share of the NPV of future gas transportation revenue. The contribution is used by the iGT to discount the cost of connecting eligible households. The GDN is able to recover its contribution in subsequent price controls by adding its contribution to its Regulatory Asset Value (RAV), at the end of the current price control in which the connection is delivered.

6.3. In addition to the arrangement that already exists, in the March 2015 Document we requested for stakeholder views on how the Scheme could be modified to better enable gas connections for eligible households located adjacent to an iGT network.

6.4. As explained earlier in the document, we also requested GDNs to re-submit their business plans on connections they can make under the Scheme. We published our minded to decision on revised connection targets for GDNs in August 2015.

Consultation responses to March 2015 Document

6.5. We received a joint response from the GDNs and iGT to our March 2015 Document, which proposed a process to facilitate more connections on iGT networks. The process was developed jointly by the iGTs and the GDNs. The joint response stated the steps both iGTs and GDNs would take to assess and agree the fuel poor voucher amount. This included who would undertake the validity check, calculate the voucher value, complete any necessary work, and invoicing and cost pass through arrangements. We held a meeting with iGT and GDN representatives to discuss the process described in their joint submission more in detail.

6.6. Six other respondents to the consultation commented on this issue as well. One of the respondents suggested we need to review how the voucher costs are passed between GDNs and iGTs, and the treatment of single household customers on iGT networks to improve the number of connections.

6.7. We were encouraged that iGTs and GDNs showed commitment to helping the fuel poor and vulnerable household and worked in collaboration to respond to our consultation.

6.8. However, we consider that the process proposed by the GDNs and iGTs, would break the self-financing principle of the Scheme (described earlier in this letter). This is because their proposal could result in the cost incurred to connect eligible households under the Scheme to be subsidised by the generality of GDN consumers. We have therefore decided to reject this proposal. Our existing policy in this area, including the self-financing principle of the Scheme, will continue to apply.

6.9. Therefore in our minded to decision of August 2015, we stated that the current arrangements (as explained in para 6.2) would continue to apply and we will not be setting specific targets for GDNs for connections delivered on iGT networks.

Consultation responses to August 2015 Minded to Decision

6.10. Two GDN respondents to the minded-to decision document, SGN and NGGD, expressed disappointment that we are not adopting the joint process developed by the GDNs and iGTs. SGN considered the current Scheme framework is not entirely self-funding as an allowance is given to each GDN to facilitate fuel poor connections. This means that, in effect, non-fuel poor customers are subsidising this activity. They consider the joint iGT/GDN process does not give rise to any additional self-funding issues which do not already exist.

6.11. NGGD considered the current process means GDNs have to review the efficient costs incurred by the iGT when delivering fuel poor connections – in effect this makes the GDNs a pseudo-regulator. They consider the current process places additional risks on GDNs as they cannot be remunerated for fuel poor connection costs delivered on iGT networks until the end of the price control period.

Decision

6.12. We have considered the responses received to the March 2015 Document and minded-to decision document. We held a second meeting with the GDNs and iGTs to understand their concerns. We have concluded that no changes are required to the Scheme to deliver more fuel poor connections on iGT networks. The current arrangements continue to apply.

6.13. We will not be setting specific targets for GDNs for connections delivered on iGT networks.

6.14. In our view, the consultation responses and meetings highlighted a misunderstanding about how the costs of delivering fuel poor connections under the Scheme are financed through the price control. In our second meeting with GDNs and iGTs, we outlined again how the Scheme's self-financing principle works and why we considered the process submitted by the iGTs and GDNs would have broken this principle by allowing the GDNs to cross-subsidise the iGT connection costs they incur from the generality of their gas distribution consumers. On this basis, we have decided to reject the process. The Scheme is self-financing for gas connections made on a GDN network and we expect this to be the case for iGT networks as well.

6.15. In the second meeting, GDNs highlighted their concern that the risk associated with funding an iGT connection for them is higher compared to the connections they make under the Scheme on their own networks. We recognise there is an uncertainty over the number of connections that can be delivered by iGTs, but we consider that this risk within the context of their wider RIIO-GD1 price control settlement is relatively small.

6.16. We also consider that GDNs are not required to undertake any actions which would cause them to act as a 'pseudo-regulator'. The rationale behind not setting a target for GDNs to deliver connections on iGT network is to avoid GDNs regulating iGT costs.

6.17. Although we have not set targets for GDNs to connect fuel poor households on iGT networks, we expect GDNs to work together with iGTs to deliver connections to eligible households on iGT networks. To encourage the GDNs to work with various organisations we introduced the Stakeholder Engagement Incentive (SEI)¹⁸ and the Discretionary Reward Scheme (DRS)¹⁹ in RIIO-GD1. Under the SEI and the DRS, GDNs will be rewarded for effectively demonstrating to us that they are working with such organisations. We expect GDNs to use these mechanisms to demonstrate how they have worked in partnership with others to deliver the best whole-house solution for households eligible for the Scheme.

6.18. We will review connections delivered by GDNs on iGTs network at the end of the price control. GDN's must also report annually from as part of the RIGs the workload and associated costs on such connections made from date of this decision.

¹⁸ Stakeholder Engagement Incentive: <https://www.ofgem.gov.uk/publications-and-updates/stakeholder-engagement-incentive-level-reward-decision>

¹⁹ Gas DRS: <https://www.ofgem.gov.uk/publications-and-updates/decision-ofgem%E2%80%99s-governance-arrangements-gas-discretionary-reward-scheme-under-riio-gd1>

7. Decision on fuel poor connection targets

Chapter Summary

This chapter sets out our decision on revised fuel poor connection targets.

Revised fuel poor connection targets

7.1. In the March 2015 Document we concluded that the GDNs can connect more households under the Scheme than the existing target of 77,500. This was because:

- GDNs have accumulated experience of delivering the Scheme and are now better placed to revise their forecast
- we are proposing to extend the scope of the Scheme to cover district heating
- the revisions we have made to the eligibility criteria
- recent announcements made by us and the government to assist off-gas grid low income and vulnerable consumers should facilitate more connections.

7.2. We asked the GDNs to resubmit their business plan numbers outlining the number of fuel poor connections they can achieve between 1 April 2016 and 31 March 2021. We also asked the GDNs to submit a forecast of how many district heating connections they can make before the end of the RIIO-GD1 price control.

Our minded-to decision issued in August 2015

7.3. Following our March 2015 Document, the GDNs submitted their revised fuel poor connections forecast for RIIO-GD1 price control. We reviewed these forecasts and in our minded-to decision document in August 2015 set out the revised fuel poor connection targets that would apply to the GDNs and the adjustment we would make to the GDNs expenditure allowance for RIIO-GD1 to enable them to deliver the revised targets.

7.4. Table 1 below shows the original targets we set for RIIO-GD1 and the revised targets we proposed for each GDN. A full explanation of how we determined the revised connection targets can be found in minded-to decision document.

Table 1: Revised fuel poor connections for RIIO-GD1

GDN	RIIO-GD1 Original total targets	Additional connections	RIIO-GD1 revised total targets
East of England	10,080	1,966	12,046
London	2,880	0	2,880
North West	13,330	0	13,330
West Midlands	8,360	0	8,360
Northern Gas	12,000	2,500	14,500
Scotland	11,000	6,130	17,130
Southern	9,000	1,367	10,367
Wales and West	10,800	1,790	12,590
Industry	77,450	13,753	91,203
Additional connections			
National Grid Gas	34,650	1,966	36,616
Northern Gas	12,000	2,500	14,500
Scotia Gas Networks	20,000	7,497	27,497
Wales and West	10,800	1,790	12,590
Industry	77,450	13,753	91,203

7.5. In our minded to decision, we proposed to increase the total number of fuel poor connections target from 77,450 connections to 91,203 connections. This is an 18% increase in the total amount of fuel poor connections we expect the GDNs to deliver before the end of RIIO-GD1.

7.6. We decided not to set specific targets for GDNs on District heating and in relation to connections delivered on iGT networks.

7.7. We also stated that we are minded to make an adjustment to allowed expenditure of £15.9 million²⁰ to facilitate delivery of additional 13,753 connections under the Scheme. The increased allowed expenditure will have a neutral impact on the bills of the generality of GDN consumers because the self-financing principle of the Scheme.

7.8. We asked stakeholders views on whether they agreed with our minded to decision on revised connections targets and associated adjustment to allowed expenditure.

Consultation responses

7.9. Five respondents, including all the GDNs, responded to the minded-to decision document. All the GDNs agreed with the revised connection targets we propose. National Energy Action (NEA) considered the targets to be low and should be equal to the yearly connection rate achieved under the Scheme during GDPCR1.

²⁰ All financial values are in 2014-15 price base.

7.10. Respondents were split on our decision not to set specific targets for district heating connections under the Scheme. Four respondents, NGN, NGGD, WWU and Energy and Utilities Alliance (EUA), agreed with our proposal not to set specific targets on district heating. Three respondents, SGN, UKDEA and ADE, expressed disappointment with this decision and considered having no district heating targets would be a disincentive to the GDNs to deliver district heating connections.

7.11. Two respondents, SGN and the EUA²¹, agreed with the adjustment to allowances required to deliver the additional fuel poor connections.

7.12. Five respondents, including WWU, NGN, NGGD, NEA and AIGT, were against the proposed adjustments to allowed expenditure. The GDN respondents disagreed that the unit costs should be based on one year of cost data. They suggested we should use two years' worth of cost data which would produce more robust and precise unit costs. They stated the adjustments we calculated would not provide sufficient funding to cover the costs of the additional fuel poor connections. One respondent also suggested we should benchmark the costs of community projects separately from the costs to deliver one-off connections.

7.13. NEA stated they cannot agree with the additional allowed expenditure as it is contingent on agreeing with the revised connection targets which they are opposed to. The AIGT considered that costs should be passed through to the GDNs in 'real-time' rather than at the end of the price control period.

Decision

Decision on revised connection targets

7.14. After considering the responses received to the minded-to decision document, we have decided to implement the revised fuel poor connection targets outlined in that document and Table 1.

7.15. In arriving at our decision, our analysis considered viability of the revised connection numbers submitted by each GDN and we gave due consideration to the supporting evidence provided by the GDNs. On balance, we have accepted the forecasts provided by the GDNs.

7.16. We consider setting targets based on the previous yearly connection rate achieved in the previous price control period would neither be methodologically or statistically sound. The targets we have set for the GDNs are based on a current assessment of the projects they can deliver over the next six years till 31 March 2021 taking into account available sources of funding, their existing customer base, the connections costs they are likely to incur and other forms of support that may be available. Adopting a forward looking approach such as this makes sure the targets are based on the current policy and funding environment consumers and the GDNs operate within. Basing targets on a historical connection rate i.e. the connection rate achieved within GDPCR1 will not take these factors into account. It would mean the

²¹ SGN did request their RAV adjustments were rounded up to the next whole number.

connection targets were based on the customer base accessible to the GDNs and the projects they could deliver in the previous price control period. As these factors will have changed substantially since then, it would be wrong to develop connection targets based on them.

Decision on adjustment to the allowed expenditure

7.17. We have also decided to update the GDN's allowed expenditure set out in our minded-to decision document (Table 2 of this Chapter) by an additional £1.7 million. This means, in total, the GDNs will receive an additional £17.6 million of allowed expenditure to facilitate delivery of the additional 13,753 connections under the Scheme, instead of £15.9 million as set out in our minded to decision. Our decision on the allowed expenditure is set out in Table 2.

Table 2: Final adjustment to allowed expenditure in RII0-GD1

GDN	Minded-to position August 2015 £m	Final decision September 2015 £m
East of England	£2.3 m	£2.5 m
London	£0.0 m	£0.0 m
North West	£0.0 m	£0.0 m
West Midlands	£0.0 m	£0.0 m
Northern Gas	£2.9 m	£3.2 m
Scotland	£7.0 m	£7.7 m
Southern	£1.7 m	£1.9 m
Wales and West	£2.0 m	£2.2 m
Industry	£15.9 m	£17.6 m
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National Grid Gas	£2.3 m	£2.5 m
Northern Gas	£2.9 m	£3.2 m
Scotia Gas Networks	£8.7 m	£9.6 m
Wales and West	£2.0 m	£2.2 m
Industry	£15.9 m	£17.6 m

7.18. The increase of £1.7 million resulted from a change to our unit cost methodology which was updated to include the GDNs' actual data submitted to us in their 2014-15 Regulatory Reporting Packs (RRPs). We therefore calculated a weighted average efficient unit cost based on the GDNs' two years' actual data.

7.19. We maintain our approach not to benchmark the costs of community projects separately from the costs to deliver one-off connections as the output target does not differentiate how the GDNs deliver fuel poor connections.

7.20. The overall increased allowed expenditure will have a neutral impact on the bills of the generality of GDN consumers. This is because the self-financing principle

of the Scheme means the additional allowed expenditure will be paid for by the newly connected gas network consumers under the Scheme over a 45 year time period.

7.21. We will not set specific targets for the delivery of district heating projects under the Scheme and connections to be delivered on iGT network by GDNs for RIIO-GD1. We outlined our decisions for not doing so in chapter 5 and 6 of this document. Although, we are not setting specific targets for GDNs in these two areas, we believe arrangements available under the Scheme and wider incentives on GDNs through the price control framework would encourage them to work with various organisations involved to deliver such connections, where they are the best outcome for the eligible households.

8. Implementation

Chapter Summary

This chapter explains how the changes which we are making to Scheme will be implemented.

8.1. All the changes we have made to the Scheme will take effect from 1 April 2016.

8.2. We will be issuing a statutory consultation on the GDNs' gas transporters licences in October 2015 to implement the new incentive mechanisms and revised connections output. We intend to publish the final licence modification decision notice after the statutory consultation period closes and we have considered any responses to it.

8.3. The final licence modification decision notice will have a 56 period before the licence changes contained within it take effect. This will allow any eligible party to challenge the decision notice to the Competition and Markets Authority. We intend the fuel poor output incentive mechanism will apply from 1 April 2016.