National Energy Action (NEA) response to Ofgem's RIIO-2 Draft Determinations

About National Energy Action (NEA)

NEA[1] works across England, Wales, and Northern Ireland to ensure that everyone in the UK[2] can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

Background to this response

In 2012, NEA developed a scoping study with Ofgem to explore how well-placed network companies are to deliver social action cost-effectively and support the alleviation of fuel poverty. Throughout ED1 and GD1, NEA has worked with Ofgem and the network companies to embed many of the recommendations and cultivate several projects which support low income and vulnerable households. Some of the main drivers for NEA's on-going collaborations and recent work with the networks include:

- Ofgem requiring networks and energy suppliers to enhance their work on the Priority Services Register (PSR);
- Requiring energy suppliers and Distribution Network Operators (DNOs) to be proactive in identifying 'need' and act on the stakeholder and collaborative incentives to trial new approaches which have a positive social impact at the same time as proving alternatives to conventional network reinforcement;
- Ensuring exemplar network innovation projects are developed and disseminated fully and encouraging network companies to ensure fuel poor and vulnerable households directly benefit from these innovation competitions and allowances;
- Encouraging the networks to deliver non-network solutions (either themselves and by partnering with others);
- Requiring Gas Distribution Networks (GDNs) to exceed the previous Fuel Poor Network Extension Scheme (FPNES) targets and supporting this activity on the ground;
- Ensuring GDNs provide more consistent advice and support for vulnerable households when they have to disconnect gas supply at properties when the boiler is deemed to be unsafe;
- Undertaking research and practical projects to raise awareness of the risks of Carbon Monoxide (CO) poisoning and acting on the key links between this and the risk of being in fuel poverty.

As well as directly supporting the delivery of ED1 and GD1, NEA has also ensured network companies are playing a key part in the delivery of the UK Government's Fuel Poverty Strategy. Alongside supporting the industries' efforts to develop new interactive mapping solutions for off gas grid homes[3] , NEA also undertook a review of progress toward meeting the 2021 gas connection targets. The report "In from the Cold"[4] underlined the value of First Time Central Heating (FTCH) as a key measure to address fuel poverty[5]. The report also found that at the halfway point, slower progress across England had been made compared to the other GB nations in the delivery of FPNES targets.[6] The constrained funding landscape for in-house measures was identified as a primary reason for this slower progress. This initially prompted the UK Government's £25m Central Heating Fund and the £150 million National Grid Warm Homes Fund. NEA has also championed the need for revisions to the Digital Economy Act to allow local authorities, public sector health bodies and energy network companies to undertake direct data matching process with the Department for Work and Pensions (DWP), independent of licensed gas and electricity suppliers[7]. Finally, NEA has extensively engaged with all four GDNs to help shape their business plans, through stakeholder meetings, workshops, and through NEA staff sitting on two CEGs as independents[8].

Summary of our response

As noted above, NEA has extensively engaged with Ofgem and all four GDNs to help shape this price control, and their business plans, through stakeholder meetings, workshops, and through NEA staff sitting on two CEGs as independents[9].

At the beginning of the process, NEA was pleased that Ofgem's approach to the new price control was focussed on consumer engagement, and that there was a strong focus on vulnerability. In particular, Ofgem announced three significant and promising proposals regarding vulnerable customers:

- The continuation of the Fuel Poor Network Extension Scheme (FPNES) which can ensure the poorest households are able to heat their homes more affordably
- The creation of a vulnerability licence condition, mirroring SLC0 within the supplier licence conditions, to ensure network companies are proactive in identifying and addressing their customer's 'needs'
- The Creation of a Use it or Lose it Allowance (UiLiA) to help provide necessary funding for projects which address consumer vulnerability during the price control

As a result of this emerging framework and our close scrutiny and challenge, NEA have been broadly pleased with how GDNs have taken these three proposals into their business plans. Whilst FPNES delivery targets have been low, Ofgem have looked to address this through providing a higher upper bound to connections, which is welcome. Promisingly, GDNs, in their business plans, put forward at least £47m worth bespoke ODIs which would ultimately provide help for their vulnerable customers. Disappointingly however Ofgem provisionally rejected these proposals with their draft determination. As noted below, these projects would have generated almost £164m in benefit to vulnerable customers (within the price control period), which would have had a total cost of approximately 30p on each annual gas bill. Whilst this draft determination was very disappointing, we believe Ofgem has an opportunity to make key improvements to ensure the final determination works in the best interests of vulnerable energy consumers. These key areas are explored in detail below but in summary they are:

- Ensure there is sufficient headroom within the UiLiA throughout the price control to enable GDNs to continue to support their most vulnerable customers.
- Set out a clear framework for GDNs to act on vulnerability during the price control. This should include a description and cumulative value of the types of activity areas that have been permitted within the ODIs, could be accessed via the UiLiA and/or innovation funding mechanisms
- Set out a clear timeframe for when the vulnerability licence condition, mirroring SLC0 within the supplier licence conditions, will be embed for network companies, for gas networks, this should be in advance of April 2021.

<u>Further detail of key areas to address:</u>

<u>Avoid Conflation between Optimising for Cost and Achieving Value for Money</u>

We are pleased that Ofgem have looked to generally reduce the costs of networks during the next price control, especially through financial metrics such as the cost of equity. Whilst we are not experts in finance, and therefore cannot comment on the detail of the setting of these metrics, we do believe that Ofgem have made a sincere, good faith attempt to 'trim the fat' through doing this in an attempt to optimise the cost of networks, and crucially, to reduce the financial burden of energy bills for households. This will undoubtedly have positive impacts for the end consumer.

We are however concerned that Ofgem have looked to further supplement this through additional cost cutting measures such as the rejection of almost all proposed bespoke ODIs, PCDs and CVPs. We assume that part of the rationale for this is to continue the attempt at optimising cost. This, we believe is a false economy. Whilst looking to drive costs down is admirable, the primary objective for Ofgem must be to obtain value for money for the end consumer, not simply to achieve the lowest cost.

Within the draft determinations, Ofgem repeatedly rejects vulnerability related ODIs with the same , or similar, rationale: *"The consumer vulnerability and CO safety use-it-or-lose-it allowance provides funding for this type of activity and the consumer vulnerability reputational ODI gives Cadent the opportunity to highlight its performance. We took a decision on the size of the allowance in our SSMD, and think it is appropriate to maintain an even distribution of funding across the GDNs to prevent a disparity of services available to consumers in vulnerable situations across GB."*

In the SSMD, Ofgem stated that *"We have decided to provide a £30m use-it-or-lose-it allowance for programmes addressing consumer vulnerability and CO safety that go beyond business as usual. We will implement this allowance using a flexible approach. We will not require the GDNs to set out specific initiatives in their Business Plans. This flexibility will allow the GDNs to continue to engage with partners, to adopt new ideas and strategies, and to address the changing needs of their customers throughout RIIO-GD2."*. There is no place within the SSMD that says the UiLiA is the only way by which vulnerability projects can be funded. It seems, therefore, that either:

- Ofgem made this decision as part of the SSMD, but did not communicate it to the GDNs
- Ofgem made the decision after the SSMD, without consultation, and without communicating it to GDNs.

The result of both of these is the same. That the preparation of vulnerability related ODIs, PCDs and CVPs by GDNs within their respective business plans, at significant effort, were destined to be rejected based on a decision that GDNs were not sighted on. Perhaps more worryingly, this decision seems not to have been consulted on, further reflecting the lack of consumer views that have fed into the overall decisions regarding vulnerability.

Furthermore, we are somewhat confused as to how the rationale for rejection of several proposals explicitly suggests that the UiLiA provides funding for that type of activity before the full guidance for UiLiA has been released or fully consulted on. We are generally disappointed at the lack of feedback given to proposals, and the lack of transparency over how Ofgem has taken customer views into account when making their decisions within the draft determination.

In sum, Ofgem has rejected £45m worth of projects with the rationale that they could be done using the UiLiA. Our calculations suggest that if companies submitted all of these projects into the UiLiA as is, then more than £20m would need to be rejected based on the UiLiA budget alone. As the projects submitted account for what customers want their GDNs to do, we believe that there are two options to rectify this. These are not mutually exclusive:

1. Consider increasing the UiLiA, using a reopener mechanism as described above
2. Reconsider the rejection of some of the ODIs, as explored above

This would allow the price control to more fully reflect customer views, and work in a better way to address the needs of vulnerable energy consumers at this challenging time.

Incentivising work on Vulnerability

Ofgem have repeatedly said that this price control has a focus on vulnerable consumers. In the GDN SSMD, it is remarked that *"Supporting and protecting consumers in vulnerable situations is a priority for us"* and "*we will consider interventions where consumers in vulnerable situations are at significant risk, the benefits of intervention are significant and the redistributed costs are low."* From the analysis we have carried out, and based on the observations made above, this does not seem to have been the case.

Firstly, NEA is extremely concerned that through the rejection of all bespoke vulnerability programmes, Ofgem have significantly constrained the incentive for GDNs to focus on vulnerability in this period, and believe that this could lead to several unintended consequences, including but not limited to:

- Fewer projects helping vulnerable customers will happen during the price control, and therefore households that are struggling the most will receive the less value than proposed.
- GDN's themselves may see the proposed rejection of vulnerability projects as a signal that this is not important. Whilst they have showed ambition and enthusiasm on the topic during the business planning process, there is a risk that this dissipates and they no longer have the appetite to take projects forward within the UiLiA.
- This, in turn, undermines the focus on vulnerability within the RIIO 2 price control and the new licence condition. During RIIO 1, we have been impressed by the increased focus on vulnerability from GDNs. There is a risk that this focus and prioritisation falls away, just as it was getting started.

Secondly, we have a concern that the proposals for the Fuel Poor Network Extension Scheme (FPNES) provide a lack of incentive for suppliers to deliver at their stated ambition, let alone to go further than this. In the SSMD, the proposal for a PCD for FPNES was itself relatively light on incentive to deliver, given the lack of penalty, but at the very least it was a focussed on being a deliverable. The new mechanism, allowing cost recovery up to RIIO 1 levels of connections, in conjunction with a reputational incentive, with no penalty for missing targets, provides even less incentive for GDNs. We see two ways of rectifying this:

1. To move towards a mechanism whereby there is a PCD to deliver the targets that were included within the business plan, with an additional capped volume driver on top of that to allow recovery of cost to RIIO 1 levels of connections. This, preferably, would be at least coupled with not just the proposed ODI-R, but also a financial penalty for missing the PCD.

2. A defined role for the CEGs to report on FPNES delivery by the GDNs on an annual basis, where they can either praise or criticise performance in this area. They would be uniquely placed to provide such an interrogation of delivery of this crucial scheme, given their proximity to the business planning process and their relative expertise in this area (for at least some CEG members).

Thirdly, significant work has gone in from each GDN to put together a vulnerability strategy, at the direction of Ofgem, which they were told in the SSMD would be assessed by the Business Plan Incentive. No GDN has been given any incentive whatsoever for any of their vulnerability strategies. Furthermore, Ofgem have given limited feedback on their respective overarching strategies, and so they are left blind as to what Ofgem thinks about their plans. As GDNs are very much driven by regulatory forces, this will make it very difficult to commit to their strategies, especially in the case where a significant number of bespoke ODIs, PCDs and CVPs have been rejected. It is our understanding that Ofgem has only given negative feedback to companies so far. This could result in detrimental outcomes to how the companies see their work on addressing vulnerability.

Finally, the draft determinations make no mention of the proposed vulnerability licence condition, which was due to mirror SLC0 within the supplier licence conditions. The absence of this, coupled with the rejection of almost £164m worth of benefit to vulnerable customers, could reverse the welcome progress that has been made by GDNs in the current price control to enhance support for vulnerable households. Ofgem must send a clear signal to GDNs that this licence condition is going ahead and will be in force from the beginning of the price control.

We note that in the SSMC of RIIO-ED2, Ofgem proposes a vulnerability ODI (with the potential for a financial incentive that is significantly larger than the UiLiA, at +/-0.5% of base revenue), and minimum standards that reflect the ambition of Ofgem's own Consumer Vulnerability Strategy 2025. Whilst this amounts to a clear step forward in that price control, it is clear that such incentive is missing from GD2, and adjustments must be made to ensure that ambition levels carriers of different energy vectors.

Adapting to a Changing Context

Since the Sector Specific Methodology Decision (SSMD) for GDNs, there have been two significant changes in the external context that deserve special consideration from Ofgem. Firstly, the commitment that Parliament has made in reaching net-zero carbon emissions by 2050[10], which realigns the course towards decarbonisation and means that actions may need to be taken earlier than previously expected. Ofgem has addressed this change through the inclusion of the net-zero re-opener which allows a flexible response to technological and policy developments along the path to Net Zero. This is welcome and allows the networks to be funded appropriately to meet our carbon obligations, without unnecessary cost to households.

The second important development has been the worldwide Covid-19 pandemic. Generally, Ofgem has worked quickly to ensure that its work packages have been fit for purpose in a pandemic world, including prioritising work on extending the prepayment meter price cap and rolling out new protections for households that self-disconnect. However, the decisions on draft determinations seem to have made no consideration on the impact that Covid-19 has had on society. Incomes have fallen, and energy use has increased. The pandemic has led to the single biggest hit on our economy for 41 years[11]. It is expected that the affordability of energy will become much harder for many more people over the coming years. The impact from coronavirus on household situations has been significant. It has been, and will continue to be, more material than the impact of decarbonisation for the period of the GD2 price control. Furthermore, we have seen evidence that customer views have changed as a result of the crisis, with bill payers, in general, willing to allow companies to use more of their bill money to help the most vulnerable in society.

NEA therefore questions why Ofgem have reconsidered some part of the SSMD, through introducing the Net-Zero reopener, without reconsidering other parts to react to the biggest change in household circumstances in Ofgem's history. **NEA proposes to rectify this through another reopener, linked to the timing of the net-zero reopener, which will allow Ofgem to increase the size of the UiLiA if (and when) the maximum allowed allowance has been used for any of the companies.**

Additionally, we believe that the change in context provides a good opportunity for Ofgem to consider its stance on previous decisions that have been made with regards to affordability. In the SSMD for GDNs, Ofgem made it clear that in-home measures, such as for first time central heating to accompany FPNES connections and gas boiler repairs/replacement for homes that have seen their boilers condemned as part of a smart meter install, would not be allowed. With the affordability of energy for vulnerable households now significantly more constrained, which is a priority that is quickly rising up the agenda within Ofgem, we contend that these decisions should be reconsidered within the new context.

Several lower cost projects that directly address affordability have also been rejected by Ofgem, most notably those that contain energy and income advice. All of these activities are low cost and high value, with enormous impacts on the affordability of energy for households that have suffered greatly during the crisis. Income advice in particular has increase in importance substantially. Millions more people are entering a complex benefits system, and as the crisis is expected to claim more jobs in the near future, advice to help navigate the system is crucial. Ofgem should reconsider the rejected proposals in this area to provide such advice for their customers.

Other rejected proposals that would have helped to address affordability for vulnerable households have been rejected on the basis that they run contrary to decisions taken within the SSMD for GD2. We urge Ofgem to revisit these decisions, particularly regarding in-home measures, keeping in mind that: they tend to provide strong net benefits (based on SROIs) and that they are consistent with the regulatory approach of allowing support where there are low levels of cross subsidy, significant risk of detriment, and networks are well placed to deliver significant benefits.

Using Stakeholder Views to Inform Business Plan Outcomes

At the beginning of the work to shape the RIIO 2 price control, Ofgem said within the framework decision that "The Gas and Electricity Markets Authority (GEMA) retains ultimate responsibility to make initial and final determinations, using, among other things, evidence from the enhanced engagement process as a key input."

NEA has worked with GDNs during the process of assimilating business plans, with staff sitting on two CEGs. We have seen first-hand the engagement they have done to engage their customers create a business plan that meets their needs within a suitable range of costs, including through bespoke ODIs and PCDs, as well as their CVPs. NEA has, indeed, been part of stakeholder discussions ourselves, having many opportunities to feed our own views into the business plans through workshops, surveys, consultations, and bilateral meetings. The engagement, from our perspective, has been extensive.

It is therefore disappointing that the draft determination has not transparently made considerations of the enhanced engagement process. We feel that there is a risk that the voice of the customer will been dampened through this lack of transparency, both as representatives of fuel poor households on CEGs, and as stakeholders ourselves who have engaged fully in the process.

Whilst we accept that Ofgem may have done work in the background to assess the customer views that were included in the submitted business plans, there is no evidence in the draft determinations that this is true, so in this response we have had to assume that this has not been considered. If it has been considered, Ofgem must make this assessment available as soon as possible, in the interest of transparency. Without this information, those who have fed into the process may feel disenfranchised, and there is a risk that those who have engaged in this process, do not feel that it is worth it to engage in future processes like ED2.

NEA urges Ofgem to publish their full analysis of the plans, including how they used customer views, in order to give greater confidence in the process. Without this analysis, we, and others, cannot properly judge whether Ofgem has made informed decisions as to which parts of the business plan to allow, and which to disallow.

Conclusions

Overall, NEA is therefore disappointed with the draft determinations for GDNs. Whilst it is welcome that Ofgem try to secure the best deal for customers, it should not be the case that they seek to do this by stripping back work to support vulnerable customers. NEA believes that the 30p that each customer would pay for the above projects provides excellent value. And the consumer engagement work done throughout the business planning process suggests that customers believe this too.

As such, NEA recommends that Ofgem re-consider at least some of the rejected vulnerability proposals on the basis of their value to households, and their customer acceptance, outside of their suitability for the UiLiA. This approach would ensure that projects that are good value, and that

customers are willing to pay for, get taken forward, as was the intended approach at the start of the process.

Key Recommendations

1. Ofgem should urgently publish their full rationale for rejecting bespoke ODIs, PCDs and CVPs, including the analysis of the enhanced customer engagement that each company has undertaken.
2. Ofgem should give feedback on each of the GDNs vulnerability strategies, giving them an indication of where they have, and have not, met or exceeded expectations.
3. Ofgem to publish their full analysis of the business plans, including how they used customer views, in order to give greater confidence in the process.
4. Ofgem should introduce a reopener, linked to the timing of the net-zero reopener, which will allow Ofgem to increase the size of the UiLiA if (and when) the maximum allowed allowance has been used for any of the companies.
5. Ofgem should reconsider the rejected proposals GDNs to provide energy and income advice for their customers.

Our response to this consultation

Core Document Questions

Core Q1. What role should Groups play during the price control period and what type of output should Groups be asked to deliver? Who should be the recipients of these outputs (companies, Ofgem and/or stakeholders)?

NEA believe that there continues to be a role for the CEGs throughout the delivery of the price control for the networks, including:

- Continuing to hold company to account to their business plans
- Reporting to Ofgem regularly but with an annual public facing report
- Holding companies to account on their vulnerability strategies, given that many of the strands will not be funded by ODIs or PCDs
- Ensuring that GDNs, in their delivery of the Use-it or Lose-it allowance, reflect their customers views in their pursuit of projects.

Core Q3. What value would there be in asking Groups to publish a customer-centric annual report, reviewing the performance of the company on their business plan commitments?

Yes. There would be significant value in asking the CEGs to publish a customer-centric annual report. We believe that this would be especially valuable for GDNs, where the suggested ODI-Rs relating to vulnerability could be supplemented, and strengthened, by such a report, which could include an annual commentary of the progress of FPNES delivery against targets (and with regards to the external policy environment). This could include, for example, a RAG rating on progress.

Core Q4. What value would there be in providing for continuity of Groups (albeit with refresh to membership as necessary) in light of Ofgem commencing preparations for RIIO-3 by 2023?

We believe that this would be valuable. The next business planning process will soon come around, and we have valued the approach of using CEGs to promote the customer voice within networks.

Core Q24. Do you agree with our proposals for the RIIO-2 Strategic Innovation Fund?

We broadly agree with the proposals for the strategic innovation fund but continue to believe that such funding should require consideration of consumer vulnerability, in line with Ofgem's decision on the Network Innovation Allowance (NIA). We would also welcome a mirroring of the requirement within the NIA for companies to assess the impact of the SIF proposals on vulnerable customers of all projects.

Core Q28. What are your thoughts on our proposals to strengthen the RIIO-2 NIA framework?

NEA strongly supports the proposals to strengthen the RIIO-2 NIA framework. In particular, the requirement to assess the impact on vulnerable customers of all NIA projects is a vital part of in ensuring that the transition to net zero is inclusive, and leaves nobody behind. The ENA themselves, in their network innovation strategy document, say "customer benefit is a key principle within its innovation strategy "Customer benefit should be at the centre of all network innovation activity".

In terms of how such an assessment could be made, we believe that it could fall into two separate parts: A quantitative assessment and a qualitative one. The quantitative assessment should consider the direct impact of the innovation, as well as the impact of the intended consequences of the innovation, and <u>must include</u> (but not be limited to:

- An analysis on how the costs and benefits of the innovation (in terms of the project, and the desired outcome) translate on to different income declies. Especially since the start of Covid-19, financial vulnerability has become significantly more pronounced and should be the top consideration. This could be coupled with an equity weighting of costs/benefits, similar to how Government conducts its own impact assessments. We note that Ofgem does this in its own assessments of impacts of its own decision making on vulnerable energy consumers.
- An analysis on how the innovation will impact on households with different heating types, including:

- Gas boiler
- Direct Electric Heating
- Heat pumps (air source, ground source)
- Oil Heating
- Solid Fuel Heating

A qualitative assessment should also be required, investigating how the innovation project, and intended outcomes would impact on disadvantaged groups, included but not limited to:

- Digitally excluded households - (20% of the population has at most limited access to the internet). These households often face extra costs as a result of not being able to access the best deals or missing out on technology that could reduce their costs.
- People living in Rural Areas who often face higher costs because of poor insulation, and/or use of expensive fuels to heat their homes
- People living in different tenures, those in PRS often have less choice about the way they consume energy and who therefore may see higher costs as a result
- Households that use legacy prepayment meters, who often face market detriment by being unable to switch without physical meter changes, or broader difficulties such as those experienced during the lockdown
- Households that speak English as a foreign language
- Households with disabilities and medical conditions (specifically those that are affected by energy rationing)

Core Q37. Do you agree with our overall approach regarding treatment of CVP proposals?

No. We do not agree with the treatment of CVP proposals, especially those related to vulnerability. GDNs in particular have put forward significant plans to help energy consumers in vulnerable situations. Ofgem has rejected almost all of the related ODI and PCDs, stating that they should be funded through the UiLiA. Where GDNs have included such projects as part of their CVPs, Ofgem has rejected them based on the rejection of the ODI/PCD. Based on the allocation of the UiLiA to projects after the decision on CVPs will be made, and Ofgem's rationale regarding such projects being rejected, we cannot see any way by which companies can be rewarded through the CVP for their plans on vulnerability. We understand that one of the key reasons for the CVP was to drive excellence in this area. If networks cannot therefore be rewarded in such a way, then the mechanism is clearly flawed and should be revisited ahead of ED2.

Additionally, we believe that the mechanism, within the BPI, to assess the companies' vulnerability strategies seems to have been forgotten, and it is not clear if or how companies could or have been rewarded for comprehensive vulnerability strategies. Indeed, NEA understands there has been no feedback whatsoever on strategies that have required significant work and consumer engagement and have been required by Ofgem. Combined with the process regarding CVPs, as well as the rejection of ODIs an PCDs, which we discuss in other sections, this draft determination is very light in terms of support for vulnerable consumers, contrary to Ofgem's clearly stated aims for the price control.

Core Q43. Do you think we need specific mechanisms in RIIO-2 to manage the potential longer-term impacts of COVID-19? If yes, what might these mechanisms be?

Since the Sector Specific Methodology Decision (SSMD) for GDNs, there have been two significant changes in the external context that deserve special consideration from Ofgem. Firstly, the commitment that Parliament has made in reaching net-zero carbon emissions by 2050[12], which realigns the course towards decarbonisation and means that actions may need to be taken earlier than previously expected. Ofgem has addressed this change through the inclusion of the net-zero re-opener which allows a flexible response to technological and policy developments along the path to Net Zero. This is welcome and allows the networks to be funded appropriately to meet our carbon obligations, without unnecessary cost to households.

The second important development has been the worldwide Covid-19 pandemic. Generally, Ofgem has worked quickly to ensure that its work packages have been fit for purpose in a pandemic world, including prioritising work on extending the prepayment meter price cap and rolling out new protections for households that self-disconnect. However, the decisions on draft determinations seem to have made no consideration on the impact that Covid-19 has had on society. Incomes have fallen, and energy use has increased. The pandemic has led to the single biggest hit on our economy for 41 years[13]. It is expected that the affordability of energy will become much harder for many more people over the coming years. The impact from coronavirus on household situations has been significant. It has been, and will continue to be, more material than the impact of decarbonisation for the period of the GD2 price control. Furthermore, we have seen evidence that customer views have changed as a result of the crisis, with bill payers, in general, willing to allow companies to use more of their bill money to help the most vulnerable in society.

It therefore does not make sense that Ofgem have reconsidered some part of the SSMD, through introducing the Net-Zero reopener, without reconsidering other parts to react to the biggest change in household circumstances in Ofgem's history. **NEA proposes to rectify this through another reopener, linked to the timing of the net-zero reopener, which will allow Ofgem to increase the size of the UiLiA if (and when) the maximum allowed allowance has been used for any of the companies.**

Additionally, we believe that the change in context provides a good opportunity for Ofgem to consider its stance on previous decisions that have been made with regards to affordability. In the SSMD for GDNs, Ofgem made it clear that in-home measures, such as for first time central heating to accompany FPNES connections and gas boiler repairs/replacement for homes that have seen their boilers condemned as part of a smart meter install, would not be allowed. With the affordability of energy for vulnerable households now significantly more constrained, which is a priority that is quickly rising up the agenda within Ofgem, we contend that these decisions should be reconsidered within the new context.

Several lower cost projects that directly address affordability have also been rejected by Ofgem, most notably those that contain debt, energy, and income advice. All three of these activities are low cost and high value, with enormous impacts on the affordability of energy for households that have suffered greatly during the crisis. Income advice in particular has increase in importance substantially. Millions more people are entering a complex benefits system, and as the crisis is expected to claim more jobs in the near future, advice to help navigate the system is crucial. Ofgem should reconsider the rejected proposals in this area to provide such advice for their customers.

Other rejected proposals that would have helped to address affordability for vulnerable households have been rejected on the basis that they run contrary to decisions taken within the SSMD for GD2. We urge Ofgem to revisit these decisions, particularly regarding in-home measures, keeping in mind that: they tend to provide strong net benefits (based on SROIs) and that they are consistent with the regulatory approach of allowing support where there are low levels of cross subsidy, significant risk of detriment, and networks are well placed to deliver significant benefits.

GDN Annex Questions

GDQ2. What are your views on the reporting metrics we have proposed for the consumer vulnerability ODI-R?

We believe that the proposed outputs, while welcome, are on their own are not sufficient to deliver the outcomes that customers and stakeholder want or need.

Ofgem have repeatedly said that this price control has a focus on vulnerable consumers. In the GDN SSMD, it is remarked that *"Supporting and protecting consumers in vulnerable situations is a priority for us"* and "*we will consider interventions where consumers in vulnerable situations are at significant risk, the benefits of intervention are significant and the redistributed costs are low."* From the analysis we have carried out, and based on the observations made above, this does not seem to have been the case.

Firstly, NEA is extremely concerned that through the rejection of all bespoke vulnerability programmes, Ofgem have significantly constrained the incentive for GDNs to focus on vulnerability in this period, and believe that this could lead to several unintended consequences, including but not limited to:

- Fewer projects helping vulnerable customers will happen during the price control, and therefore households that are struggling the most will receive the less value than proposed.
- GDN's themselves may see the proposed rejection of vulnerability projects as a signal that this is not important. Whilst they have showed ambition and enthusiasm on the topic during the business planning process, there is a risk that this dissipates, and they no longer have the appetite to take projects forward within the UiLiA.

- This, in turn, undermines the focus on vulnerability within the RIIO 2 price control and the new licence condition. During RIIO 1, we have been impressed by the increased focus on vulnerability from GDNs. There is a risk that this focus and prioritisation falls away, just as it was getting started.

Secondly, we have a concern that the proposals for the Fuel Poor Network Extension Scheme (FPNES) provide a lack of incentive for suppliers to deliver at their stated ambition, let alone to go further than this. In the SSMD, the proposal for a PCD for FPNES was itself relatively light on incentive to deliver, given the lack of penalty, but at the very least it was a focussed on being a deliverable. The new mechanism, allowing cost recovery up to RIIO 1 levels of connections, in conjunction with a reputational incentive, with no penalty for missing targets, provides even less incentive for GDNs. We see two ways of rectifying this:

1. To move towards a mechanism whereby there is a PCD to deliver the targets that were included within the business plan, with an additional capped volume driver on top of that to allow recovery of cost to RIIO 1 levels of connections. This, preferably, would be at least coupled with not just the proposed ODI-R, but also a financial penalty for missing the PCD.
2. A defined role for the CEGs to report on FPNES delivery by the GDNs on an annual basis, where they can either praise or criticise performance in this area. They would be uniquely placed to provide such an interrogation of delivery of this crucial scheme, given their proximity to the business planning process and their relative expertise in this area (for at least some CEG members).

Thirdly, significant work has gone in from each GDN to put together a vulnerability strategy, at the initial direction of Ofgem, which they were told in the SSMD would be assessed by the Business Plan Incentive. No GDN has been given any incentive whatsoever for any of their vulnerability strategies. Furthermore, Ofgem have given limited feedback on their respective overarching strategies, and so they are left blind as to what Ofgem thinks about their plans. As GDNs are very much driven by regulatory forces, this will make it very difficult to commit to their strategies, especially in the case where a significant number of bespoke ODIs, PCDs and CVPs have been rejected. It is our understanding that Ofgem has only given negative feedback to companies so far. This could result in detrimental outcomes to how the companies see their work on addressing vulnerability.

Finally, the draft determinations make no mention of the proposed vulnerability licence condition, which was due to mirror SLC0 within the supplier licence conditions. The absence of this, coupled with the rejection of almost £164m worth of benefit to vulnerable customers, could reverse the welcome progress that has been made by GDNs in the current price control to enhance support for vulnerable households. Ofgem must send a clear signal to GDNs that this licence condition is going ahead and will be in force from the beginning of the price control.

GDQ3. What are your views on the design of the annual showcase events, including whether they should be held at a national or regional level?

NEA supports an annual showcase event to raise awareness of GDN's work to disseminate learning from their use-it or lose it (UiLiA) initiatives and also from the NIA. We believe that such a showcase should be:

- Appropriately publicised to a broad audience of stakeholders.
- Be a national event that includes all GDNs
- Focussed on not only showcasing the best of projects, but also learning lessons from things that went not so well, and provide an environment for learning and improving, not just 'showing off'

Ofgem may want to explore the introduction of a competitive, for example a non-monetary prize.

GDQ4. Do you agree with our position to change the FPNES from a PCD to a capped volume driver?

As noted above, the continuation of the Fuel Poor Network Extension Scheme (FPNES) can ensure the poorest households are able to heat their homes more affordably. Our recent research has shown how this assistance can best be channelled at low income consumers and at risk of cold-related ill health[14]. Residents also benefited from support and energy advice on how to use their new systems effectively, improve energy efficiency and reduce fuel bills.

NEA is therefore concerned that the proposals for the Fuel Poor Network Extension Scheme (FPNES) provide a lack of incentive for suppliers to deliver at their stated ambition, let alone to go further than this. In the SSMD, the proposal for a PCD for FPNES was itself relatively light on incentive to deliver, given the lack of penalty, but at the very least it was a focussed on being a deliverable. The new mechanism, allowing cost recovery up to RIIO 1 levels of connections, in conjunction with a reputational incentive, with no penalty for missing targets, provides even less incentive for GDNs. We see two ways of rectifying this:

1. To move towards a mechanism whereby there is a PCD to deliver the targets that were included within the business plan, with an additional capped volume driver on top of that to allow recovery of cost to RIIO 1 levels of connections. This, preferably, would be at least coupled with not just the proposed ODI-R, but also a financial penalty for missing the PCD.
2. A defined role for the CEGs to report on FPNES delivery by the GDNs on an annual basis, where they can either praise or criticise performance in this area. They would be uniquely placed to provide such an interrogation of delivery of this crucial scheme, given their proximity to the business planning process and their relative expertise in this area (for at least some CEG members).

<u>Whilst this activity may seem at odds with Ofgem's current and emerging focus on supporting the delivery of net zero emissions; it is crucial to value the FPNES as a vital and targeted support scheme and the air quality and carbon benefits that can be delivered by displacing solid fuels in off gas homes.</u>

---

[1] For more information visit: www.nea.org.uk.

[2] NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

[3] For more info see: https://www.nongasmap.org.uk/.

[4] In from the Cold: The funding gap for non-gas fuel poor homes under ECO and a proposal to fill it, NEA, February 2017

[5] The report noted that because those off the gas network are more reliant on expensive fuels such as electricity, fuel poor households off the gas grid experience average fuel poverty gaps that are double those of on-gas fuel poor. Since then, the latest fuel poverty statistics highlight the same pressing gap, (on gas fuel poor have average gaps of £296 vs off-gas £607).

[6] NEA. 2017. In From The Cold: The Funding Gap for Non-gas Fuel Poor Homes under ECO and a Proposal to Fill it. Available: http://www.nea.org.uk/wp-content/uploads/2017/02/In-From-The-Cold_ECO-Funding-Gap-Paper_Final-1.pdf.

[7] At present it is not possible for these key groups to do this without being subject to the enhanced General Data Protection Regulations or a time consuming appraisal of the household's circumstances and securing individual 'opt in' consent.

[8] NEA's Chief Executive Adam Scorer sits on the Wales and West CEG whilst Policy Manager Matthew Copeland sits on the Cadent CEG.

[9] NEA's Chief Executive Adam Scorer sits on the Wales and West CEG whilst Policy Manager Matthew Copeland sits on the Cadent CEG.

[10] On the 27th June 2019, the UK became the first major economy to pass net zero emissions law. For more information see https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law

[11] On 30th June 2020, the BBC reported that the impacts of coronavirus had caused the worst contraction of the UK economy in 41 years. For the article, see https://www.bbc.co.uk/news/business-53231851

[12] On the 27th June 2019, the UK became the first major economy to pass net zero emissions law. For more information see https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law

[13] On 30th June 2020, the BBC reported that the impacts of coronavirus had caused the worst contraction of the UK economy in 41 years. For the article, see https://www.bbc.co.uk/news/business-53231851

[14] The Connecting Homes for Health pilot project was delivered by fuel poverty charity National Energy Action, Northern Gas Networks and YES Energy Solutions. It combined funding from the Fuel Poor Network Extension Scheme and Warm Home Discount Industry Initiatives to install free gas connections and central heating systems in over 100 properties in the North East of England whose residents were on low incomes and at risk of cold-related ill health. For the project report, see https://www.nea.org.uk/research/connecting-homes-health/