

# Federation of Small Businesses Consultation Response:

**DNO Low Carbon Technology - Energy Efficiency role in ED3**



To whom it may concern,

## RE: DNO Low Carbon Technology - Energy Efficiency role in ED3

FSB welcomes the opportunity to provide a response to the above consultation.

FSB is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.7 million small and medium businesses, micro businesses and the self employed.

The majority of small businesses support net zero, with 51 per cent saying it is a high priority for their business and 64 per cent saying it should be a high priority for the UK Government. However, small businesses face significant barriers on their path to decarbonisation. Data from the Federation of Small Businesses shows that the top barrier is a lack of capital (38 per cent), followed by concerns about long returns on investment (33 per cent) and a lack of information (23 per cent).<sup>1</sup> Steps, support and policy that address these persistent barriers are therefore much needed, and DNOs are well placed to take forward Expanded Roles since they understand the capacity of the local grid network and where improvements can be easily made.

**As part of these Expanded Roles, FSB strongly believes that small businesses should be within scope of support.** This is for two main reasons: first, many small businesses operate much like domestic consumers, facing high-cost pressures and limited expertise in low-carbon technologies; and second, small businesses currently fall outside the scope of most existing support schemes, despite their importance in achieving net zero.

Under current UK Government policy frameworks, small businesses are often overlooked finding themselves out of scope for consumer support schemes and with industry support schemes tending to focus on energy-intensive industries. A range of support packages exist for domestic consumers such as the Boiler Upgrade Scheme (which is technically open to SMEs but has seen low uptake), the Warm Homes Plan and previous ECO schemes. Energy-intensive industries have had access to targeted decarbonisation support such as the recently closed IETF fund and Made Smarter. Small businesses receive too little. Larger firms also benefit from better hedging opportunities, bulk-buying power and economies of scale, advantages that smaller firms cannot easily access.

SMEs account for around 37 per cent of the UK's total greenhouse gas emissions and half of all business emissions.<sup>2</sup> Without targeted support to reduce these emissions, the UK risks falling short

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<sup>1</sup> Federation of Small Business, New Growth, 2025:

[https://issuu.com/federationofsmallbusinesses/docs/fsb\\_net\\_zero\\_report\\_may\\_2025?fr=xKAE9\\_zMzMw](https://issuu.com/federationofsmallbusinesses/docs/fsb_net_zero_report_may_2025?fr=xKAE9_zMzMw)

<sup>2</sup> British Business Bank, SMEs and Net Zero: UK Net Zero Business Census Report, 2025:

<https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2025-10/smes-net-zero-report-2025.pdf>

of its 2050 net zero goal, and current efforts appear fragmented. Although several small support schemes have been introduced to help SMEs decarbonise, they suffer from a lack of longevity, and none have delivered sustained long-term impact.

One example is the Business Energy Advice Service, piloted by the West Midlands Combined Authority and the Department for Energy Security and Net Zero. Early results were promising the scheme helped businesses reduce energy consumption through audits and provided grant funding to implement operational changes. Despite this, the Department chose not to continue or expand the pilot. FSB is, however, encouraged that the Combined Authority has opted to continue the programme using its own available funding.

If DNOs adopt area-based or targeted delivery as part of their expanded remit, then including small businesses is essential to delivering a reinforced and expanded system and network. Likewise, if a focused intervention framework is chosen and DNOs recover the costs of low-carbon technologies through energy bills, it would be unfair for small businesses to contribute to these costs (particularly given that 49 per cent already cite utilities as a major cost pressure)<sup>3</sup> without also receiving access to the support being funded.

Currently, the non-commodity costs paid by small and medium-sized businesses overwhelmingly do not flow back into support for them. Small businesses already contribute to domestic decarbonisation through previous ECO charges and a range of social levies. At the same time, targeted support is provided to energy-intensive industries through mechanisms such as the EII Support Levy and the Emissions Trading Scheme. Yet a small business consuming 40,000 kWh of energy can pay around £9,000 a year in non-commodity costs, with very little of that funding directed towards their own decarbonisation needs.

Expanding the role proposed in the consultation to include small businesses would deliver a dual benefit: it would help reduce energy consumption and costs for small firms, and it would ease the pressure to offset rising energy bills through higher prices elsewhere. The UK Government's Warm Homes Plan also highlights the significant role small businesses are expected to play in delivering support and installing low-carbon technologies. Broadening the responsibilities of DNOs could therefore draw on the extensive expertise within the small business sector, as well as their ability to operate flexibly and efficiently in the market to accelerate the rollout of support. This would strengthen domestic supply chains, grow the UK's economy, and improve long-term resilience by ensuring wealth is circulated locally.

Yours sincerely,

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**For further information please contact:**

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<sup>3</sup> Federation of Small Businesses, SBI Q4, 2025: <https://www.fsb.org.uk/resources/reports/small-business-index/small-business-index-quarter-4-2025-MCKWUR6GFLWVALLECTV NKPS7FKMQ>

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