Ofgem Consultation on the Way Forward for the Next Electricity Distribution Price Control Review - RIIO ED1

Comments from National Energy Action (NEA)

Background

NEA is a national charity working to eliminate fuel poverty through the promotion of policies and practicable programmes that enable the poorest members of society to benefit from affordable warmth. NEA promotes heating and insulation improvements as the long-term sustainable solution to fuel poverty but recognises that these measures must be complemented, as a minimum, by equitable treatment within the competitive energy market including fair energy prices and equal access to the benefits of policies and programmes.

NEA welcomes the opportunity to respond to Ofgem's open consultation letter on RIIO ED1. Distribution costs now amount to around 20% of the average electricity bill, equating to more than £2 per week. With more than 6 million households currently in fuel poverty, and many more struggling with unaffordable energy costs, it is of crucial importance that electricity consumers see value for money.

General comments

Fuel poverty is the consequence of a combination of factors including the cost of fuel, the level of household income, the physical quality and characteristics of the dwelling and the degree of vulnerability of the occupants of a dwelling. This combination of factors means that fuel poverty can affect households regardless of their geographical location, whether they are urban or rural dwellers and whether or not they have access to the most economical available heating sources.

However, it is equally true that the circumstances of some households leave them particularly vulnerable to fuel poverty. This is specifically the case where the problem of low household income is exacerbated by other factors *e.g.* they are reliant on more expensive and possibly inefficient sources of space and water heating and thermal standards of their dwelling cannot be improved in a cost-effective manner. These circumstances are more likely to prevail in rural communities where properties are often of a built-form that precludes basic insulation measures *e.g.* the dwelling is of solid wall construction. However, in the context of this consultation, a more significant factor is likely to be the limited and expensive heating options open to these households, many of whom lack access to natural gas supplies and, consequently, are reliant on comparatively expensive and unregulated heating sources.

The current Price Control (DPCR5) is synchronised with RIIO and NEA has welcomed the objectives – particularly in relation to energy-saving measures for customers. In terms of the next phases of the LCNF (£64 million per year) NEA would propose: work on the impact of cost-reflective charging on low-income domestic users; work to identify and trial incentives that enable customers to help the DNOs reduce costs to serve them; and work to incentivise demand response and management trials in deprived communities.

RIIO ED1 Challenges; Understanding how DNOs can contribute to social goals of energy policy is a welcome part of the proposals. Ofgem and DNOs could usefully focus on:

- How to devise meaningful proposals for customers in off-gas grid areas where the gas network operators also have obligations and incentives which could conflict with offerings from the electricity network companies (for example extending the gas network to enable access to cheaper forms of heating versus incentives to install electrically powered heat pumps) which could also reduce household energy bills if replacing oil or LPG.

- Meaningful proposals for Priority Services customers and not just in response to emergency situations (currently short-term help is provided when connection is lost). DNOs could play an important in signposting these people to support agencies and could also intervene themselves to offer assistance in replacing unsafe electrical heating appliances, repairing

appliances or offering rebates for new systems via the energy supplier for those ineligible for ECO assistance.

- Access to appropriate energy infrastructure; the inability of disadvantaged households to benefit from low-carbon technologies may result from a number of physical factors including: lack of access to renewable sources of energy or fuel; lack of access to the appropriate energy infrastructure; or poor security of fuel supplies (for example biomass). Lack of access to the gas grid is still an issue for many households. As well as the economic advantage conferred through access to mains gas, access to the electricity grid infrastructure and the ability to connect electricity generating technologies remains a complex and often expensive operation. These barriers mean that some fuel-poor consumers simply do not have the opportunity to benefit from micro-generation and are simply sponsors of policy designed to support take up (for example Feed-in Tariffs) to the benefit of others but to their own detriment. Quantifying these barriers, and understanding how they might be overcome by new policy mechanisms, is key to establishing equitable access to the potential benefits of the programmes disadvantaged consumers are helping to fund.

- Grid connection; the DPCR5 featured a key objective to ensure that Distribution Network Operators (DNOs) facilitated the connection of low-carbon technologies to the distribution network. Recent requirements have sought to align charging methodologies with the price control to encourage DNOs to assist the connection of decentralised energy. This was deemed necessary because the decentralised energy provider will bear a connection cost in respect of the connection to the licensed electricity distribution network, in accordance with the Distribution Network Operator's Charging Statement.

- The generation types that fall under G83/1-1 are domestic combined heat and power (CHP), Photovoltaic (PV), fuel cells and micro-hydro. In the context of G83/1-1 applications, NEA believes the process is quite straightforward; however, for any electricity generation development projects that produce more than 16 amps at 230V (3.68kW) per phase of electricity, generators will need permission prior to connecting to the network. This is because the DNO may need to make modifications to the network to take account of the new technology. It is at this point many

DNOs discover that substantial work is needed to connect the technology and/or reinforce the network; these costs can be prohibitive.

- G59/2 applications are for generating units that do not meet the G83/1-1 criteria and are generally for larger, more complex installations (such as on-site CHP that is over 50Kwe). However some DNOs investigating a G59/2 application that falls just outside of G83 (*e.g.* a 3kW wind turbine or a 4kW solar array) allow it to be connected as if it were G83 in terms of protection etc. These decisions are currently at the discretion of each DNO and will vary depending on the project. Work to standardise this "middle ground" between G83 and G59 has commenced (and may reduce the costs to connect the technology and/or reinforce the network) and consequently, once complete, a potential barrier may have been removed. However, anecdotal evidence also suggests that the connection quotation process is time consuming and is not standardised across DNOs. For some projects, the quotation process can take up to three months in some cases (thereby increasing both cost and uncertainty).

- What contribution the DNOs can make to the Government's forthcoming Heat Strategy; if RIIO ED1 is expected to provide a pathway to decarbonisation of heat there should be a mechanism to measure what impact this might have on fuel poverty. The general approach outlined in the recently released strategy is to squeeze fossil fuels out of heating by 2050 through demand reduction, district heating (DH) in built-up urban areas (fed by a range of fuel sources) and electric and renewable forms of heating (biomass, air-source and ground-source heat pumps) in suburban and rural areas. The strategy makes it clear that these changes have an important role in alleviating fuel poverty. Positive outcomes should therefore focus on new high efficient electric heating systems – trials of their impact not just on the network in terms of peak demand but on customer need. Heat pumps for example are only viable in well insulated properties, and DNOs will need to link up to ECO and Green Deal offerings if promoting these heating products. Community-scale initiatives should also be considered – aggregated savings could be made on larger-scale connections. Tariff reductions for Priority Group customers may also be possible, NEA would suggest exploring whether these households could be excluded from some distribution costs or given a further rebate via

suppliers. Identifying these vulnerable customers is also important, how DNOs work with referral agencies and others needs to be clarified.

NEA has called for a moratorium on new major obligations on energy companies as this could exacerbate the problem of fuel poverty for those households who do not benefit from programmes. If new obligations are to be imposed they should be designed to reduce overall costs in running the networks as well as helping individual customers.

Specific Questions:

Do you agree that ensuring DNOs accommodate low carbon technologies in a timely and cost effective way should be a key objective and thoughts on how to address this?

The whole industry must be prepared to cope with the policy instruments from Government that will lead to increasing promotion and take up of low-carbon technologies within local communities and at individual household level. The focus to date has been on PV via generous FiTs which have not benefited the poorest members of society with the exception of a small number of installations in social housing.

As set out above, it is important that any new policies that do seek to address inequalities are fully supported through incentives on DNOs to offer low connection charges. The cost of improving the networks to accommodate community-scale connections could be met through incentive schemes with provision to reduce the proportion of costs passed through where schemes are delivering social benefits. As outlined in the previous section, there are two principal barriers that relate to this issue:

- Grid connection – where work is needed to connect the technology and/or reinforce the network costs can be prohibitive and approaches are not yet standardised across DNOs.

- Connection to the gas network – it was desirable to align Government initiatives in this area and consider how the RIIO-GD1 policy and the Green Deal and Energy Company Obligation (ECO) proposals could be used to support fuel-poor households connect to gas networks or facilitate community energy projects.

As indicated earlier, there have been some moves to relax the requirements (under G59/2) to allow for a simplified connection process above the threshold for G83/1-1, but below <50 kW 3 – phase (or 17 kW single phase). This applies if the generating equipment is connected through an inverter that has been tested through G83/1-1 and the type tested inverter frequency setting is set to 51.5Hz with a certain time relay setting.

NEA proposes that work should be accelerated by Ofgem, the Energy Network Association and industry to clarify how (after 2nd March 2012) there will continue to be a standardised approach to the "middle ground" between G83 and G59 connections, thereby helping reduce the complexity (and costs) of connecting different technologies and/or reinforcing the network, and how these requirements could further be relaxed. In addition, as noted above, in order to connect to the grid, systems must comply with engineering recommendations G83/1 (systems of 16 A per phase or less) or G59 (systems over 16 A per phase). Most domestic installations would fall under G83/1 where the grid operator (known as DNO or Distribution Network Operator) only needs to be notified. Larger systems under G59 require prior permission for connection to be obtained from the DNO. Once a formal connection application has been made by the developer for G59 connections, the DNO will provide a detailed connection design and costings. This information will also contain a breakdown of "contestable work", *i.e.* the work that a developer can choose to be carried out by a third party rather than by the DNO. This is the point at which there is currently non-conformity with regard to engineering requirements.

Whilst in many senses projects will require bespoke negotiation, the timelines associated with these discussions and the provision of connection design and costings should be subject to a common standard across DNOs. This approach would reduce the cost and uncertainty of projects and this saving, in turn, could be passed down to the customer of the energy service that generator will ultimately serve. As above, the general nature of this recommendation is such that it does not constitute a definitive policy option that can be developed by the Department and, as such, advantages and disadvantages, related costs etc. are not further considered within these comments.

Connection to the gas network; Work is ongoing on the development of a policy proposal to align Government (RIIO-GD1 policy and the Green Deal and Energy Company Obligation) to support the connection of fuel-poor households to the

gas network or to facilitate community energy projects. This proposal is based on a recommendation that Ofgem should consider including future Heat Networks within the scope of the Fuel Poor Voucher (FPV). However, this policy option needs further consideration and NEA would welcome any further information relevant to the merits of further developing this concept.

What are stakeholder views on potential social outputs and should these relate for example to local authorities' integrated energy schemes?

As well as setting outputs for socially focused initiatives, Ofgem and the DNOs should set out the desired outcomes. Outputs in themselves may not deliver the desired outcomes and clear benefits to customer groups should be made specific. In terms of local authority schemes, it would be helpful to have a clear indication of impacts and projected length of impacts to assess value for money. Given our work in this area to date, NEA would request further direct engagement with Ofgem on this issue.

Do you agree the ED1 should last 8 or 9 years?

Yes – although with so many uncertainties around policy impacts – *e.g.* take up of electric heating and electric cars, it is important to schedule a mid-term review.

Feedback on stakeholder engagement in GD1 and ED1?

The Gas DNOs were very active in seeking stakeholder engagement. This caused resource difficulties for NEA. We were unable to positively respond to repeated invitations to take part in discussion groups – due to a combination of time constraints and travel costs. NEA does value the current inclusive approach, but believes that Ofgem should consider problems facing agencies representing financially disadvantaged and vulnerable households and the extent to which these act as barriers to the effective communication of a range of regional and local issues.

In terms of meaningful dialogue and communication, it is crucial that briefing materials covering local and national impacts of proposals should minimise technical complexity and jargon if there is a genuine wish and commitment to engage with lay stakeholders.

PS/April 2 2012