

1<sup>st</sup> February 2013

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Dear Dora

**Low Carbon Networks Fund – electricity demand; letter to stakeholders dated 7<sup>th</sup> December 2012**

Consumer Focus welcomes the opportunity to respond to this consultation. This response is non-confidential and may be displayed on your website.

**1. Do you agree that trialling electricity demand reduction or shifting through the LCN Fund could provide DNOs with valuable learning on their role in supporting the development of a low carbon economy?**

Yes, we do.

However, we feel it is vital that the electricity demand reduction and shifting which is trialled through the fund is truly innovative, and does not involve electricity efficiency measures which are commonplace in GB even if they have not previously been carried out by DNOs. Conventional electricity efficiency measures, such as improvement of building fabric and heating systems in electrically heated buildings and replacement of light bulbs, should not be eligible for LCNF funding, even if they fit the current Tier 2 criteria of 'projects that a DNO would not perform in its normal course of business'<sup>1</sup>. DNOs should be incentivised to use these more conventional measures to reduce reinforcement needs as part of business as usual, through the upcoming price control.

We are concerned that the current scope of LCNF creates a risk that DNOs will miss opportunities to collect key information on a number of less technical issues which will affect and should inform the roll-out of demand reduction and shifting in the future. In particular we are concerned that DNOs are in Tier 1 apparently prevented from using, and in Tier 2 not particularly encouraged to use, funding to investigate different types of consumer behaviour, attitudes or engagement with technology or market arrangements, or the reasons behind these. Although the impact of these issues on the distribution network is indirect, it could be high. Understanding how different consumers react to different types of technology or engagement styles, and the specific ways in which they are or are not willing or able to

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<sup>1</sup> LCNF Governance Document v5, 2.20.

change their behaviour, will be as important as understanding the potential impact of new technological applications. Results which are gained without proper investigation of these issues may lead to conclusions which are incorrect, and ultimately, future network policy which does not have the effects which were hoped for, and does not allow DNOs to play as great a role as they might in supporting the development of a low carbon economy.

In addition, apart from the benefits to future network policy, there could be much else to be gained in other areas of electricity policy from better detail on consumer behaviour in the context of demand shifting and demand reduction interventions. In-home trials are costly and difficult to set up and run; collection of this sort of information would likely be a relatively small proportion of this cost. It therefore seems a wasted opportunity and a waste of consumers' money not to glean as much information as possible on consumer interactions with relevant technology, and the reasons behind this, once the rest of the costs of setting up a trial are being met.

We would also argue that the criteria for both tiers that a project 'Generates new knowledge that can be shared amongst all DNOs' should be altered to include sharing the knowledge publically and making it easily accessible, so that it can have maximum effect.

## **2. Does the drafting proposed in annex 1 facilitate the trialling of electricity demand reduction or shifting through the LCN Fund?**

It may do, but we do not believe it does so in the most effective way.

We are unsure why the chosen changes to the drafting were used, extending the definitions of 'connected to and form part of the existing distribution system' in Section One, and 'controllable' in Section 6, rather than amendments to the eligibility criteria themselves. With the current drafting, in Section 1 it is still unclear whether energy efficiency measures which are not easily defined as 'equipment', and could not necessarily be owned by or licensed by a DNO (e.g. insulation) would be eligible. In Section Six, we are concerned that if all methods which aim to reduce or shift the electrical demand of customers are automatically deemed to be controllable, there will be insufficient incentive for DNOs to ensure that they do have as much influence or control over the impact as they can. We feel that amending the substantive eligibility criteria would create much less ambiguity, and would also make clearer that demand reduction and demand response are key priorities for the trials, rather than being measures which are allowable through sleight of hand in definition.

We would therefore suggest that the current proposed amendment to Section One is removed, and that Section One bullet 1 is amended to read

'It must be incurred in relation to...equipment...owned solely by or licensed to a DNO, or measures installed and (where applicable) operated solely by a DNO or its representative',

and that Section One bullet 2 is amended to read

'It must be connected to and form part of the existing distribution system assets...except where, in the case of equipment or measures which are being used to test the impact of electricity demand reduction or shifting on the distribution network, its nature makes this impractical'.

We would also suggest that the current amendment to Section Six is changed to read 'Where the Method involves measures that aim to reduce or shift the electrical demand of

commercial or domestic customers, it will cause a directly related measurable change in the operation of the distribution system in a way which can be influenced, if not controlled. Where change is not controllable, the reasons for this, and the ways in which it can be influenced and measured, will be clearly laid out.'

It is not clear to us whether simply amending the governance document will be sufficient to facilitate trials of demand reduction, particularly at Tier 2, although it may enable them. Many current Tier 2 projects involving consumers, particularly domestic consumers, rely partly on partnerships between DNOs and suppliers, because of suppliers' existing customer relationships and prior experience in consumer engagement. It seems to us that suppliers are far more likely to be willing to collaborate on trials involving demand shifting, than demand reduction. This is because there may in the future be a commercial incentive for suppliers to encourage their customers to shift their demand to lower-cost periods, due to potential changes in settlement and use of system charges. However, leaving aside special supplier obligations, there is unlikely ever to be a real commercial incentive for suppliers to bring about a reduction in their customers' usage. Therefore DNOs may find it difficult to make partnerships with any suppliers on demand reduction trials, and could as a result face challenges in consumer recruitment and retention. We suggest that this bears further consideration, and that the Authority consult with DNOs, and potentially suppliers, on solutions to this issue.

Yours faithfully,



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