

1st February 2013

Dora Guzeleva
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Ofgem
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Dear Dora,

Low Carbon Networks Fund – electricity demand

Thank you for the opportunity to respond to this consultation.

It is widely accepted that the nature of electricity demand will change as moves to de-carbonise the Great Britain's energy supply accelerate. In particular, the increasing electrification of transport and heating have been highlighted as likely to add significant demand to the networks. In the face of such increases two possible responses are available to the DNOs:

- to continue to reinforce their networks in the traditional way, or;
- to re-shape and reduce overall demand, so as to avoid or defer reinforcement.

LCNF projects are delivering significant learning in relation to both smart grids and demand response, and this has given DNOs a range of new tools. Some of these tools aim to augment the capacity of existing networks, while others target demand reduction. This second category requires DNOs either to influence consumer behaviour, or to take direct control of demand downstream of the meter.

We believe that it is right to give the DNOs as much scope as possible to develop and trial new tools under the LCNF, and welcome the proposed clarification of the types of assets which can be funded for this purpose.

Following on from this, as the innovative approaches and techniques being trialled by the DNOs become 'business as usual', consideration will need to be given to the treatment of the associated assets within the DNO's price controls.

In answer to the specific questions posed in the consultation letter:

"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?"

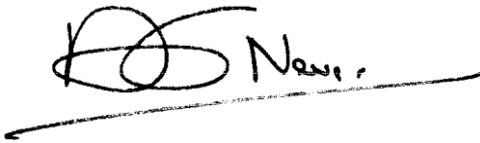
Yes, DNOs will need to investigate the potential both electricity demand reduction and load shifting, in order to respond to the challenges facing their networks. This may involve both the use of incentives to encourage appropriate demand side response, and physically reaching beyond the meter into areas such as energy efficiency and demand switching, which are largely outside their current domain.

"Does the drafting proposed in annex 1 facilitate the trialling of electricity demand reduction or shifting through the LCN Fund?"

Yes, but we are a little uncomfortable with the proposal that assets downstream of the meter will be *"deemed to be connected to and form part of the Distribution System"*. We believe that significant change is required to facilitate the DNOs' ability to reach beyond the meter. In our view it would be better to be clear at this stage that equipment funded through the LCNF is a special case, and we propose the wording set out in the appendix to this letter as possible means of achieving this.

I hope that these few comments are helpful to you. Please feel free to contact me if you would like to discuss this further.

Yours sincerely



Andrew Neves
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Appendix – Proposed Alternative Wording

If the expenditure relates to equipment (including control and communications systems and software) then:

- *It must be incurred in relation to the procurement, installation, operation, maintenance and decommissioning of equipment (including control and communications systems and software) owned solely by or licensed to a DNO, and;*
- *It must be connected to and form part of the existing Distribution System assets owned or licensed to and operated by a DNO; or it must be equipment (including control and communications systems and software) that is installed and owned by or licensed to a DNO solely for the purpose of gathering and analyzing data or sending or receiving control signals to assist in the control of the Distribution System; or It must be equipment that is funded through the LCN Fund for the purpose of reducing or shifting the electrical demand of commercial or domestic customers, and;*
- *It must not be related to the procurement, installation, operation and decommissioning of any device on any customer's premises that measures the consumption of electrical energy and provides such measurement data to a licensed electricity supplier.*

