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Dora Guzeleva
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Local Grids
The Office of Gas and Electricity Markets
9 Millbank
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31 January 2013

Dear Dora

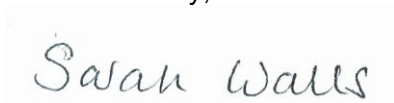
Low Carbon Networks Fund – Electricity Demand

Thank you for giving us the opportunity to provide our comments on the proposed amendments to the Low Carbon Networks Fund (LCN Fund) Governance Document with regards to demand reduction and / or shifting.

We wholeheartedly agree with the proposal to amend the LCN Fund Governance Document as it will remove the barriers to trialling the full range of measures to reduce the need for reinforcement. It will allow the DNOs to explore the techniques and challenges of demand reduction and shifting and to understand the costs and benefits which can provide an alternative cost assessment for demand side management.

Responses to the consultation questions and specific comments on the proposals are in the attached Appendix 1.

Yours sincerely,

A handwritten signature in cursive script that reads "Sarah Walls".

Sarah Walls
Head of Economic Regulation

Appendix 1

Question 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?

The use of Low Carbon Networks funding to trial fully the range of demand reduction or shifting techniques would definitely help DNOs, and other organizations in partnership, to explore different methods, including installing equipment at customers' premises, which could aid the transition to a low carbon economy. At present DNOs are restricted to trialling equipment that is installed on the distribution system. The ability to trial new equipment to be installed at our customers' premises could play a vital role in reducing the peak demand on the distribution system and therefore reduce the need for large scale reinforcement, thereby benefiting the customers from reduced distribution use of system charges. We fully support the proposed change as it facilitates investigations into the effective development of a demand side response from domestic and small commercial customers.

Question 2 Does the drafting proposed in Annex 1 facilitate the trialling of electricity demand reduction or shifting through the LCN Fund?

Having read through the proposed changes to the LCN Fund Governance Document laid out in Annex 1 it is our observation that they would, in principle, allow DNOs to utilise Tier One and Tier Two funding to undertake investigations into the costs and benefits of demand reduction and/ or shifting.

However, we note the following areas where some clarification would be beneficial:

Tier One

- The first bullet point for Tier One funding under section 3.10 states that any equipment must be "owned solely or licensed to a DNO."¹ The open letter uses the example of energy saving light bulbs and insulation as methods of demand reduction that could be explored. With this in mind would it be overly complex for equipment, such as light bulbs, that are purchased by a DNO utilising LCN funding and installed on customers' premises to remain to be owned or licensed by a DNO for a customer's use? Instead, would it be suitable to have the new clause inserted as an alternative method, rather than additional condition that must be met in conjunction with the other three? This could be a standalone condition whereby any Tier One funding would only be allocated to proposals that meet the original three criteria or the new clause that relates to demand reduction or shifting utilising equipment on a customer's premises.
- The initial barrier to DNO participation in demand reduction and/or shifting schemes was that the funding mechanism required that any expenditure related to equipment must be for equipment installed on the distribution system. This prevented DNOs from trialling equipment that could be installed on the customers' electrical infrastructure ie beyond the meter. We support the insertion of the proposed Tier One wording as it allows DNOs to be flexible in the location for demand reduction and shifting equipment at a customer's premises.

¹ Low Carbon Networks Fund – Electricity Demand, Letter of 7th December 2012, <http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Documents1/Electricity%20demand%20reduction.pdf>

Tier Two

The amendment proposed in the open letter would enable Tier Two funding to be used for demand reduction and/or shifting. It removes the potential barrier by clarifying the issue of a method being used in a “controllable way” and encourages a wide range of projects to be submitted, fulfilling the spirit of Tier Two projects promoted when drafting the LCN Fund Governance Document.