

Comment on RIIO-ED1 business plans

Response to Ofgem's call for
stakeholder views

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Executive summary

Distribution costs account for the second largest component (16 per cent) of an average GB electricity bill. The absolute amount paid by individual consumers varies considerably between regions, and in proportion to the amount of electricity used.

Electricity distribution networks – owned by six Distribution Network Operators (DNOs) and covering 14 regions – include the cables and wires which transfer power from the National Grid to individual homes and businesses.

Electricity distribution is a regionally-based monopoly service for which no competitive market exists. Ofgem determines the cost of the service provided through a series of multi-annual price controls.

DNO business plans for the 2015-2023 period are being agreed. Drafts were published at the start of July 2013, taking into account Ofgem guidance and the results of consumer and stakeholder consultation. Ofgem formally assesses and approves the plans, but asked interested stakeholders to provide views to help inform the process.

This paper presents our response. Our analysis shows that there are two headlines:

- The distribution element of consumers' bills is expected to decline, although the absolute price changes vary between regions, so some consumers will see greater changes than others.
- The reliability of electricity supply and quality of service for consumers, particularly those who are affected to a greater extent by power cuts, should continue to improve.

These reflect the key messages gathered by DNOs during consultation exercises with consumers and stakeholders, and make welcome positive reading, especially when set against news of successive rises in energy prices over recent years.

However, DNOs are also required to provide a growing range of services to take account of the rollout of smart meters and the expected growth in technologies, such as solar photovoltaic panels, electric vehicles and heat pumps.

Both stakeholders and DNOs recognise that there will continue to be pressure on electricity bills during the period covered by the plans, while affordability of energy is already a pressing issue for many consumers. Some DNOs are undertaking pilot work which seeks to reduce consumers' bills through energy efficiency, while reducing DNO costs by avoiding or delaying the need for network upgrades. These are areas where DNO work is progressing, but where there remains further scope for innovation and partnership working.

We therefore believe that the critical question Ofgem should explore is not whether or not DNOs are moving in the right direction – we believe that all the companies are doing so – but rather, whether the balance between different aspects and aims of their plans is correct, and whether the plans, overall, represent the best possible combination of service delivery and value for money for consumers.

Introduction

Distribution costs account for 16 per cent of an average GB electricity bill, representing, after wholesale costs, the second largest single component of consumers' bills. The absolute amount paid by individual consumers varies to a considerable extent between different regions, and also varies in proportion to the amount of electricity used.

Electricity distribution networks include the cables and wires which transfer power from the National Grid to individual homes and businesses. These networks are owned, in total by six Distribution Network Operators (DNOs) and cover 14 defined regions. Electricity meters are owned by electricity suppliers, and householders (or landlords) are responsible for the wiring inside their homes.

Electricity distribution is a natural, regionally-based monopoly service for which no competitive market exists. As a result, the cost of the service provided is determined by Ofgem, through a series of multi-annual price controls.

The process of agreeing DNO business plans for the 2015-2023 period is currently underway. DNOs published their plans at the start of July 2013, taking into account guidance from Ofgem and the results of consumer and stakeholder consultation. Ofgem is responsible for the formal assessment and approval of the plans, but has asked interested stakeholders to provide their views to help inform the assessment process.

This report provides Consumer Futures comments on the business plans overall. Given the volume of material involved – each DNO's plan, including appendices, covers many hundreds of pages – and the limited time available, a comprehensive assessment process was not possible.

As a consequence, we discuss issues of importance to energy consumers and DNO responses to those issues as a group. Where we believe a DNO has described good practice in relation to these issues, we highlight that, but we have not sought explicitly to identify poor practice for two reasons. Firstly, the volume of material is such that relevant information may be included in the technical annexes, even if it is not immediately easy to identify. Secondly, our aim is to inform Ofgem's assessment process, not to duplicate it.

The first point raises an important question about the format and presentation of material. Given the aim of encouraging consumer and stakeholder engagement, the presentation and style of information is critical. We appreciate that DNOs have a number of different audiences and that overview material which accessible for consumers is unlikely to provide the level of detail sought by stakeholders with a particular interest.

We would suggest that there is therefore a case for presentation to include all of:

- An overview of each DNO plan, perhaps covering 10-15 pages.
- Targeted material for different groups – for example 'what our proposals mean for domestic consumers'.

- A more detailed summary of the plan, perhaps covering 60-80 pages, with links to the appropriate sections of more technical annexes for those seeking a higher level of detail.

We assessed the plans against a series of criteria, which are summarised in the table below.

Criteria	Why is this an issue for consumers?	What DNO response are we seeking?
Consultation processes	Ultimate, DNO plans are financed by consumers.	Clear description of how companies gathered consumer and stakeholder views, what issues were most important to them and how the business plans have been changed in response.
Costs to consumers	All DNO (and Ofgem) consultations show that these are the two most important issues for consumers, now and in the future; the balance between these issues is at the heart of DNO plans.	Description and explanation of trends in DNO costs for consumers.
Reliability		Continuing improvements in reliability of service for consumers.
Improving the experience of priority service register (PSR) and other vulnerable consumers	Some consumers are more dependent than others on their electricity supply, or are affected more by disruptions to their service.	Demonstration that DNOs are improving their data on PSR consumers, further developing understanding the differing needs of consumers, and of vulnerability more widely; robust plans to support these consumers to an appropriate extent during interruptions. We would also expect that DNOs and partners would, during the course of ED1, explore ways in which vulnerable consumers could be supported more widely.
Improving the experience of worst served consumers	Although the proportion of consumers affected is very small, the impact on that group is significant.	Continuing progress both in reducing the numbers affected and in mitigating the impacts on those households of less reliable electricity supplies.
Facilitating moves towards a low carbon economy	Access to low carbon heating and electricity generation is increasingly linked to affordability for many consumers and communities, particularly those without access to mains gas.	Understanding of the likely scale of Low Carbon Technology (LCT) take-up, including links with the social agenda; improving the service provided to connections customers, particularly those working at community level.

Helping address issues faced by fuel poor consumers	DNO costs are a significant but still limited part of consumers' bills.	Understanding of this area is still developing; we are therefore seeking evidence that DNOs have structures in place to take forward this discussion and build appropriate action into business practices during ED1, rather than expecting clear commitments at this stage.
Smart meter take-up	Smart meters will be rolled out across GB between 2015 and 2020, potentially providing benefits to consumers.	Identification of likely benefits to DNOs of access to better smart meter data and explanation of possible use in the future.

Our impression from the business plans is that the areas above fall into two groups:

- Controlling costs for consumers, improving network reliability and improving the experience of both Priority Service Register (PSR), vulnerable and worst served consumers are all core activities for DNOs. As a result, these sections of the business plans are generally well developed.
- Stakeholder consultation, predicting and managing consumer aspects of low carbon technologies and smart metering, wider work on fuel poverty are newer areas for DNOs; identifying an explicit and effective DNO role is also a challenge for stakeholders. As a result, we explore these issues in more depth.

We accept that it would not be reasonable to expect DNOs to present detailed plans in these latter areas. But, at the same time, the likely scale of the challenges and opportunities over the ED1 period are such that action will be required. This highlights the need for the assessment process to consider how well DNOs present structures will continue stakeholder relationships and use them to adapt and change their plans during delivery.

The sections in the remainder of this document follow the same structure as the table above. For each criteria, we provide an overview of the range of material in the plans. We highlight examples of leading practice where we have found them, but these are only intended as examples – other DNOs have, in many cases, undertaken similar work. We also highlight areas we think would benefit from detailed assessment by Ofgem.

We explicitly do not consider detailed financial aspects of the plans, beyond recognising and welcoming that costs for consumers will fall initially in all DNO areas – in some cases substantially – before typically rising slightly over time. We have taken this approach because the financial information presented would require a degree of expert analysis which is beyond our capacity, and also because this will be a core part of Ofgem's assessment.

Consultation with consumers and stakeholders

Ultimately, charges paid by consumers fund the delivery of DNO business plans. The first stage of our assessment process was, therefore, to ensure that:

- DNOs demonstrated understanding of the range of consumers and wider stakeholders whose views are relevant to their work
- plans set out how DNOs had gained a comprehensive and robust understanding of those views, including differences of opinion between different groups.

We recognise that, in particular, domestic consumers' understanding of the role of DNOs is often very limited. Ofgem research shows, for example, that many consumers do not know that they have a DNO, as distinct from an electricity supplier. This presented particular challenges for DNOs during the consultation phases.

Our assessment suggests that all of the DNOs responded positively to all of these challenges. All business plans describe extensive descriptions of consultation processes, including a range of different techniques appropriate to different groups. Consultation with consumers typically involved both general surveys to gauge broad opinion, combined with focus groups to explore detailed issues in more depth.

Some DNOs – Electricity North West (ENW), Northern Power Grid (NPG) – have had their consultation processes externally assessed and accredited to ensure that the results are robust and representative of the full range of stakeholder and consumer views. In addition, NPG lists different elements of the consultation process alongside an assessment of whether or not the results are statistically robust.

There is almost complete consistency in the headline conclusions presented. Overwhelmingly, consumers are concerned about the cost of electricity, and there is a strong view that DNO charges should be kept to a minimum to avoid increasing bills (and to reduce them if possible). At the same time, consumers also regard a reliable supply of electricity, both now and in the future, as fundamental to their daily lives. These headline findings are consistent with Ofgem's own research as well as between DNOs.

Positively, all DNO consultations explored consumer and stakeholder views on a range of more detailed issues. These included consumers' willingness to pay, through DNO charges, for investments in better support for vulnerable consumers, low carbon technologies, improvements for worst served consumers, or for environmental upgrading. The plans detail a range of approaches used, ranging from representative surveys to gather headline views, to focus groups on particular issues. Some DNOs have also established consumer groups to explore topics on a longer term basis.

This range of approaches seems appropriate given DNOs' low public profile. Therefore, while headline surveys will give an initial impression of consumer views, more in-depth work will be necessary to explore detailed attitudes towards investment priorities.

Although there were some slight variations between regions, the overall pattern was broadly similar, with consumers generally prioritising support for vulnerable consumers above other actions. However, concern for vulnerable and fuel poor consumers was often at a general level, rather than providing detailed suggestions.

Stakeholder views, not surprisingly, reflect the areas of interest of those involved. For example, renewable energy developers are concerned about cost, availability and timeliness of connections. Even within each community, DNOs report differences of emphasis; for example, among renewable developers, although the importance they attach to each issue varies with scale of development and experience of the organisation. DNO plans necessarily balance these responses.

The final aspect of this part of our assessment was to look at ongoing arrangements for consultation with consumers and stakeholders. It is also clear that service delivery will involve more unpredictability during the ED1 period than has been the case in the past. This is particularly the case in relation to issues such as the role out of low carbon technologies (LCTs), smart technologies and the extent and depth of DNO's broader social roles.

We believe that these uncertainties highlight the need for active and ongoing arrangements to stakeholder and consumer engagement. It therefore seems reasonable to expect DNOs to describe the structures they have established to enable them to take account of stakeholder view during the detailed planning and delivery of their plans; a number of DNOs – NPG, ENW, UK Power Networks (UKPN) – have established groups with this remit; most also plan to continue direct work with consumers.

Key assessment points:

- Consultation processes have been robust.
- There remain future areas of uncertainty for DNOs during the delivery phase of ED1, particularly around the take-up of low carbon technologies and the development of an appropriate DNO response to challenges around fuel poverty. All business plans should clearly set out arrangements through which stakeholders will continue to be involved during ED1.

Managing interruptions in supply and communicating with consumers

Not surprisingly, consultations show consistently that reliability of supply remains critical for electricity consumers. The key measures against which DNOs are judged in this regard are the number of power cuts – Customer Interruptions (CIs) – and the length of time that affected consumers are off supply – Customer Minutes Lost, (CMLs).

All business plans show that performance against both measures has improved over previous price control periods: the vast majority of consumers suffer fewer power cuts than in the past, and supplies are restored more quickly.

All DNOs, in line with Ofgem guidance, set out quantified further improvements they expect to make against both measures during ED1. All DNOs also suggest that the rollout of smart meters will help them improve reconnection times; DNOs will know in near real time when an interruption has occurred and which customers are affected without waiting for a customer to call to report a fault.

The business plans also set out, in detail, the ways in which communications used by DNOs are changing to reflect consumer preferences. By far the majority of customer contacts relate to supply interruptions, and information about supply restoration.

While telephone remains the main channel, all DNOs highlight their increasing use of text, internet and twitter as methods through which they communicate with their customers. Some DNOs suggest that wider use of new technologies will help improve the service they can provide to vulnerable consumers (covered in detail in the next section below). This is because vulnerable consumers are in many cases more likely to contact the DNO via phone, and the wider use of other technologies can reduce the demand on phone lines.

Some DNOs also describe approaches which help increase their capacity to consumer calls respond at times – for example Western Power Distribution (WPD) has arrangements in place for staff to be able to answer calls from home during times when weather prevents them from reaching their base.

DNOs also highlight a variety of approaches to enhancing Guaranteed Standards of Performance payments in relation to interruptions. Plans include increasing the sums payable to some or all consumers, and / or making payments to all consumers automatically. In both cases, PSR consumers are positively targeted.

As highlighted in the introduction, reliability is one area where the complexity and technical nature of the business plans makes it difficult to comment in detail, although the direction of travel is clearly positive and in line with consumer expectations. Plans for improved communication with consumers are both welcome and in line with consultation findings.

Key assessment points:

As these are areas where DNOs have a strong track record, the changes proposed represent positive but consistent steps building on past performance.

- The quality and reliability of service for consumers has improved over previous price control periods, and business plans suggest that this positive trend will continue.
- DNOs are also improving and widening their communication with consumers.
- Approaches to Guaranteed Standards of Performance are also being enhanced.

Improving the experience of vulnerable consumers

In common with electricity and gas suppliers, DNOs maintain a list – Priority Service Register (PSR) of their vulnerable customers. The PSR is the main mechanism through which the companies recognise those of their customers who require particular assistance in the event of a power cut, and can respond appropriately to meet their needs.

DNOs already deliver this type of support, generally in partnership with other agencies, especially those in the voluntary sector. The support DNOs provided can range from hot drinks, meals, torches or telephones, to diesel generators, for example for those dependent on electricity to operate medical equipment. Some, including Scottish Power Energy Networks (SPEN) make hotel accommodation available for consumers facing longer interruptions. Others, especially Scottish and Southern Energy Power Distribution (SSEPD) in the context of the winter 2012/13 power cuts on Arran, highlight the need for the DNO to work as a member of a multi agency team, going beyond the traditional role where necessary.

DNOs have highlighted a number of enhancements to this system which are being introduced under ED1, or in some cases, earlier:

- There is recognition across the sector that the quality of data on PSR consumers needs to be improved. Companies are therefore contacting PSR consumers (at intervals of between one and two years) to check that the information on the consumer's circumstances is accurate; DNOs are also, increasingly, working with partners to promote the PSR and the services provided to consumers who register.
- Building on the section above, ways in which DNOs communicate with vulnerable consumers is changing. For example, some DNOs systems recognise PSR caller numbers and prioritise them so that they are put straight through to an agent without having to listen to a recorded message first.
- In addition, companies increasingly recognise that temporary consumer vulnerability can and does go beyond those on the PSR, depending on individual circumstances at the time.

Accordingly, all note that they are training their staff to better understand and recognise signs of vulnerability, and introducing more flexibility in service delivery accordingly.

This is an area where DNOs are making further progress from an already well-developed starting position. We would suggest that a logical extension would be for DNOs to adopt the recent British Standard 18477 on consumer vulnerability¹; all plans already refer to the standard as part of the context for this area of work.

Key assessment points

Again, this is an area where DNO plans build further on a strong basis.

- All describe detailed partnership working agreements with a range of agencies to ensure that a range of enhanced services for vulnerable consumers are available.
- All are seeking to improve the information they hold on vulnerable consumers.
- All increasingly recognise wider issues of vulnerability.

Improving the experience of worst served consumers

Worst served consumers (WSC) are those who experience a significant number of power cuts. Ofgem defines the threshold as those experiencing at least four higher voltage interruptions per year over a three year period, with a minimum of three higher voltage interruptions in each year.

While the proportion of consumers who fall into this group is very small, the impacts on those consumers are clearly significant. Ofgem has set out a process through which DNOs must reduce, by a minimum proportion, the numbers of consumers who fall into this category. The process includes a financial allowance to help fund the necessary investment, but, especially as the focus moves to those areas which would require greater investment, DNOs report that the costs of upgrading would be far greater than the allowance available.

Accordingly, consultations with consumers and stakeholders have explored the extent to which they are willing to pay for improvements for worst served consumers. In the majority of cases, consultation responses have not suggested that DNOs should go beyond the improvements suggested by Ofgem. The exceptions to this are the SPEN south of Scotland area, where the DNO aims to reduce WSC numbers by 30 per cent rather than 20 per cent, and ENW, where the company intends to reduce the number of WSCs to zero by the end of the ED1 period.

¹ <http://bit.ly/16oyW0V>

Given that consumers, overall, regard reliability of supply as their most important priority, we believe that more progress should be made to improve the experience of these consumers. At the same time, we recognise that consumers generally fall into the worst served category where the distribution network has no redundancy, and it would be very expensive to address this.

We would therefore suggest, while greater reliability should remain the ultimate aim, there may be scope to improve the experience of worst served consumers in the short term. For example, measures to improve the energy efficiency of individual houses, or to install heating systems not dependent on a constant supply of electricity, might help reduce the impacts of repeated power cuts, especially for vulnerable consumers.

Key assessment points

This is an area where DNOs are continuing to make incremental improvements.

- While progress is in line with consultation findings, a reduction in numbers of 20 per cent (in most areas) of WSC implies that the majority will continue to experience considerable interruption to their supplies for many decades to come.
- Some business plans also note the significant cost of improvements, particularly where the investment is very large when set against the small number of consumers who would benefit. We would suggest that, where investment costs are prohibitive, DNOs should explore what other measures might be taken to improve the experience of these consumers.

Take-up of low carbon technologies

The sections above discuss activities on which DNOs have been working for many years, and the changes proposed can therefore be seen as positive, but evolutionary progression. In contrast, the widespread take-up of LCTs (small and medium scale electricity generation, solar photovoltaic panels, heat pumps, electric vehicles) is an area where much more rapid change is anticipated during ED1.

The majority of business plans covering England, with a few exceptions, assume that take-up of household LCTs will be limited, in line with the lower end of DECC's predictions. DNOs covering Scotland and to some extent Wales predict higher take-up, on the basis that devolved government policies aim to encourage these technologies to a greater extent. All recognise that public sector policy and subsidies will be a key determinant of take-up, as was the case with solar PV. DNOs predicting low take-up all state that they would be able to manage an increase in connections, were that to materialise.

There are a number of consumer issues in this field, and these vary between technologies. Widespread adoption would mean that DNOs had to upgrade their networks, and so incur costs which are smeared across all consumers, so it is important to consider which groups of consumers are more likely to benefit. This is especially the case given recent Consumer Futures' work showing the regressive distributional impacts of levies and charges on electricity bills.

Take-up of solar PV was initially more common among better off consumers, and was driven by the initially high levels of Feed-In Tariff payments. More recently, however, there has been greater adoption of solar PV by the social housing sector, driven by the aims of reducing both electricity bills for tenants and climate change emissions.

We would expect take-up of heat pumps to follow a similar pattern, as the Renewable Heat Incentive is available to both private householders and social housing providers. Consumer Focus Scotland work highlighted the use of these technologies by social housing providers aiming to provide affordable warmth for tenants².

Projects led by social housing providers will typically result in installation clusters, which may require management by (and therefore incur costs for) DNOs. Given the running costs when compared with mains gas, we would also expect that take-up of heat pumps will be concentrated in off-gas grid areas.

We would therefore expect DNOs to develop better linkages between aspects of their low carbon work, and their work in relation to fuel poverty and social issues going forward. WPD is undertaking research which will help the company better understand these relationships.

In contrast, we would anticipate that take-up of electric vehicles will remain concentrated among better off consumers, given the high capital costs. On balance, this suggests that LCTs are likely to provide most benefit to those towards the top and bottom of the income scale, with fewer benefits likely, at least in the short term, for middle income households.

Consumer issues around small scale renewable energy development (distributed generation) are more complex for two reasons.

Firstly, those seeking to develop community projects share some characteristics with domestic consumers, in that they are likely only to install a single technology on a single occasion. There is therefore a difference between the support they might reasonably expect, and the lower level of support which a larger, commercial generator would require. SSEPD in particular has introduced a higher level of support for this type of customer.

² <http://bit.ly/15AdcxZ>

These could, for example, include account managed discussions about different connection options available to reduce or avoid network upgrading costs, as opposed to a single ‘take it or leave it’ approach. Others, including SPEN and NPG, are developing on line tools which are intended to make the development and assessment connection process more straightforward.

Secondly, Ofgem has suggested that there could be electricity supply constraints during the course of ED1, particularly as coal fired power stations come to the end of their operational lives. At the same time, DNOs have noted that grid capacity in some parts of their areas (for example, Northern Scotland, the northern part of EPN) is very limited. This creates a barrier for potential distributed generation consumers, as the current model requires those consumers to pay for any upgrading work needed to connect.

This model is effective in controlling the DNO cost element of bills; however, if a supply constraint does occur, it is likely that it will result in higher and more volatile prices for consumers, until the market responds by bringing on new capacity which is economic only at higher prices. So, there is at least a risk that total costs for consumers could be larger than might otherwise be the case. This is clearly a complex area, and one which we therefore raise for discussion rather than expect to see addressed in business plans at present.

Key assessment points

- There remains considerable uncertainty in predictions of take-up of different low carbon technologies; UK and devolved government policies are critical influences on this area. DNO plans therefore recognise the need for flexibility.
- Individual consumers, or agencies acting on their behalf, should not, if at all possible, be blocked from installing solar PV or heat pumps which will reduce their domestic energy costs. Related to this, DNOs should consider and demonstrate linkages between the use of low carbon technologies and their social obligations.
- There is likely to be further demand for connection of small or community level distributed generation during ED1. DNOs increasingly recognise that this group of consumers requires greater and different types of assistance.

Wider DNO action on fuel poverty

There is a high degree of consistency among DNOs in relation to the feedback from consultations on this topic; all note that stakeholders regard this as a priority area. However, there is considerably less agreement about what an appropriate role for DNOs would be in addressing fuel poverty.

We recognise that this debate is currently at a relatively early stage, characterised by pilot projects and discussion forums. It would therefore not be appropriate to expect DNOs to present detailed plans in this area.

However, given that ED1 covers the period until 2023, and that levels of fuel poverty are rising, neither do we believe it would be appropriate to wait until the next price control period to identify and take action.

At present, all DNOs emphasise that costs to consumers of the distribution element of their bill will fall (excluding inflation) during ED1. In addition, all will create referral pathways, so that DNO staff are better able to recognise fuel poverty and signpost consumers to appropriate assistance.

Our view is that reductions in DNO costs are very welcome and that signposting is helpful but – as NPG in particular explicitly recognises – there remain upward pressures on electricity prices.

We therefore believe that there is scope for DNOs to explore ways in which they might be able to take more substantial action. Ideally, projects would bring together DNO and other available funding in a way which would make business sense, and which could therefore be mainstreamed without increasing DNO costs. Pilot projects and discussion suggest that this combination is most likely to occur where energy efficiency work facilitated by a DNO reduces or delays the need for network investment.

For example, removal of electric heating in favour of gas central heating (at either individual or communal scale) can reduce electricity demand in urban locations; electric heating is often used in social housing, and so opens up access to different funding streams. Alternately, SSEPD highlights a Low Carbon Networks Fund project which has installed new electric storage heating as a means of helping generating capacity find a market, in a location where grid access is constrained. The Government has recently set aside up to £75 million in funding for electricity demand reduction pilot projects. The detail of these pilots is as yet undefined, but networks may be able to play a positive role in delivering them.

We appreciate that this is perhaps the furthest from DNO's traditional activities of those considered in the business plans. We would therefore suggest that plans should provide details of how pilot projects might be developed; partnerships will be essential in this context.

Key assessment points

- All DNOs – rightly – highlight lower prices and development of referral pathways as contributions to reducing fuel poverty, but understanding of what more might be done remains limited.
- Many DNOs are involved in, or are developing, pilot projects which will test the costs and benefits of more substantial actions to tackle fuel poverty through energy efficiency. We believe this approach presents a significant opportunity to complement existing work.
- It would not be appropriate – or effective – for DNOs to duplicate existing structures. Business plans should, however, set out the partnership mechanisms through which future activity can be better understood.