



Action for Warm Homes

National Energy Action's response to Ofgem's consultation on the Electricity Distribution Networks Operators' resubmitted business plans

1. About NEA

NEA is a national charity working to increase investment in energy efficiency within vulnerable households. NEA believes that radically improving the fabric and heating of our homes represents the most cost effective long-term solution for tackling high energy bills and helping to eradicate fuel poverty.

NEA estimates that the charity has helped over 7.5 million households in the UK gain access to energy advice and energy efficiency grants. Over £110m of energy efficiency improvements have been installed through NEA's Warm Zones subsidiary community interest company which focuses on delivering a wide set of benefits to low income households in deprived areas. Through NEA's in-house training scheme around 20,000 people have obtained NEA/City and Guilds energy awareness qualifications. NEA also identifies and shares best practice and has built capacity in communities to deliver energy efficiency and fuel poverty solutions for over 30 years. NEA has also developed partnership arrangements with both Gas Network Operators (GNOs) and more recently Distribution Network Operators (DNOs).

2. Background to this response

Ofgem have stated within the strategy decision overview for RII0-ED1 that DNOs have a key role to play in identifying fuel poor and vulnerable customers and delivering solutions (either themselves or by partnering with others). NEA welcomes these new social obligations and agrees that this will require a major cultural and behavioural shift. Ofgem must now ensure DNOs' business plan submissions demonstrate their strategy for realising these objectives. In particular, the business plans should:

- Explain how they will improve the quality of information they (or other parties) have access to about vulnerable consumers and provide sufficient detail on how this information will be used so that consumers get the support and services they require.

- Illustrate how they will continue to engage with a wide range of stakeholders such as local authorities, devolved administrations, health providers, obligated energy suppliers, other energy distributors (both gas and electricity), other utility providers and community groups throughout the ED1 period. This engagement should consider how best to continue to refine and update the information they collectively hold on consumers in vulnerable situations and clearly illustrate how they will exploit the linkages between respective parties' obligations and responsibilities in relation to vulnerable consumers. These activities should include detailed plans on the delivery of additional assistance to customers that are on their Priority Service Register (PSR), not just within outages but throughout the ED1 period on a range of social activities.
- Clearly explain the on-going steps they will take to publicise the benefits that are offered through the PSR, ensuring that their PSR captures all of those that should be included.
- Where DNOs state they will refer vulnerable customers to assistance provided by other parties, the business plan must clearly state how the DNO will take steps to assist in the referral (i.e. by making sure these sources of help are directly relevant to the circumstances of that household, the support being recommended is able to accept new applications at the time the referral is made and the recommended programmes are specific to the geographical location of that household (e.g. ECO in England, HEEPS and Nest schemes in Scotland and Wales and any services identified at a local authority level).

Ofgem should also make it clear to all DNOs that their role to provide assistance to vulnerable and fuel poor households is not restricted to the development, maintenance and delivery of enhanced services under the PSR. NEA has previously welcomed Ofgem stating that measures enabling more efficient use of energy for fuel poor households (through alternate heating technologies or in-home energy efficiency measures) might offset the need for wider network reinforcement. However, NEA has seen few references to these opportunities within DNOs' initial or resubmitted plans (especially in relation to reducing load related reinforcement outside of innovation). NEA therefore continues to urge both Ofgem, the Department for Energy and Climate Change (DECC) and DNOs to take into account the latter's ability to:

- I. Identify ahead of time load related 'reinforcement hotspots' across their geographic territory
- II. Obtain a forecast of the business as usual reinforcement costs
- III. Establish an alternative cost-benefit analysis indicating which 'other actions' could be taken to either defer or mitigate the reinforcement need in an area entirely (through permanent electricity demand reductions, not demand shifting). This will require working with supportive agents to simultaneously assess the scale of electricity demand reduction potential within that area of the network and aggregate this potential

- IV. Identify complementary domestic energy efficiency activity that is also currently being planned within this area and match the initial alternative investments to this existing or planned activity within that area and approach the delivery partners (this latter element is critical because the most valuable role DNOs can play is simply to provide capital to an existing or planned project, rather than starting a new one)
- V. Grade the potential aggregation of electrical demand reductions by prioritising electrically heated **domestic** customers on the basis that there are positive social impacts and wider benefits (reduction in local health costs etc)
- VI. Provide capital or develop projects which meet the 'Golden Rule' test set out below
- VII. Produce annual reports on the aforementioned activity.

For purposes of clarity, the alternatives to reinforcement could be in the form of replacing inefficient electrically heated systems in tower blocks through a contribution towards a modern efficient district heating network, upgrade electrical heating systems, help fund extensive solid wall insulation and make or provide capital towards lighting improvements etc. As noted above, whilst the contribution towards these measures could be made independently, this approach should also aim to link up to other pre-existing projects (funded under Green Deal, ECO or help make a contribution towards new gas connections in blocks of less than three storeys in height).

As noted above, the value of the proposal for all energy consumers should be safeguarded by a variation of the current 'Golden Rule' (the contribution by the DNO to the cost of these alternative projects would always have to be lower than the cost of the network reinforcement). The emphasis would then encourage DNOs to work with different parties to take a longer-term view of reinforcements to their network, leverage additional funds based on other parties' existing obligations and make sure the investment is cost effective (benefiting all energy consumers) whilst also ensuring that there is a direct social outcome.

NEA is very supportive of this form of permanent electricity demand reduction initiative and the role it could potentially play within the UK energy system. NEA therefore notes (and welcomes) that under the requirements of the EU Energy Efficiency Directive, by 30 June 2015, Member States shall ensure that:

- (a) an assessment is undertaken of the energy efficiency potentials of their gas and electricity infrastructure, in particular regarding transmission, distribution, load management and interoperability, and connection to energy generating installations, including access possibilities for micro energy generators;
- (b) concrete measures and investments are identified for the introduction of cost-effective energy efficiency improvements in the network infrastructure, with a timetable for their introduction.

According to the UK National Energy Efficiency Action Plan¹ the UK will transpose the requirements in Article 15(2) through secondary legislation under section 2(2) European Communities Act 1972 by placing a requirement on Ofgem to ensure the assessment is undertaken and that concrete energy efficiency improvements are identified. The secondary legislation will be in force by 5 June 2014. In direct response, NEA would assert that the aforementioned activity must play a critical part of these new regulations and ensuring this outcome within regulations is warranted to ensure all DNOs are aware of this opportunity, act on it and embed these principles alongside a direct social outcome from day one of ED1 (which coincides with the implementation date of the requirements of the Directive).

This approach is necessary because whilst NEA acknowledges DNOs will be subject to a generic 'efficiency incentive' during ED1 and will be encouraged to foster innovation (through innovation funds like the current Low Carbon Networks Fund) without a deliberate intervention to require a range of parties to work together to identify this energy efficiency in network design and introduce suitable regulation in Great Britain; this activity is highly unlikely to happen naturally (in particular getting the engagement between DNOs and obligated suppliers on ECO) within the ED1 period². Beyond these regulations, harnessing this potential will also require the active support (and close collaboration) of Ofgem, DECC and input from external organisations like NEA, ENA, Energy UK and Citizen's Advice (ahead of the draft regulations being laid).

One further suggestion which could be required within these regulations (which could further cultivate this model) is the need for DNOs to report to Ofgem annually on this activity and for Ofgem to produce an annual report on all of the aforementioned activity. This information could then be easily embedded within Ofgem's current annual reporting on other social obligations etc. This would require DNOs to report to Ofgem (in a consistent template that Ofgem would provide for them) which network reinforcements they have made over the year and what agencies (local authorities, social housing providers and obligated parties, i.e suppliers delivering ECO etc) they have looked to consult in order to consider the opportunities to make an 'alternative investment' to defer load related network reinforcements and report on any direct social outcome (the emphasis on direct is critical as any activity that reduces reinforcement of the network overall could be said to have a social benefit as it would reduce energy prices). Once the proforma and process were well developed, this would then be a vital tool for assessing whether this opportunity is being fully captured (or ignored) and this information can then be used to inform whether further, more prescriptive, regulations are required (before the end of the ED1 period).

¹ UK National Energy Efficiency Action Plan: DECC, April 2014.

² DECC state within the plan that Ofgem's RIIO regulatory price control framework already incentivises energy efficiency improvements in infrastructure design and operation. As part of the RIIO process, a range of information is being collected on the physical characteristics of the networks and improvement measures identified. This will form the basis of the assessment to be undertaken under Article 15(2).