

31 January 2013

Dear Dora,

**RE: Low Carbon Networks Fund – Electricity Demand letter**

British Gas is a strong proponent of the Low Carbon Networks Fund (LCNF), as can be seen by our active participation in the Customer Led Network Revolution and our support of Low Carbon London. We consider that the LCNF projects are a great learning opportunity and will provide invaluable knowledge around consumer behaviour and engagement, which will be utilised in GB Smart Grids development and in the propagation of Low Carbon Technology. These are areas where there are currently insufficient market drivers to establish a commercial market but will play a pivotal role in the decarbonisation of the energy sector in the future.

We feel the proposed change to widen the scope of the LCNF to include other forms of demand response is unnecessary and has the potential to set a precedent that may have unintended consequences that could skew the development of the demand side response (DSR) market.

**Our concerns**

It is unclear what technologies and products are currently excluded from the LCNF that this change will facilitate the use of. Current technologies that enable load shifting, such as electric vehicles, heat pumps and smart appliances are already being used within LCNF projects.

The examples cited in the letter are ‘energy saving light bulbs and insulation’. These raise significant concerns as they are covered by the ECO and Green Deal government programmes respectively. Ofgem should seek to avoid a situation where LCNF funds are being used to provide products and services to customers that they would normally receive under existing programmes. This would be inefficient and a misappropriation of funds at a time when there are already significant customer complaints around the cost of energy.

We are comforted to an extent by the requirement that any use of the LCNF must be a novel arrangement that is unproven in GB. We consider that this requirement will need to be adhered to stringently to ensure that there isn’t unnecessary spend, if this change goes ahead.

We recognise that there are areas of demand reduction that do not relate to a product and can be services offered to customers but we have strong concerns around network companies approaching customers to offer services and products. It’s likely that customer confusion will result from being approached by a company

they have virtually no relationship with. Suppliers are responsible for maintaining the customer relationship and have the necessary infrastructure in place to deal with customer queries. Any disintermediation in this relationship by network companies will likely result in significant customer detriment as these companies are not set up to maintain this relationship nor do they have the necessary licence conditions in place to afford sufficient protection to consumers. These concerns are most applicable to domestic and small business customers.

We consider there should be a requirement for network companies to work with an organisation that holds the customer relationship, whether this is the supplier, aggregator or local authority housing association.

LCNF project will coincide with the smart metering rollout – a time when significant consumer engagement will be necessary. Suppliers will be working closely with DECC to ensure clear communication with consumers around the benefits of smart metering. Network operators approaching customers with offers of new technologies and products are likely to lead to customer confusion, with the potential to result in negative views towards smart technology that may impact adversely on the smart rollout.

As expressed above, we have concerns that this change will facilitate network companies interacting directly with customers at a time when this relationship has not been thought through. We consider it an inefficient use of resource for network companies to be engaging with customers and small businesses. This matter needs to be fully explored before a decision is made regarding whether it is a feasible part of the LCNF.

The right forum for these discussions would be the DSR market work stream within the Smarter Markets Strategy. We consider that until all the pros and cons of network companies working directly with customers have been elucidated, that this change to the LCNF is put on hold until that date.

## **Questions**

In answer to your questions, we agree that demand reduction is an important resource for LCNF learnings but there is nothing currently preventing network operators from using it as part of an LCNF project as long as they have an enabling partner working with them.

We do not support the proposed wording as we deem it both unnecessary and setting a precedent to allow network companies to interact directly with customers, and the consequences of this have not been fully explored.

If you have any questions on our response please contact Tabish Khan in the first instance on 07789 575 665 or [Tabish.khan@britishgas.co.uk](mailto:Tabish.khan@britishgas.co.uk).

Yours sincerely,

**Sharon Johnson**  
**Head of Smarter Regulation and Industry Codes**