

SAVE project

Regulatory Impact

June 2019



Scope of Regulatory Research

- Reviewed published regulation, policies and literature on other energy efficiency schemes to understand barriers and opportunities to DNO deployment of SAVE Methods as BAU.
 - Licence Conditions, R110 and R1102, Smart Systems and Flexibility Plan, the Open Networks Project, the Carbon Plan and literature on energy efficiency schemes such as Green Deal, ECO, and other LCNF projects.
 - A review of the distribution network charging methodology the was out of scope of this project.
- Interviewed a number of wider stakeholders (local authorities, consumer advice groups, charities) on their thoughts on DNO delivery of EE or DSR.

ofgem



ena
energy networks
association



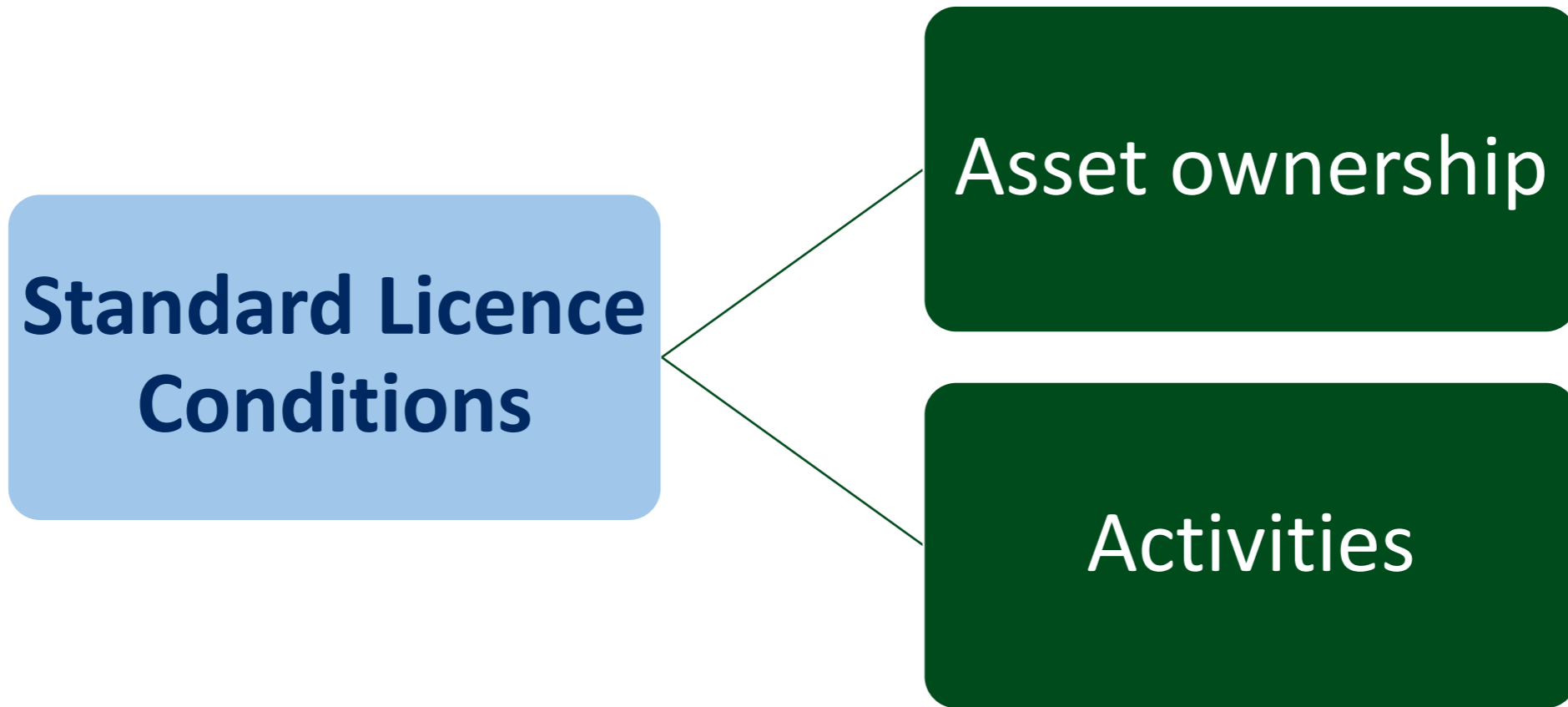
LCN Fund
Low Carbon Networks

Scottish & Southern
Electricity Networks

Regulation and policies considered

- **SLC** provides rules for the assets a DNO may own and the activities it may carry out.
- **RIIO** required SAVE methods to be cost-effective when compared to traditional reinforcement.
- **Recent policy documents and industry initiatives** tend to be facilitative of the SAVE methods in general:
 - **SSFP**: regulated networks should not interfere with competitive markets, the potential need for charging reform, consumer protection (including fair distribution of costs and benefits) and facilitating effective markets.
 - **ENA ON**: provide broad confirmation of future DSO considerations and responsibility in this area, as well as potential considerations around charging providers of alternative solutions.
 - **Greg Clark Speech**: confirms the government commitment to fairness and effective, competitive markets set out in the SSFP.
- **Carbon Plan and Low Carbon Transition Plan** do not pose any barriers to SAVE methods. LCTP facilitates actions such as energy efficiency at consumer and local level, energy use reduction and community energy coaching.

Regulatory barriers



Issues with DNO asset ownership

Feature

- SLC1: Most SAVE assets are not covered by the definition of “distribution system”

Interaction

- LEDs and household monitoring equipment cannot reasonably be considered assets used in distribution
- LEDs are initially owned by the DNO but then donated to customers
- Ownership of household electricity monitor was held by SAVE project (DNO)

Considerations

- DNOs can spend on these interventions only if they are the most efficient way to manage the network
- Assets could also be provided by a third party

Issues with DNO activities

Feature

- **SLC4:** “not restrict, prevent, or distort competition in the supply of electricity or gas, the shipping of gas”
- **SLC10A:** Obtaining and using data may not be “capable of being associated with a Domestic customer at relevant premises”
- **SLC19:** DNOs must not discriminate between (classes of) persons

Interaction

- Reductions in consumption affect the commercial outcome for electricity wholesalers and retailers and can be seen as distortive
- Customer specific data is required for SAVE
- Costs spread across all customers, with only some receiving the SAVE interactions

Considerations

- If delivered by DNOs, market distortion and discrimination may not be avoidable
- Requires customer consent for use of data; is likely possible
- DNOs need to show SAVE would be most economic approach and therefore benefits for all customers
- Competitive procurement from 3rd party may solve many of these

Wider policy

- Government policies were generally facilitative of SAVE
- Most policy documents and public statements recognise the role of EE and peak reduction in the low carbon economy, although they generally do not state this as role for DNOs
 - Ofgem has considered DNO engagement in EE activities as part of its RIIO2 review, but considers this a policy issue that government has yet to explore
- BEIS's 'Call for evidence on building a market for energy efficiency' explicitly recommends exploring how DNOs may be incentivised to deliver energy savings
- Wider stakeholders were keen to explore potential cost efficiencies in collaborative working at community level



Other EE schemes

- Potential interactions with other nation-wide EE schemes is low
- ECO is primarily focused on improving thermal efficiency of homes and heating, so low interaction with SAVE methods
- There is some overlap with Green Deal as it could recommend LED lighting but is generally focused on thermal efficiency and heating
- Most other national schemes are focused on renewables or heat only and therefore would not interact with SAVE in any negative way



Conclusions and recommendations

- Potential barriers to wider, BAU SAVE deployment do exist
- Main barrier stems from standard licence conditions, specifically to non-discrimination and market distortion
- However these have not always been enforced when other utilities deliver efficiency upgrades
- To access the benefits of EE and DSR (like SAVE), DNOs need to maximise returns under RIIO and ensure:
 - Solutions provide net benefits to all connected customers
 - Solutions are delivered in a way benefits are maximised
- Wider stakeholders noted that DNOs may not be well known or trusted by consumers

Conclusions and recommendations

- Cost-efficiencies of joint utility / multi-agency collaboration offer particular potential at constrained community level
- Barriers generally point to third-party delivery on behalf of DNOs
- As a DSO, operators will take a more active role in network management
 - SAVE methods represent a new tool
 - Allow customers to engage with the energy market
 - Can be competitively procured
 - Opportunities for additional opportunities with IoT enabled appliances and wider smart meter roll out
- Government needs to determine if DNO sponsored EE constitutes market distortion

Thank you

Elizabeth Steele – DNV GL

Elizabeth.Steele@dnvgl.com

