

Distribution Network Operators

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Dear Licensees,

Low Carbon Networks (LCN) Fund - Funding Direction¹ 2022/23

We issue a direction (the Funding Direction) every year pursuant to the provisions of Section 3 of the LCN Fund Governance document and Charge Restriction Condition (CRC) 2J of the Electricity Distribution Licence.² This Funding Direction details the amount (if any) each Licensee can recover from (or is required to return to) customers through Use of System Charges in relation to Eligible LCN Fund Projects. This Funding Direction applies to all DNO Licensees subject to CRC 2J ('the Licensee').

In 2022/23 Licensees are returning £3.26 million to customers as the Authority determines, under CRC 2J.13, that revenues received under the Second Tier and Discretionary Funding Mechanism have not been spent. The net effect is that Licensees will return £3.26 million through their 2022/23 charges. This is set out in Table 1 of the Schedule to Funding Direction below.

Background

As the potential learning from the LCN Fund Projects provides benefits to all Licensees, the projects were funded by all Licensees through Distribution Use of System Charges (DUoS). Therefore, we are amending the allowed revenues of all Licensees for the Relevant Year 2022/23 and setting out the amount each needs to transfer to the other Licensees. This is listed in Tables 1 and 2 of the schedule to this Funding Direction.

There are four broad categories of changes affecting funding that may be applicable each year:

¹ All figures referred to in this letter are nominal. Exact figures can be found in the Schedule to this letter.

² https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/lcnf_gov_doc_v7_-_final_clean_0.pdf.

- The Successful Delivery Reward (SDR)
- Fund Returned Project Revenues
- Discretionary Funding (such as the Second Tier Reward)
- other changes (such as for LCN Fund Royalties, Halted Project Revenue and Disallowed Expenditure).

Successful Delivery Reward

In 2021, we conducted our seventh assessment under the RII0-1 price control of the SDR. There were no assessments on LCN Fund projects. For the SDR we assess whether the projects had been sufficiently well managed and whether they met their expected outputs based on quality, cost and time. The maximum available reward for each project is equal to the network company's 10% compulsory contribution to the project. The awards to be returned to each Licensee are set out below:

Licensee	Project	SDR (£)
N/A	N/A	N/A
Total	N/A	N/A

Fund Returned Project Revenues

Two LCN Fund Second Tier projects³ concluded in the past year and there was an underspend on the project budget. The amount of any unspent funds to be returned to customers by the Licensees is set out below:

Licensee	Project	Underspend (£)
UKPN (LPN)	SNS	95,760.00
WPD (WMID)	FlexDGrid	3,168,737.12
Total		3,264,497.12

Discretionary Funding

This year, there is no discretionary funding to be awarded. There are two windows for projects to be assessed under the Second Tier Reward. The first took place in 2018. The second and final window will take place in 2022.

Other changes

This year, there are no other funds (such as Royalties from Intellectual Property) that need to be returned to customers.

³ Further information on the SNS project and FlexDGrid project can be found on the UKPN and WPD websites respectively.

Net effects

We are amending the allowed revenues of all Licensees for the Relevant Year 2022/23 through this funding direction. Where a Licensee has been affected by more than one change, we have calculated the net effect on its revenue.

To implement these amendments to Licensees' allowed revenues, in accordance with the LCN Fund Governance Document, the Schedule to this Funding Direction includes the following information for the Relevant Year 2022/23:

1. It sets the value LCN2_t for each Licensee. This is the amount to be recovered by each Licensee through Distribution Use of System Charges (DUoS) in order to contribute to its own or another Licensees' Second Tier Funding.
2. It identifies the net amounts to be transferred between Licensees in order to ensure that each Licensee receives an amount (if any) equal to the proportion of the Second Tier Funding that is attributable to the Licensee's Eligible LCN Fund Projects (taking into account any funds returned to customers by existing projects, Halted Project Revenue and Disallowed Expenditure).
3. Sets out the manner in which, and timescale over which, the net amounts are to be transferred.

In accordance with CRC 2J of the Electricity Distribution Licence and with the LCN Fund Governance Document, the Authority hereby requires all relevant Licensees to comply with the conditions in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.



Steven McMahon

Deputy Director, Networks

Signed for and on behalf of the Authority

Schedule to Funding Direction

1. The value that each Licensee must recover from customers to cover Second Tier and Discretionary Funding in 2022/23

Table 1 contains the amount that the Licensees must recover in the Relevant Year commencing 1 April 2022. The amount that the Licensees must recover is based on the total Approved Amounts⁴ for Relevant Year 2022/23 shared according to each Licensee's customer numbers in 2021/22. This also takes account of the funding returned by existing projects. The amount each Licensee must recover constitutes the value for $LCN2_t$ in the LCN_t Formula for the purposes of Part B of CRC 2J of the Electricity Distribution Licence.

2. The net amounts that must be transferred between Licensees

Table 2 contains the net amounts that must be transferred between Licensees over the Relevant Year commencing 1 April 2022. The Licensees named in column 1 of Table 2 must transfer the amounts contained in each of the columns 2 to 15 to the Licensees named at the top of that column. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

3. The manner and timescale over which the net amounts will be transferred

The transfers must be made on an equal monthly basis, for the entirety of the Relevant Year commencing 1 April 2022 such that the total amount transferred over the Relevant Year commencing 1 April 2022 equals the net amount set out in Table 2.

The Licensees that will be receiving funding from other Licensees must provide their bank account details to the Licensees that will be transferring funding by 1 March 2022. Licensees will make transfers to the specified bank accounts on the day of the month agreed by the Licensee making the transfer.

⁴ Approved Amount has the meaning given in CRC 2J Part F.

Table 1: Amounts to be recovered through the LCN2 term in Relevant Year 2022/23

Licensee	Number of customers	LCN2 (£)
Electricity North West Limited (ENWL)	2,405,770	£(260,988.68)
Northern Powergrid (Northeast) Ltd (NPgN)	1,614,053	£(175,099.68)
Northern Powergrid (Yorkshire) plc (NPgY)	2,318,718	£(251,544.89)
Southern Electric Power Distribution plc (SSES)	3,110,203	£(337,408.72)
Scottish Hydro Electric Power Distribution plc (SSEH)	785,183	£(85,180.16)
Scottish Power Distribution Ltd (SPD)	2,010,896	£(218,150.98)
Scottish Power Manweb plc (SPMW)	1,523,255	£(165,249.51)
Eastern Power Networks plc (UKPN EPN)	3,664,189	£(397,507.59)
London Power Networks plc (UKPN LPN)	2,375,701	£(257,726.66)
South Eastern Power Networks plc (UKPN SPN)	2,319,494	£(251,629.07)
Western Power Distribution (Midlands East) plc (WPD EMID)	2,674,911	£(290,186.29)
Western Power Distribution (South Wales) plc (WPD SWALES)	1,147,345	£(124,469.11)
Western Power Distribution (South West) plc (WPD SWEST)	1,636,981	£(177,587.01)
Western Power Distribution (WMID)	2,505,140	£(271,768.78)
Total	30,091,839	£(3,264,497.12)

Table 2: Amounts to be transferred between Licensees (£)

Licensee transferring:	Licensees receiving:														
	ENWL	NPgN	NPgY	SSES	SSEH	SPD	SPMW	UKPN EPN	UKPN LPN	UKPN SPN	WPD EMID	WPD SWALES	WPD SWEST	WPD WMID	Total transferred
ENWL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
NPgN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
NPgY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
SSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
SSEH	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
SPD	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
SPMW	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
UKPN EPN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
UKPN LPN	7,655.78	5,136.33	7,378.76	9,897.47	2,498.66	6,399.19	4,847.39	11,660.40	0.00	7,381.23	8,512.26	3,651.15	5,209.30	0.00	£80,227.90
UKPN SPN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
WPD EMID	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
WPD SWALES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
WPD SWEST	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	£-
WPD WMID	253,332.90	169,963.35	244,166.13	327,511.25	82,681.50	211,751.79	160,402.12	385,847.20	242,194.56	244,247.84	281,674.04	120,817.96	172,377.72	0.00	£2,896,968.34
Total received	260,988.68	175,099.68	251,544.89	337,408.72	85,180.16	218,150.98	165,249.51	397,507.59	242,194.56	251,629.07	290,186.29	124,469.11	177,587.01	0.00	£2,977,196.25