



Making a positive difference
for energy consumers

To All Network Colleagues

Email: Mohammad.Miah@ofgem.gov.uk

Date: 24 January 2023

Dear Colleagues,

Decision on Second Tier Reward for the Low Carbon Networks Fund

This letter sets out our¹ assessment process and determination of reward for the Second Tier Reward (STR) of the Low Carbon Networks Fund (LCNF).

The intent of the LCNF is to enable DNOs to explore and implement innovative and cost effective methods of facilitating the networks' low carbon transition. The STR seeks to imitate the commercial benefits of innovation by rewarding DNOs for exceptional performance in delivering innovation projects. The STR was designed to act as an incentive for DNOs to undertake each Second Tier Project so as to meet the Discretionary Reward Criteria. In August 2022, we received three applications for the STR. Ofgem and an Expert Panel reviewed the applications against the reward criteria set out in the LCNF Governance Document² and the Guidance Note³. The Expert Panel produced a report (Second Tier Reward Recommendation Report, STRRR⁴) recommending those projects that, in its opinion, qualify for a financial reward under the STR. The STRRR is published alongside this

¹ References to "Ofgem", "the Authority", "we", "us" and "our" are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

² [Low Carbon Networks Fund Governance Document v.7](#)

³ [Guidance note for the Low Carbon Networks Fund Second Tier Reward 2022 | Ofgem](#)

⁴ Expert Panel Second Tier Reward Recommendation Report

decision letter on our website. All the Second Tier Reward Reports submitted (STR submissions) by the DNOs are also available on our website⁵.

Based on the Expert Panel's recommendations, which we considered and approved, **we have decided on a total reward of £0.3 million for one out of the three projects.**

The three Projects submitted for STR were:

- **CLASS – Submitted by Electricity North West (ENWL)**
- **SMART STREET- Submitted by Electricity North West (ENWL)**
- **ARC- Submitted by Scottish Power Energy Networks (SPEN)**

The Discretionary Reward is designed to reward DNOs that provide evidence of exceptional performance against relevant criteria and effort or outcomes for consumers (over and above what might be expected of projects at the time of original funding).

These Projects differed in their scope and value from First Tier LCN Projects and consequently were subject to separate governance arrangements.

The assessment process

The format of the submissions and the approach used in assessing the STR submissions is set out in the LCNF Governance Document and the Guidance Note.

The Expert Panel have evaluated the STR submissions against the Discretionary Reward Criteria⁶.

Following the Expert Panel's assessment of the STR reports, the Expert Panel reviewed each project submission. The Expert Panel produced the STRRR, which outlines the recommendation regarding which project it considers eligible to receive a STR. It also explains the reasons for this view and the monetary value of any such reward.

We have considered the STRRR and other relevant information⁷ against the Discretionary Reward Criteria, and have decided to accept the recommendations of the Expert Panel in full which awarded funding to the CLASS Project detailed above, including the recommended monetary value of the reward.

⁵ Decision on Low Carbon Networks Fund- Second Tier Reward, Ofgem website page

⁶ The Discretionary Reward Criteria can be found on page 25 onwards of the LCNF Governance Document

⁷ The Expert Panel and Ofgem also considered the information in relevant Project Directions, Full Submissions, Close Down Reports and Successful Delivery Reward Decisions as part of this assessment.

The Expert Panel

The Expert Panel comprised of experts from a range of backgrounds, chosen for their skills and expertise in economics, finance, innovation and engineering. The panel members were:

- Maxine Frerk (Chair)
- Mike Kay
- Jiggy Lloyd
- David Newbery
- Stuart Bailey

Summary of Expert Panel's assessment of the STR submissions

Based on its evaluation, the Expert Panel produced the STRRR.

In this report, it explains the methodology that it used to determine whether the projects are eligible for a STR. It recommends that one project should be rewarded with a STR. This is the CLASS project. This project was managed by Electricity North West Limited (ENWL). The Expert Panel recommend an amount of £0.3 million as STR for this project.

Ofgem determination on the STR

Having consulted with the Expert Panel and reviewed the STRRR, we have decided to accept the Expert Panel's recommendation and have determined a total financial reward of £0.3 million for the LCNF Tier-2 project titled, "CLASS."

Next steps

As outlined in the Electricity Distribution Licence (CRC 2J), Ofgem will issue a direction (the Funding Direction) in 2023, that will set the recoverable value for ENWL.

If you have any queries about this letter please contact the Electricity Distribution Policy team at Mohammad.Miah@ofgem.gov.uk

Yours faithfully,

Graeme Barton

**Head of Price Control Operations – Small & Medium Sized Projects
For and on behalf of the Authority**