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Dear Anna

**Low Carbon Networks Fund: Consultation in relation to other aspects of the Low Carbon Network Fund**

1. Thank you for giving us the opportunity to comment on the governance arrangements that should apply for the Second Tier of funding for the low carbon network fund. Nothing in this response is confidential, and we are happy for this to be placed on the Ofgem website.
2. British Gas is committed to the development of a sustainable energy sector. We also recognise that specific funding is needed to provide the electricity DNOs with an incentive to undertake projects that investigate the implications of the low carbon economy for their networks. Combined with effective governance, we believe the Low Carbon Networks (LCN) fund is an appropriate way of providing this funding.

*Principles to be applied in the governance of Second Tier funding*

3. To maximise the benefit to consumers from Second Tier funding, it will be important to develop a clear and rigorous process for the screening and assessment of applications. This is the surest way of ensuring that projects which are successful in gaining funding will represent value for money for consumers, and deliver the most valuable learning for industry.
4. Firstly, applicants should be able to demonstrate that proposed projects would not be undertaken without funding. This concept of additionality is important, as LCN funding must not "crowd out" initiatives that would have been done either by the networks, or by companies operating in competitive parts of the value chain in the course of business as usual.
5. In particular, innovation delivered by LCN funded projects should be clearly delineated from that expected to be delivered by suppliers in coming years. For example, it would be inappropriate for LCN funding to be used to develop or install smart meters.
6. Given the increasingly integrated nature of the energy supply chain, applicants should also be able to demonstrate that projects add value across the entire supply chain, and that opportunities to maximise these benefits have been investigated in full. Additional credit should be given to applicants that develop project proposals in conjunction with appropriate third parties (e.g. energy suppliers or generators, depending on the nature of the project proposed). We would also expect all distribution companies looking to partner with energy suppliers to form consortia on a non-discriminatory basis.

7. Successful applications for LCN funding must also be able to set out clear and measurable deliverables for projects, including pre-defined milestones / success factors. There should be scope to withdraw funding from projects that fail to meet key milestones before project completion, and which are deemed unlikely to deliver benefits to consumers. The specification of clear milestones will also be key to the awarding of discretionary funding.
8. Critically, projects must be able to demonstrate that carbon is likely to be reduced in a sustainable and economic way as a direct consequence of being granted funding. If the likelihood of tangible carbon reduction is low, then the benefits of such projects to consumers are likely to be low. Projects must therefore have a clear application, either directly on the distribution networks (and potentially on the transmission networks), or commercially.
9. Projects should only be granted funding if applicants can demonstrate there will be full transparency in the way that the project is conducted, and results shared. Given consumers will be funding LCN projects, any benefits should be shared by industry as a whole.
10. We hope that you find this response helpful, and we would be happy to discuss any part of it with you in more detail. In addition, we include an annex to this response in which we directly address the specific questions raised in the open letter on appropriate arrangements for Second Tier Funding.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tim Dewhurst', written in a cursive style.

**Tim Dewhurst**  
**Senior Manager, British Gas**

## Annex

### 1. Criteria that might be used in screening projects for inclusion in the annual competition for Second Tier Funding.

We support the use of the criteria being proposed for First Tier funding in addition to the suggested initial screening process criteria, in that the solution to be trialled must:

- accelerate the development of a low carbon sector;
- have a direct impact on the operation of the distribution network;
- generate new knowledge that can be shared amongst all network operators including transmission; and
- deliver net benefits to existing and/or future customers.

In addition, we would suggest that Second Tier funded projects should:

- demonstrate “additionality” in that they should highlight how the project will deliver benefits over and above that which would be delivered by networks and/or competitive businesses in the absence of funding;
- recognise the impact of the project across the value chain and include expertise from across the value chain as appropriate (including interface with transmission operator);
- have clear and measurable deliverables with clear pre-defined milestones that will ensure that funding could be withdrawn if the projects are not delivering to the milestones (and are judged unlikely to deliver any significant benefit to consumers); and
- demonstrate that the applicant has a proven ability to deliver complex projects on time and within budget.

### 2. Evaluation criteria that might be used in assessing which project proposals receive Second Tier Funding.

Again we support the use of the criteria being used for First Tier funding together with the suggested additional criteria that the project must:

- demonstrate a robust methodology and readiness of the project;
- involve other partners and external funding; and
- be relevant and deliver to plan.

Evaluation criteria used to assess projects are likely to be similar to those set out above for the initial screening process, but should also include a requirement that projects:

- can demonstrate what learning is to be achieved from the project and how this will be disseminated across the industry;
- should be replicable and have open standards to enable any party to be able to implement any successful projects across the industry;
- should also include evidence that networks have collaborated with industry parties to investigate and optimise the potential for learnings across the entire energy supply chain.

### 3. Arrangements that should put in place regarding the treatment of Intellectual Property Rights (IPRs)

We believe that the principle of sharing all learning should extend to IPR directly generated by the funding provided by the low carbon network fund. However where third parties (e.g. technology providers and other project consortium members) have not received specific funding then they should not be required to share IPR.

Bids should clearly outline how IPR is to be treated within the project, setting out in particular the scope of input by third parties and how this relates to the sharing of IPR.

### 4. Criteria to be used to allocate the Discretionary Reward.

We support the concept of a Discretionary Award, although only in the context of substantial Second Tier funded projects. It is these larger projects (ideally extending across the breadth of the energy supply chain) that have the biggest scope for new findings. It is only these projects that should be eligible for discretionary funding.

Discretionary funding should be linked to the attainment of clearly defined project milestones. These milestones should be specified in such a way that they can be directly linked to benefits for consumers (i.e. in terms of output measures, such as carbon reductions, or identifiable benefits in different parts of the value chain).

Projects that exceed predefined milestones or success factors should be rewarded additional discretionary funding. To provide additional certainty, we would suggest that examples of the level of discretionary funding that could be triggered by varying performance levels could be provided by Ofgem at the time of project assessment.

We would suggest some form of "ex ante" defined form of tiering with reward linked to additional specified funding. This could be structured to reward exceptional or above target performance with only minimal additional funding allocated to "on target" projects.