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Low Carbon Networks Fund Stakeholder Workshop

Notes and issues from the workshop held on Tuesday 30 March 2010, at Ofgem's offices, 9 Millbank, London

1. Attendance

The attendance list is included as an appendix.

2. Welcome and Presentations

Rachel Fletcher welcomed attendees and gave an overview of the workshop.

Anna Rossington presented an overview of the Low Carbon Networks (LCN) Fund, and Roger Hey, on behalf of the Energy Networks Association (ENA) gave a presentation on the Distribution Network Operators' (DNO) perspective.

The presentations are available on the Ofgem website[1].

A brief questions and answers session followed the presentations, and Anna Rossington then provided an introduction to the issues for consultation and discussion amongst the breakout groups (included in the Ofgem slide presentation).

3. Breakout discussions

After the breakout discussions, the facilitator for each breakout group summarised the group discussions. The summaries, augmented by some of the notes taken by the note taker from each group, are set out below. The notes are presented by discussion topic.

The criteria we might use in screening projects for inclusion in the annual competition for Second Tier funding

Team 1

- Team 1 did not expect that any projects would fail ISP.
- Sufficient information should be provided after the ISP to provide bidders with an opportunity to 'merge' projects that have overlaps. The ISP could act as a 'clearing house' for ideas.
- How easy is it to assess 'net benefits' at the ISP stage? Could net benefits be dropped as an ISP criteria, and instead use cost estimate rather than social cost benefit analysis along with a qualitative case for expected benefits?

Team 2

- Team 2 wondered if any projects would actually fail to get through ISP, and questioned whether DNOs have sufficient resources to submit more than two bids at ISP. However it was noted that third parties could have a large involvement in the proposal preparation.

[1] http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Pages/lcnf.aspx

- The team agreed the ISP should be the based in the submission of a limited short form proposal document only, containing a restricted amount of info. This would assist the evaluation process, and ensure the proposers focus on the key messages. It was agreed that the release of any information after ISP needs to be agreed by the proposing consortia – by use of a paragraph on the proposal that is expected to be published. It was questioned whether publications could be anonymised?

- The pro-forma proposal document should also focus the evaluation of costs and benefits.

- The concept of Direct Impact on the networks (as one of the criteria) is reasonably well understood.

- The criteria don't mention trialling/technology readiness level (TRL) indication. It was noted that a project may currently have a TRL less than 5, but the project would be testing it at the 5 level. At ISP the criteria should be purely based on whether it is a trial or not, and should not look at where on the TRL spectrum (between 5 and 8) the project lies.

<u>Team 3</u>

- Approx cost should be included in the ISP, as well as return on investment to show which projects give the best return for customers' money

- Delivery priorities are not stated – should they be? Ofgem should consider setting out priority areas for projects.

- Consideration should be given to the phasing of funding for larger, multi-year projects.

- Is there a bias against 100% DNO projects (i.e. no partners involved) – addressing a pure 'internal' network issue?

- There is a risk that behaviour changes will not be seen as a direct impact on the network. The LCNF should fund projects that have a technical, commercial or behavioural impact.

<u>Team 4</u>

- For the first year, the second tier projects have already been chosen by the companies, so the ISP won't affect this (there will be little opportunity to change the projects). However, the ISP is important as part of an ongoing dialogue – 'minded to' positions are crucial.

- Clarity is required on how benefits and impacts should be measured.

- The team asked whether the ISP would include an appeal process.

- It was also wondered whether the criteria for 'Direct impacts' would rule out innovative projects.

- The team also questions what would happen if projects totally more that the £64 million limit are submitted at ISP.

<u>Team 5</u>

- More clarity is required on some of the criteria, for example the meaning of 'Direct impact'. There needs to be transparency on the evaluation at the outset, with Ofgem clearly signalling what is required.

- The group raised concerns that it would be necessary to make a number of assumptions in order to produce a submission for initial screening. In some cases the assumptions made will be based upon the specificities of the particular scenario for the proposed trial. The group were keen to ensure that bids were not rejected due to disagreements with Ofgem over specific assumptions made, provide that they appeared to be credible, reasonable and rational.

- It was queried whether 'scope for partnership' should be included as one of the screening criteria. However this would mean that all projects would require a partner to pass ISP.

- The group suggested that a further criteria for initial screening could be for the bids to indicate the expected timescale for delivery of the benefits of the trial, recognising that in some cases there is a time lag before full benefits realisation.

- Screening criteria should refer to the project having the potential to demonstrate the criteria, rather than implying proof is required.

The evaluation criteria we might use in assessing which project proposals receive Second Tier Funding

<u>Team 1</u>

- Ofgem needs to clarify whether "net benefits" refers to benefits to the networks, and or benefits to other parties/wider economy. The focus should not be just on network benefits, but there needs to be a clear business case/justification for funding to non-network activities.

- It may not be possible to justify network investment on the basis of network benefits alone - the benefits analysis needs to recognise this and the proforma used for project proposals needs to allow consortia to present the spin off benefits that might come from a network innovation that accrue elsewhere in the supply chain. The team noted that Ofgem could be clearer that the projects which provide value elsewhere in the supply chain (as well as directly on the networks) would be considered for funding.

- A discussion point was whether criteria should be weighted. Although many other funds use weighting in their evaluation, the team recognised the difficulties of creating appropriate weightings that could accommodate all possible project proposals. This makes the role of the Expert Panel even more important.

- It was suggested that the criteria could be evolved over the five year period based on the learning from previous years. This could be done every year, or at the two year review. There was also the suggestion that the criteria could be broad in the first year and narrower in subsequent years.

<u>Team 2</u>

- The IPR arrangements need to be identified upfront in the proposal, in order to judge the potential learning from the project.

- There my need to be some consideration of the quality (i.e. reliability, timing) of any external funding, especially when external funding is a criteria.

- The question of whether criteria should be weighted was discussed, and it was agreed that it is difficult to devise appropriate weightings. Whilst other funds use scoring systems, it is hard to make them objective and people can try to "play" the scoring.

- Benefits need to be easily comparable between projects.

- It makes sense to use a financial value for carbon benefits. Are the carbon benefits those accruing only to the customer or can it be the DNO?

- The issue of risk was discussed, since innovation implies risk, and a low risk project will be business as usual. The risk can be to the network or to the commercialisation of the project. This was linked to TRLs (although it was felt that TRLs can be confusing and more general criteria should be used) – where the higher the TRL, the lower the risk. Will the Expert Panel consider the level of risk in their evaluation?

Team 3

- The restriction to only 2 projects per DNO group could mean that some of the best projects are not submitted for the full submission. For example, if one DNO has the five best ideas, only two of them can be selected.

- Care should be taken to ensure that the desire to publish details of the projects does not dissuade DNOs from putting forward project proposals that might be latched onto by other parties.

- The team asked whether the Expert Panel would be able to discuss/modify proposals with the bidders. Some iteration should be facilitated and would be considered to be a normal part of such a tendering process.

- It was noted that Ofgem should learn from the Technology Strategy Board and Carbon Trust to improve the process.

- The criteria for network impact should have 'beneficial' added to it.

Team 4

- The team felt that getting the right people on the Expert Panel is key, and that they should have a breadth of experience, potentially including international experience.

- Criteria should include dissemination of knowledge and openness of the projects, and project replicability (on an economic basis).

- Projects should have clear KPIs for measurability

- The Expert Panel should consider the overall credibility of the project and the level of commitment of the proposers.

- Open standards should be encouraged so that multiple vendors can undertake the work in future and reduce costs to consumers.

- Need to beware of overcomplicating the process, which could discourage smaller projects/parties.

- How to recognise value the project provides across the energy sector as an enabler to other initiatives.

- It is expected that projects may push out the boundaries of regulation.

Team 5

- There was considerable discussion around the quantification and assessments of benefits arising from the project, and whether common assumptions could be created, or whether the projects would be too different and therefore require project specific quantification.

- The team also discussed the allocation of funding across the five years, and whether the £64m per annum limit and total project funding up front would restrict the size of projects submitted.

- The team were keen to see the low carbon networks fund as a five year project, rather than a series of five annual projects. Therefore they suggested that greater weight should be placed on those bids that demonstrate how it fits into that DNO's wider vision for achievement over the full five year period.

- The team discussed whether a further assessment criteria for tier two finding should be a need to demonstrate learning from information that is already available, either in other countries or other sectors, or from the low carbon networks fund itself as the scheme develops.

- The team saw the key difference between initial screening and full assessment as being the focus on competition:

  - Tier 1 - Meeting/missing specific criteria in order to pass/fail

  - Tier 2 – Comparing different bids with each other and examining the "degree" to which they meet the required criteria.

- The team also suggested that a key part of each bid should be an explicit statement outlining which question the proposal is aiming to answer, and how the trial would provide this answer i.e. what problem is the trial aiming to address?

The arrangements we should put in place regarding the treatment of Intellectual Property Rights (IPRs)

<u>Team 1</u>

- The conditions attached to IPR could be a barrier to entry for external project collaborators who would not want to give up their IPR for limited returns. However, it was recognised that third parties should benefit from their innovation being rolled out across the DNOs.

- The team stressed in particular the IPR associated with back office systems that are developed when introducing new commercial arrangements etc.

- The team supported the concept of including an explanation of how IPR would be handled in the project proposal.

<u>Team 2</u>

- Team 2 noted that if external funding is involved, identifying the boundary for IPR becomes more complex.

- The question was asked what free licence meant when a third party produces IPR on a project. It was assumed that it is only useful to third party's competitor(s). Third parties are worried about any automatic sharing of IPR.

- It was noted that these IPR arrangements only apply to IPR 'owned' by the project, and that if a developer develops IPR at own their cost there is no problem, they would still own the IPR. The key issue is that other DNOs can use the learning gained from project after project has been completed.

- It was commented that it was important that there are no exclusivity arrangements.

Team 3

- The team considered that IP generated by projects is not likely to be significant and that IP is likely to be a second order issue – it might be better to have no IP rules in the hope that this will encourage maximum innovation.

- There was not a clear view on the need to protect customers on this point. Some team members thought that the major benefit to customers would stem from the deployment of new solutions rather than the direct commercial value of the IP developed.

- It was considered that there is a risk that parties will worry too much about IP which could slow partnership agreements down or deter participation. One delegate thought that as regulated monopolies DNOs should not be allocated any IP rights.

- However, it was also recognised that Ofgem needs to beware of specific pieces of IP blocking wide dissemination/adoption.

- In general the desire was to keep the IPR arrangements as simple as possible.

Team 4

- Team 4 thought that concern about IPR is unnecessary – the Innovation Funding Scheme (IFI) has already demonstrated how IPR can be dealt with.

Team 5

- The links between background IPR and foreground IPR may need complex arrangements to manage and differentiate.

- Rigorous due diligence will be required in order to assess the IPR - who does this assessment?

The criteria we might use to allocate the Discretionary Reward

Team 1 did not discuss this topic

Team 2

- The team questioned whether the reward was required, since it would not drive participation. There was a particular desire not to create significant bureaucracy.

- It was questioned whether the reward should be commensurate with amount of DNO contribution, and the team considered that the total amount of reward sounded like a lot of money.

- It was considered that a discretionary reward should be applied for.

- Rewards could go to projects which have the best potential to be taken forward.

- It was noted that both successful and unsuccessful projects can be equally valuable.

Team 3

- It was seen as best to just use ex-ante project specific success criteria, but noted that it is difficult to qualify learning, if that is one of the criteria. There should be clarity about how success would be measured. One delegate thought that the criteria already set out for the First and Second Tiers could be used.

- The comment was made that carbon reduction should not be the dominant criterion.

- The team was fairly evenly split as to whether failed projects should be considered for a reward – since this could be seen as a strange message to reward failure.

- It was questioned whether the reward should be linked to project size, and whether it should be allocated between the First and Second Tiers in proportion to their funding levels.

- It was also questioned when the rewards will be paid – will they continue during the DPCR6 period?

<u>Team 4</u>

- The discretionary reward was seen as a useful tool which provides a reward balance for the risk of the project.

- It is seen as more important for the second tier, and the team preferred a smaller number of large rewards to a large number of small rewards, although this needs to be balanced.

- One of the reward criteria should be for economic carbon reduction evaluated across the country, as well as for UK plc benefits.

- The team considered that experience needs to be reflected in the criteria, and questioned how failure could be rewarded.

- The team discussed who should be responsible for assessing the reward – if the Expert Panel selected the projects originally, would they have favourites? Could the industry select the projects for reward?

<u>Team 5</u>

- The team suggested that the key focus for allocating discretionary rewards should be on the value of the learning from each trial. In this way, the group felt that "failed" projects could provide more valuable learning than some "successful" projects. The team were keen to focus on learning as a criteria for reward, rather than on whether a project was delivered to the expected cost/time.

- The team discussed how the reward should be allocated and whether it should be according to the funds available in each tier.

- Criteria for rewards could include:

    - the ratio between project costs and benefits;
    - project benefits including learning (both primary and secondary);
    - international engagement;
    - project scalability, replicability;
    - project impact or applicability.

4. Close

4.1. The workshop was closed by Sarah Harrison, Senior Partner - Sustainable Development. She thanked everyone for their active participation, and highlighted how the LCN Fund contributes to Ofgem's role in the broader sustainable development context.

5. Appendix

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Rachel Fletcher	Partner, Distribution
Gareth Evans	Head of Technical, Local Grids & RPI-X@20
Anna Rossington	Project Manager, LCN Fund
Mark Askew	LCN Fund (note taker)
Sarah Deasley	Consultant on LCN Fund project
Nicola Cocks	Project Management Team
Hannah Cook	RPI-X@20 team (note taker)
Christopher Houlihan	RPI-X@20 team (note taker)
Juliet Little	Project Management team (note taker)
Ankita Singh	Consultant on LCN Fund project (note taker)
Anna Kulhavy	Sustainable Development team (observer)

Stakeholders

Alan Gooding	Smarter Grid Solutions
Alex Hart	Ceres Power Limited
Andrew Cross	Aston University - School of Engineering and Applied Science
Andrew Hallett	Consumer Focus
Andy Beggs	ElectraLink
Chris Goodhand	CE Electric
Chris King	emeter
Chris Nash	Current Group
Christine Barbier	Senergy
Colin Henry	SIEMENS Energy Transmission and Distribution Ltd
Craig Lucas	PPA Energy
Cristiano Marantes	EDF Energy Networks
Dave A Roberts	EA Technology
David Hawkins	GE Energy
David Socha	Logica
Dennis Timmins	nPower Commercial
Detlev Kirsten	Zenergy Power
Duncan Sinclair	Redpoint Energy
Duncan Southgate	SIEMENS Energy Transmission and Distribution Ltd
Glenn Sheern	EON Energy
Graeme Sharp	KEMA Consulting
Graham Meeks	Combined Heat and Power Association (CHPA)
Guy Winstanley	Isentropic Ltd
Herbert Piereder	Applied Superconductor Ltd.
Ian Brown	Independent
James Turner	Schneider Electric
John Andrews	NAPIT Group (National Association for Professional Inspectors and Testers)
John Batterbee	Energy Technologies Institute (ETI)
Kevin Woollard	Centrica
Luis(Nando) Ochoa	University of Edinburgh
Marc Bartlett	PB World
Marc Donnelly	Cisco
Martin Hill	Scottish Power
Matthew Rogerson	Virgin Media
Mike Parr	PWR
Nadim Al-Hariri	Logica

Neil Hughes	National Grid
Paddy Turnbull	GE Energy
Patrick Favre-Perrod	AREVA T&D
Peter R Jones	ABB Limited
Peter Smith	Combined Heat and Power Association (CHPA)
Phil West	Western Power Distribution
Robert Hopkin	Accenture
Rodney Brook	Sohn Associates
Roger Critchley	AREVA T&D
Roger Hey	Central Networks
Sean Gauton	Central Networks
Simon Brooke	Electricity North West Ltd
Stephen Barnsley	EDF Energy Networks
Steven Forsythe	emeter
Stewart Reid	Scottish Southern Electric
Tim Mortlock	Utility Partnership Ltd (UPL)