

Your Ref:

Our Ref:



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Dear Anna,

### **Consultation in relation to Governance Arrangements for Second Tier of Low Carbon Networks Fund**

We welcomed the opportunity to participate in the workshop which took place on 30<sup>th</sup> March. As a follow up we have been further considering various of the key issues and wished to take the opportunity to comment directly on several points.

PPA Energy is extensively involved in working with Distribution Network Operators, suppliers, and academic institutions preparing, bidding for and managing a range of projects funded through the Innovation Funding Incentive Mechanism and also through other sources (such as the Technology Strategy Board and EPSRC). We welcome the development of a fund targeted towards the objective of moving the electricity network businesses towards a low carbon economy. We also welcome the development of a fund targeting development of solutions, and targeting larger projects than can be financed under the IFI mechanism, as this has potential to fill a gap between the type of research-based funding available through IFI and the 'business as usual' DNO investment activities. We do, however, have several specific comments about the setup of the fund and the selection criteria, which we believe are crucial to the effective achievement of its objectives.

#### **Coordination with other funding mechanisms**

We understand that the fund as structured is currently only available to DNOs, i.e. it is not available to fund development work by electricity retailers and customers. It was suggested in the governance document for Tier 1 that matched funding can be sought from other sources, for example IFI.

PPA Energy's concern about this is twofold. Firstly, the delivery of large scale demonstration projects requires significant financial input from other stakeholders, and in practice it is not clear to us that there are sufficiently attractive and substantial funding mechanisms that other parties can access to match the funding on offer from Ofgem. Given that for some projects the bulk of the benefits accrue to users of the network this is a significant issue.

Secondly, our experience of with the Low Carbon Networks funding application process is that in certain cases it has consumed a large part of DNO management time to the extent that they have disengaged from applying for funding from other sources, which is an effect running counter to Ofgem's stated objectives.

In the light of these concerns, we would urge Ofgem to:

- look at funding criteria applied by other bodies and parties and ensure that there is sufficient flexibility in the assessment process to allow a project to align with the requirements of other funding mechanisms, in particular the IFI mechanism;
- look at the degree of flexibility which Ofgem can show on this issue where funding is potentially going to other parties;
- remain mindful of the workload on the DNOs in complying with the Tier 2 criteria, to ensure that they do not end up pursuing this to the detriment of other funding sources.

### **Enabling Smaller Suppliers**

Under the IFI mechanism and other funding mechanisms we have been able to assemble consortia and project teams comprising a range of suppliers, both large and small. It is in the nature of innovation that some of the most radical and potentially transformational ideas can come from small suppliers. From the perspective of an SME, participating in a full bidding process is both expensive and complex. Given that the sums of money on offer under this funding mechanism are larger than under IFI or Tier 1, it is apparent that DNOs are tending to develop partnerships with large suppliers so that they can effectively manage the spend and present credible project management arrangements. We believe that it is important therefore that:

- The assessment criteria and process do not become so onerous that they eliminate smaller suppliers by default;
- The assessment criteria are structured such that smaller suppliers are given explicit encouragement to participate where they have a valuable and innovative contribution to make.

### **Challenging the Regulatory Status Quo**

We believe that the electricity industry around the world needs to apply a range of measures to ‘de-carbonise’ the sector. Such measures potentially could include demand-side participation, encouragement of local generation, and the application of a range of smart devices to networks, including smart metering. There is a strong possibility that existing regulatory frameworks may present barriers to such changes, and indeed part of the purpose of this exercise may well be to identify areas where changes to the regulatory regime will be required. We believe that, in evaluating Tier 2 submissions, Ofgem should be prepared to consider specific derogations where a project is attempting to prove a commercial concept or business model which pushes the boundaries of the existing regulatory framework.

### **Technology Readiness**

We note that the purpose of the LCN funding is to fund projects above level 4 under the Technology Readiness criteria. It was a specific criterion of the Tier 1 governance documents that Ofgem do not intend to fund research. Whilst we concur with the view that demonstrator projects are best led by DNOs and suppliers and not by research institutions, in practice there distinction

between 'research' and 'development' is not clear cut and we believe it is important that some flexibility is possible under the Tier 2 criteria, where, for example, research is required to fully evaluate a project impact, or to evaluate specific areas of the project which are less well developed.

In conclusion, we welcomed the chance to participate in the consultation process and we welcome Ofgem's efforts to consult widely in the industrial community in the UK beyond the DNOs themselves. We hope that the above comments represent a constructive contribution to the debate and we look forward to further dialogue with Ofgem as the LCN scheme develops.

Yours Sincerely,



Craig Lucas  
**Executive Director**  
**PPA Energy**