



LCN Fund Governance Document v.1 Response by SP Energy Networks

SP Energy Networks welcomes the opportunity to comment on the draft Governance Document issued on 24 February.

We believe that some reconsideration of the provisions relating to First Tier LCN projects should take place, in particular :-

- The absolute exclusion of metering-related expenditure within Eligible First Tier Project Expenditure in paragraph 4.10 is too restrictive. It should be qualified to allow discretionary approval by the Authority;
- More transparency is needed on the provisions for resubmission of Closedown Reports (paragraph 6.10) whereby the DNO is given the reasons for a submission being considered inadequate;
- The arrangements for Discretionary Awards in relation to First Tier LCN expenditure are set out only very briefly in the draft document (7.1). We think that this should be expanded to set out more clearly the criteria for awards. For example, it is not clear whether a project may be eligible for an award prior to completion;

We look forward to the consultation on arrangements for Second Tier funding and will comment in detail at that stage.

Our detailed comments on the First Tier arrangements are set out below.

Registration Process

The reference in the Registration form in table 3.1 against Related Undertakings to “payments to itself” should be clarified so that it is clear whether or not all internal DNO expenditure is included.

In paragraph 3.38 it states that a registered project cannot be amended subsequently. We think that it would be preferable to allow a variation with the Authority’s consent (for example, where there is a change to the expected completion date).

Allowable First Tier Expenditure

There is no consistency in the algebraic terms used in Section 4 against those in CRC13. The term “AET” in paragraph 4.3 (Allowable First Tier Expenditure) has the same meaning as “LCN1t” in CRC13, and the latter term should therefore be used in place of AET.

The term “Unrecoverable Expenditure” (4.15) differs from the term “Non-Recoverable Expenditure” in CRC13. We note that there is no definition of the latter term in the Definitions section of the Governance document. In addition, CRC13 makes clear that Non-Recoverable Expenditure relates to revenue recovered by the licensee under the mechanism that the Authority determines is non-recoverable, whereas paragraph 4.15 in the Governance document omits any reference to revenue recovered. If “Unrecoverable Expenditure” is meant to refer to expenditure that the licensee cannot include against Allowable First Tier Project Expenditure this should be made clear.

Eligible First Tier Project Expenditure – exclusion of metering related expenditure

There is an exclusion in 4.10 section 1 of any expenditure relating to the installation or operation of equipment to measure electrical energy and provide it to a supplier. This is

presumably on the grounds that this is a supplier activity. However, we do not think that this exclusion should be absolute, and that there should be provision for such expenditure to be included with the Authority's consent.

Engagement with Customers

We are unclear why paragraph 4.14 specifies a submission to Ofgem for approval of a statement of good practice for engagement with customers. DNOs engage with customers on a day to day basis without the need for such a prescriptive approach to be taken.

Close-Down Report

In paragraph 6.10 there should be provision for Ofgem to give reasons to a DNO whose Close Down Report it considers to be of an unacceptable standard, and for discussion on changes that are needed. This is particularly appropriate given the provision for Ofgem to reduce the licensee's allowed revenue in cases where the report is considered unacceptable.

Annual Conference

Paragraph 6.12 is highly prescriptive regarding the nature and content of the Annual Conference. It is not clear that this is appropriate given other possible channels for disseminating information and facilitating engagement with collaborators.

Discretionary Award

There is very little detail given in paragraph 7.1 about the criteria to be applied to awards for First Tier Projects. We would expect more information to be given on such matters as when a project might become eligible for an award (e.g. from commencement, or only after close-down). There is also reference to other criteria to apply that are not set out.

First Tier Project Audits

Paragraph 8.3 sets out a provision for allowed revenue to be reduced where Ofgem does not consider that the results of an audit do not meet the requirements in paragraph 8.2. As with our comments on Close-Down Reports above, there should be provision for consultation with the licensee and remedial action prior to any such step being taken.

Two Year Review

Paragraph 9.2 should include reference to consultation with licensees prior to setting up a process for disallowing 'duplication' of projects in future years.

Definitions

In section 10 the definition of Distribution Users should include non-licensed generators and network operators so as not to unduly limit the scope of projects involving system users. The current list in the definition of this term specifies licence holders in relation to generation, supply and distribution users.