

Inveralmond House  
200 Dunkeld Road  
Perth PH1 3AQ

Anna Rossington  
Senior Manager, Distribution Policy  
The Office of Gas and Electricity Markets  
9 Millbank  
London SW1P 3GE

Tel: 01738 456571

Fax: 01738 456415

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Dear Anna,


## **LCN Fund Governance Document v.1**

SSE welcomes the opportunity to comment on stage 1 of Ofgem's LCN fund governance document. We firmly support Ofgem's work on the LCN fund and are keen to develop a governance document that is both effective and fit for purpose early in the DPCR5 period. To this end, we have a couple of comments on the draft as circulated.

Where a DNO identifies an innovative project that has the potential to take the place of a conventional solution, for which funding has been allowed in the price control settlement, we believe Ofgem's proposal in paragraph 4.20 to require the DNO to use its allowed funding to offset any LCN funding is difficult in two respects.

Firstly, it is not consistent with projects that are funded by the LCN fund being trials and as such are not designed to be enduring network solutions. Whilst in some instances trials may be able to defer allowed expenditure until later in the period, they are unlikely to replace forecast expenditure, certainly where trials prove unsuccessful. Where trials are successful, there will be costs in either extending the life of the prototype equipment used in the trial beyond the three years for which funding is allowed under the LCN mechanism or in rolling out the proven technology on the network for real.

Secondly, given the far-reaching benefits that could be realised through LCN-funded trials, it seems key that DNOs should not be discouraged from accessing the fund to promote and share learning. Arguably, most LCN trials will be about finding new and more sustainable ways of carrying out current network functions, i.e. they will replace expenditure that has been allowed in the price control settlement. By channelling these projects through the LCN mechanism, customers gain nationwide from the requirement on DNOs to share knowledge and experience. Disincentives to pursuing innovative solutions through the LCN fund should therefore be limited.



Consistent with this, if a DNO does go down the route of registering a project under the LCN fund and is then required to fund that project because it replaces expenditure that has been allowed in its settlement, this raises a question over the requirement to disseminate intellectual property rights, which is one of the specific requirements under set 2. We believe this will discourage DNOs from participating in the LCN mechanism and it would be better if projects registered under the LCN were clearly eligible for LCN funding, regardless of any overlap with existing expenditure.

Notwithstanding this position, any DNO funding that is used towards LCN projects should be subject to the equalised incentive regime, i.e. with 85% of any expenditure being added to the RAV.

Finally, we believe the LCN governance document should, as far as possible, refrain from restating Final Proposals policy. Instead, it should make reference to the Final Proposals wherever necessary. This is consistent with the position we have lobbied for on the drafting of the Regulatory Instructions and Guidance and will help to ensure that the supporting governance does not deviate from Final Proposals' policy, particularly over time.

We hope this is useful input, both in refining stage 1 and developing stages 2 and 3 of the governance document. Should you wish to discuss any of the above in more detail, please do not hesitate to contact me.

Yours sincerely,

Malcolm J. Burns  
**Regulation Manager**