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Our ref

Your ref

Date

31 March 2010

Dear Anna

**Low Carbon Networks (LCN) Fund: Consultation in relation to other aspects of the LCN Fund**

I am writing on behalf of Western Power Distribution (WPD) to provide a response to the above consultation, issued under your letter of 24th February, in respect of the Second Tier Funding mechanism and the Discretionary Award scheme.

This response has been prepared following the workshop held at Ofgem on 30<sup>th</sup> March, which has been helpful in providing visibility of the spectrum of views.

Turning now to each of the four questions posed in your letter;

Initial screening criteria for Tier 2 projects

WPD broadly agrees with the list tabled as slide 15 at the 30<sup>th</sup> March workshop, but make the following comments and suggested (in italics) changes –

- accelerate the development of a low carbon energy sector *and/or*
- have a direct impact on the operation of the distribution network *and/or*
- generate new knowledge that can be shared amongst network operators *and/or*
- *Has the potential* to deliver net benefits to existing and/ or future customers

The insertion of the *and/or* is intended to cover situations where some proposed Tier 2 projects are very strong on one or more, but not all elements. If a DNO really believes that a project that does not meet all of the criteria is worth pursuing, it must recognise that in the project evaluation stage the degree to which those strong elements are present will need to be compelling when viewed against other bids where all elements are present.

At the Initial Screening stage, indication should be given of the types of issues that the project is seeking to address and some high level and brief description of the scale, and subsequent scalability of the output in the event that it is successful.

Inevitably, the DNO will have had to have made some assumptions related to scale and rate of impact of the low carbon economy, and it would be sensible for Ofgem to provide an up front statement of how it will evaluate those assumptions; it will be wasteful for full projects to be worked up and then “fail” over a debate on assumptions.

#### Second Tier Evaluation Criteria

WPD agrees with the Ofgem proposals set out in slide 16 (March 30<sup>th</sup> workshop), subject to the same comment as above relating to “and/or”. In addition we would wish to see full recognition of external funding streams for related project elements that are not themselves LCN eligible ( in loose terms “beyond the cut out” ), but which clearly add top the overall viability of a LCN project. In WPD’s case we have already identified a number of such potential situations including;

- Low carbon and energy saving community schemes
- “plugged in places” EV schemes
- DG viability EU funded work
- PV installations on social housing
- RDA lead schemes
- Supplier lead schemes on energy reduction, DG, smart appliances etc

We believe that such funding is more beneficial than an equivalent amount of direct funding to a “network only” scheme, as it provides the opportunity for more holistic projects.

#### Intellectual Property Rights

The March 30<sup>th</sup> workshop produced a split of views on this topic; WPD are in the “camp” that argues it is not an issue to spend a lot of time an effort seeking to tie down. By the nature of the scheme, the project elements that are brought forward are likely to be already significantly developed, and any worthwhile background or foreground IPR already secured by the provider. If we ask what the objective of the LCN fund is, it is not primarily to seek income streams to customers from development and exploitation of new IPR, it is about identifying successful solutions that can be deployed across the UK network market. A lot of time can be wasted debating IPR issues and possibly putting off potential providers. Taking the now mature IFI arrangements, where IPR would be expected to present more of an issue than in LCN, whilst IFI has been successful, across the full spectrum of IFI projects it would be difficult to quantify any meaningful IPR income streams to customers. Consequently our view would be to “park it” with a very light touch as indicated in the right hand box of slide 17, and move on.

#### Discretionary Reward Scheme

WPD believes that the amounts should be split between Tier 1 and Tier 2 schemes, either on the basis of the £16m / £64m cap, or probably more equitably, against the actual ratio of Tier 1 and Tier 2 awards in a given year. There is an argument that the total value of the DR “pot” should also be related to the total value of awards.

By way of example; in a given year the national total Tier 1 eligible expenditure is £12m out of a notional £16m total and for Tier 2, £48m out of £64m. Thus in total, only £60m of a possible £80m has been "allocated". The DR "pot" for that year would have been a total of £20m (£100m/5 years), against a 100% allocation but only 80% was spent, reducing the DR sum to £16m. That is then split 12/60 to Tier 1 and 48/60 to Tier 2; ie £3.2m Tier 1 and £12.8m to Tier 2.

Further comments

WPD agrees that it is appropriate to review the Tier 1 and Tier 2 arrangements after 2 years in operation.

Some care is needed in respect of Ofgem management of expectations of substantial changes to the LCN arrangements arising from RPI@20 outputs, as it is possible that third parties such as manufacturers or Suppliers could take the view that delay in engagement in years 1 & 2 could be beneficial if they believed that they could secure direct funding through revised rules later on.

I hope these comments are of assistance. If you have any questions please call Philip West, Policy Manager on 0117 9332413.

Yours sincerely



ALISON SLEIGHTHOLM  
Regulatory & Government Affairs Manager