



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

98 Aketon Road
Castleford
West Yorkshire
WF10 5DS
tel (01977) 605641
fax (01977) 605100

anna.rossington@ofgem.gov.uk

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Dear Anna

Low Carbon Networks (LCN) Fund: Notice under Charge Restriction Condition (CRC) 13 of the Electricity Distribution Licence with respect to the LCN Fund Governance Document

Thank you, once again, for giving us the opportunity to comment on the approach to governance for the second tier of the low carbon networks (LCN) fund and the new arrangements for the initial screening process.

Many of the comments that we would have on this document, and on the fund in general, are those which we have raised previously, particularly in our response dated 12th April 2010, and are now well known to you. Although we stand by those, we don't think that they need to be repeated again.

Regarding the arrangements for the second tier project screening which have been added since the previous revision, we welcome the use of the criteria previously laid out for the first tier. This allows us to assess a portfolio of possible low carbon projects on similar terms and then make informed decisions, depending on scale, as to whether the projects best suit first or second tier. This use of similar criteria for judging the value of projects in both tiers is a strength of the scheme.

Further, we continue to support Ofgem in establishing broader criteria for considering the value of second tier projects at the final bid assessment stage. This theme, of assessing a project's worth on an individual basis should lead to more innovative suggestions for the use of the fund for the benefit of customers.

We expect that the next iteration of the governance document will include more detail on the operation of the discretionary reward mechanism. We support Ofgem using the fund to both return the shareholders' funding contribution to projects in all deserved cases plus provide fewer, but more substantial, rewards for projects that deliver "best in class" learning that has the potential to significantly transform networks. However, recent discussions suggest that the former category may not qualify for discretionary reward. We believe that not rewarding the projects that provide incremental, as opposed to radical, learning will fail to maximise the beneficial incentive properties of the scheme.

In conclusion, we continue to support the ongoing governance development process and the open, consultative approach adopted by Ofgem.

I hope you find these comments useful. If you have any questions arising from this consultation response, please do not hesitate to make contact.

Yours sincerely

Chris Goodhand
Innovation Manager

CE ELECTRIC UK FUNDING COMPANY

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