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Dear Anna,

LCN Fund Governance Document v.2

SSE welcomes the ongoing engagement with Ofgem to develop the Low Carbon Network (LCN) mechanism and supports the time and effort that Ofgem is taking to understand the issues to ensure that the initiative is both flexible enough to accommodate innovation and robust enough to deliver it. Whilst this updated version of the LCN Fund Governance Document develops the Second Tier initial screening process, we have, towards the end of this response, touched upon a couple of issues that we believe still require further thought in relation to the First Tier element.

Second Tier

We have a general concern that relates to the recent discussions that have implied that Second Tier projects will need to be able to prove themselves as stand alone business cases. Whilst Second Tier projects will, by their very nature, be larger scale, in many cases they will still only be a component or building block of a more complex, longer-term vision. In judging any Second Tier proposal, the panel should not dismiss projects where the business case is contingent upon a longer-term vision, providing the wider context of the specific project is clearly set out. For example, we envisage submitting a series of Second Tier project proposals over a number of consecutive years of DPCR5, each of which will be elements of an overall, long-term goal.

Similarly, we believe that in both its screening and decision-making criteria, Ofgem should guard against a rigid quantitative assessment of the carbon benefits. Whilst not opposed to this *per se*, we believe this needs to be sufficiently flexible and broad to take into account the wider societal benefits. Again, this will help to avoid projects that have wider benefits from being prematurely rejected.

First Tier

On the First Tier, we note in paragraph 3.20 that Ofgem is still intending to claw back any First Tier spend that overlaps with the DPCR5 settlement. Whilst we understand Ofgem's rationale, we believe there are problems associated with this. Firstly, it ignores the fact that LCN projects are trials and therefore will not necessarily run for the entire price control period. Funding will be required outside of the trial period to either extend the life of the trial if it has been successful, or to fund the original approach that was set out in the business plan. Secondly, given the additional reporting requirements linked to LCN projects, there is an argument that the retention of any overlapped funding, which we believe will be small, provides a slight incentive for DNOs to pursue the more innovative solution.

Finally, we note in paragraph 3.4 of the document that funding is stated as not being upfront. This appears to be at odds with Final Proposals document 145/09 paragraph 1.30 where it states that "*First Tier funding of £16 m will be allocated among all DNOs on an annual basis from the beginning of DPCR5*". On the premise that DNOs are more likely to use this allowance than not, we believe it is more efficient to allocate upfront as intended.

We hope this is useful input. 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