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16 July 2010

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 for giving us the opportunity to comment on the approach to governance for the second tier of the low carbon networks (LCN) fund, in particular the arrangements for intellectual property (IP) treatment and for discretionary rewards, the approach to which have been modified in this newly published version of the governance document.

The arrangements for the first tier discretionary rewards continue to concern us. The inability for us explicitly to recover our 10% contribution to first tier projects, no matter how successful, is we believe a strong disincentive for us, and other DNOs, to engage in LCN and fund innovative network trials. This, along with the general regulatory framework, tends to give economic encouragement to the adoption of standard engineering approaches rather than new technologies, which we believe is contrary to the spirit and intent of the purpose of the low carbon networks fund.

Furthermore we have reservations about the proposed discretionary mechanism, based on an assessment of the overall portfolio of first tier projects against a, currently, unknown set of criteria. From what we know of the developing thinking in this area this could discriminate against a strategy that is primarily based around doing a few large projects with consequent economies of scale and efficiency, but which may not have a great breadth of trialed technologies.

The approach to the application of discretionary reward to second tier projects seems much more appropriate in that good projects are rewarded, up to the level of DNO contribution, based on known criteria identified at project inception with the further possibility for additional rewards in the case of projects that provide exceptional learning outcomes. This strikes a better balance than the first tier approach in supporting new approaches and we would like to see the first tier rewards mechanism modified to match.

Regarding intellectual property (IP) our reading of the arrangements leads to a situation which acts as a discouragement to the participation of owners of extant technology. The drafting of the IP arrangements leads to several different interpretations being available as to what constitutes relevant foreground IP which must be shared. We can see this being either a disincentive to participation by small- and medium-sized enterprises, who tend to be, rightly, concerned about their IP rights, or an impediment to adoption of the mandated standard IP approach. Improved drafting is required to remove this issue. I have a specific example of this issue, resulting from current contract negotiations on a first tier project, which I would be happy to share with you on a confidential basis if that would aid your understanding.

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

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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