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Our ref

Your ref

Date

8 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.

I am writing on behalf of Western Power Distribution (WPD) to provide a response to the above notice, issued under your letter of 18th June 2010.

Our comments concern two new requirements contained in version 3 of the LCN governance document not previously published. We are concerned that these two new requirements are unachievable.

Section Two – Second Tier Funding Mechanism

3.33. "Ofgem, or its consultants, may request that the DNO provide clarification about aspects of its Full Submission. If the DNO wishes to provide clarification, it must do so in writing within two Working Days of a request by Ofgem, unless agreed otherwise by Ofgem. Any written clarification provided by the DNO will be deemed to be part of the Full Submission and the requirements as regards confidentiality apply. "

We are concerned about being able to resource this requirement for the three month period that Ofgem has set to assess submissions and thus achieve this requirement. Our ability to provide a substantive response within two days will depend upon;

- The scope and complexity of the request
- The availability of the right people within a short time frame, particularly third parties.

To commit to fully meeting the requirement, key personnel having knowledge of the project would be unable to make any other firm commitments for the three month period between submission on September 3rd and final decision on November 30th and similar periods in ensuing years. We suggest that a more practical approach is for Ofgem to settle its project plan and "band" the response requirements – for example:

Project full submission	Week 1 September	Query response times*
Pre presentation queries	Week 3 September	5 working days
Presentations	Weeks 2 & 3 October	
Post presentation queries	Week 4 October	5 working days

** detailed responses to complex queries, or those involving third parties not contracted to DNO might take longer. The time bands above reflect this possibility.*

Section Two – Second Tier Funding Mechanism

3.66. “A DNO that is awarded Second Tier Funding must keep these funds in a separate bank account (the Project Bank Account) that is used for the sole purpose of holding any Approved Amounts, the DNO Compulsory Contribution **and all other funding from the DNO, External Collaborators and External Funders, that the DNO has identified within its Full Submission as being used to fund the Project**, unless otherwise agreed by Ofgem. These deposits will be made no later than the time that the DNO identified they would be provided in the Full Submission. A DNO can only access funds from the Project Bank Account if it meets the requirements for use of these funds as set out in their Electricity Distribution Licence, this Governance Document and the Project Direction”.

We do not understand the requirement for a separate bank account. We believe that the requirement in relation to all other parties (highlighted in red) is unachievable. WPD have submitted a Tier 2 project with 45% external funding including Local Authority, Welsh Assembly Government, CERT and CESP funding, and links (though not in this instance counted) to additional EU funding . Given the range of parallel conditions and controls already placed by Government / EU / EPSRC etc on those other funding streams it is unlikely in the extreme that such third parties would consent to depositing the funds into a WPD bank account. There is no difference between any potential LCN allowance and any other DNO regulated income. As there are already well established control mechanisms, reporting regimes and audit oversight in place via the licence to ensure transparency of accounting for any specific “pot” of regulated income we do not believe that a separate bank account provides any additional safeguards to the existing mechanisms..

If you have any queries with regard to this response, please do not hesitate to contact me.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager