



Company Secretary
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*Promoting choice and value for all gas
and electricity customers*

Our Ref: CNT2001, CNT2002
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Date: 19 July 2010

Dear Colleague,

Decision on Central Networks (CN¹) Low Carbon Networks (LCN) Fund Second Tier Screening Submission

In the Final Proposals of the electricity Distribution Price Control Review (DPCR5), we proposed a £500m Low Carbon Networks (LCN) Fund to encourage the DNOs to use the DPCR5 period to try out new technology, operating and commercial arrangements. The objective of these trials and demonstration projects is to help DNOs understand how they provide security of supply at value for money as Great Britain (GB) moves to a low carbon economy, and what role they could play in facilitating the low carbon and energy saving initiatives that are underway to tackle climate change.

The regulation, governance, and administration of the LCN Fund are set out in the LCN Fund Governance Document² issued pursuant to Charge Restriction Condition 13 of the Electricity Distribution Licence. The LCN Fund Governance Document states that under the Second Tier Funding Mechanism, DNOs can submit project proposals which compete for an allocation of an annual £64m worth of funding. In order to compete for this funding, a project must first pass the Initial Screening Process (ISP). Under the ISP, DNOs must submit a summary proposal of their project (Screening Submission) which Ofgem will use to assess the project against the Eligibility Requirements set out in the LCN Fund Governance Document.

CNT2001 – MKSmart 2020 – Facilitating Low Carbon Living in Milton Keynes

On 21 June 2010, CN submitted a Screening Submission summarising their Second Tier LCN Project entitled 'MKSmart2020 – Facilitating Low Carbon Living in Milton Keynes'³ (the Project). The Authority has now assessed the Project against the Eligibility Requirements using the information provided in the Screening Submission. The Authority considers the Project has **met the Eligibility Requirements and has therefore passed the ISP**. The Authority's reasons are set out below.

¹ In this context CN relates to Central Networks East plc and Central Networks West plc.

² Version 2 of the Governance document can be found at:

<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Pages/lcnf.aspx> alongside the Authority's Notice of its intention to publish version 3 of the Governance document.

³ The first page of CN's Screening Submission for their Project 'MKSmart2020' can be found at:

<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/Documents1/CNT2001summary.pdf>

Authority's reasons

In order to pass the ISP a Second Tier LCN Project must meet at least one of the four specific requirements set out in Chapter 2 of the LCN Fund Governance Document. The specific requirements are:

A Second Tier LCN Project must involve the trialling on the Distribution System of at least one of the following:

- A specific piece of new (i.e. unproven in GB) equipment (including control and communications systems and software) that has a Direct Impact on the Distribution System,
- A novel arrangement or application of existing Distribution System equipment (including control and communications systems software),
- A novel operational practice directly related to the operation of the Distribution System, or
- A novel commercial arrangement.

The Authority notes the Project will involve the deployment of new equipment on existing infrastructure in order to increase the level of information available on the operational state of the network. This will allow the trialling of novel operational and commercial mechanisms to optimise the utilisation and security of the network. Consequently, the Authority considers that the Project meets all four specific requirements.

In addition to meeting at least one of the specific requirements, a Second Tier LCN Project must also meet all of the criteria set out in Chapter 2 of the LCN Fund Governance Document. The Authority has considered CN's Project against all these criteria.

(a) Accelerates the development of a low carbon energy sector

The Authority notes that the Project will use active network management alongside incentives for demand side management⁴ in order to cost effectively accommodate distributed generation (DG) and electric heating and transportation. Both the facilitation of low carbon DG and electric heating are key components of the Department of Energy and Climate Change's (DECC) Low Carbon Transition Plan⁵ to reduce the UK's carbon emissions. Therefore, the Authority considers that the Project meets this criterion.

(b) Has a Direct Impact on the operation of the distribution network

The Authority notes that the Project will involve the deployment of network controls alongside active network management to enable the control of network constraints in a measurable way. The Authority therefore considers that the Project meets this criterion.

(c) Creates new knowledge that can be shared amongst DNOs

The Authority notes that the Project seeks to deploy and integrate a variety of technologies and commercial arrangements on a significant scale. This will provide new learning which will be applicable to DNOs. Furthermore, the Project involves the collection and analysis of outputs in order to test hypotheses and the dissemination of these results through seminars, papers and University research. Therefore, the Authority considers that the Project meets this criterion.

⁴ Demand side management entails actions that influence the quantity or patterns of use of electricity consumed by end users, such as actions targeting reduction of peak demand during periods when electricity networks are constrained.

⁵ http://www.decc.gov.uk/en/content/cms/publications/lc_trans_plan/lc_trans_plan.aspx

(d) Has the potential to deliver net benefits to existing and/or future customers

The Authority notes that the Project will enable Industrial and Commercial customers to engage in demand response and that certain customers will be able to more greatly control their electricity usage through novel tariffs introduced as part of the Project. Both of these initiatives will aid customers in reducing their electricity bills. Therefore the Authority is satisfied that the Project meets this criterion.

(e) Focuses on network Solutions which are at the trialling stage and require Second Tier funding

The Authority notes the Project seeks to deploy a set of individual technologies that are ready for commercial deployment and which will be integrated and customised in a new and innovative way. The Authority is therefore satisfied that the Project does not represent business as usual for a network operator and therefore meets the criterion.

This decision constitutes notice pursuant to Section 49A of the Electricity Act 1989.

If you have any questions in relation to this letter please contact Mark Askew at mark.askew@ofgem.gov.uk or on 0207 901 7022.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is positioned above the printed name.

Rachel Fletcher

Partner, Distribution

Signed on behalf of the Authority and authorised for that purpose by the Authority