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Dear Anna

The interaction between Second Tier Low Carbon Networks (LCN) Fund projects and the Interruptions Incentive Scheme (IIS) is a good example of tension between two commendable and principled incentive schemes; the first aimed at ensuring that Distribution Network Operators (DNOs) enable future customers to efficiently transition to a low carbon economy and the second to encourage a reliable provision of electricity to present customers.

I note that the consultation includes discussion from the perspective of which group of customers pays for IIS penalties or pays lower distribution charges as a consequence of receiving a less reliable electricity supply. This discussion is not conclusive or persuasive, as one could equally argue that the customers in trial areas are receiving the benefits of being connected to a 'smart', modern (albeit experimental) network sooner than the larger group of UK customers.

Set against the backdrop of statutory national targets for carbon emission reduction, the transition to a low carbon economy is not optional for DNOs or customers. In this context the potential benefits of LCN Fund projects would seem to outweigh any modest increase in electricity supply interruption for the restricted number of customers in project areas. It would be appropriate to protect second tier LCN Fund projects from IIS penalties.

Two of the projects selected to receive second tier funding in the first year of the LCN Fund involve customer interruptions to allow installation of new equipment. In view of the innovation encouraged by the LCN Fund, it is likely that future projects may also require planned customer interruptions in order to install new equipment. The DNOs, in developing such a bid, and Ofgem's expert panel and the Authority, in awarding the



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funding, will have made a judgement that the level of customer inconvenience is justifiable when the potential learning from the project, and potential benefit to all UK customers, is taken into account. This being so, it would seem appropriate that protection is applied to planned interruptions to the level forecast by the DNO in its project submission. As suggested in the consultation (Option 3), to retain the incentive to minimise interruptions DNOs could include the proposed level of planned interruptions within their successful delivery reward criteria.

In respect of unplanned interruptions, and to encourage the diligent assessment of potential projects and preparation of bids, DNOs should balance the risk of IIS penalties as a result of a LCN Fund project against the potential discretionary second tier reward. There need not be an explicit link between the IIS penalties incurred and any discretionary second tier reward received (an explicit link is suggested in Option 2 of the consultation).

In summary, planned interruptions should be exempt from IIS and treated as per Option 3 in the consultation, and unplanned interruptions as a consequence of second tier LCN Fund projects should receive no protection from IIS penalties. By extension, the two projects that will receive second tier funding in the first year of the LCN Fund which involve planned customer interruptions should be treated as per Option B in the consultation (identical to Option 3). Any unplanned interruptions should receive no protection from IIS penalties, and the two projects should balance the risk of IIS penalties against their success in receiving discretionary rewards.

I would be pleased to discuss or clarify any aspect of this response further.

Yours sincerely

[by email]

Sean Gauton  
Regulatory Strategy Executive