

Note from Low Carbon Networks Fund Expert Panel meeting with Distribution Network Operators

This meeting was held to enable the Expert Panel to provide feedback on their experiences of the Second Tier LCN Fund projects and process for 2010 and their hopes for project submissions in 2011.

Author	Neil Copeland
Audience	DNOs
Date	3 March 2011

1. General Comments (Robin Bidwell - Chair)

1.1. The Chair emphasised that the Expert Panel makes recommendations to the Authority. The Authority makes the decision on which projects are funded.

1.2. The views discussed in the meeting are those of the Panel and should not be interpreted as representing the views of Ofgem, or in any way changing the governance arrangements set out in the latest version of the LCN Fund Governance Document.

Process

1.3. Ofgem employs technical consultants to support the Panel. Their role is to carry out a detailed review of each submission, highlight issues of particular importance and provide a report to the Panel in a standard format. They are also required to assess the robustness and deliverability of each project.

1.4. Upon receipt of the submissions, the Panel undertook an initial evaluation of them informed by the consultants' reports. This evaluation allowed the Panel to generate questions for the DNOs both in advance of and at the bilateral meetings.

1.5. Following the bilateral meetings, the Panel met to discuss each project in detail taking account of all the information available: the submissions, the consultants' reports, the DNOs' responses to questions and the information provided at the bilateral meetings. These discussions concluded by making their recommendations about which projects should receive funding. These were contained in the Expert Panel's recommendation report to the Authority.

Some consideration/issues

1.6. The Panel assessed projects on the degree to which they excelled against the criteria set out in the Governance Document. They had thoroughly read the companies' full submissions including the appendices; plus the consultants' reports. These documents formed the basis of this evaluation. The Panel agreed the bilateral meetings were for clarification purposes.

2. Engineering Comments (Nick Jenkins)

Feedback on Submissions in first year (2010)

2.1. The first year projects selected for funding were quite different in terms of the nature and range of issues being addressed. Two large integrated projects incorporated a number of innovative elements and in contrast the two smaller projects addressed very specific issues.

2.2. It was not easy to clearly identify from some submissions what innovation DNOs were trialling and what was actually going to be done.

2.3. There was a divergence of views within the submitted projects as to the possible role of smart meters within projects (functionality and timescale) and also the role of smart meters once the smart meter roll-out is complete. NJ noted that smart meters are only relevant for some projects.

2.4. Some proposals were effective in integrating network design and operation, energy supply and customer response. All of these are important for the development of a low carbon network. However, projects are not required to address all three of these areas; projects that focus on specific issues are not considered to be at any disadvantage.

Hopes for second year (2011)

2.5. The proposals submitted in the second year should take account of those projects funded in the first year.

2.6. Where it is appropriate for the project:

- there is scope for further development of thinking and demonstration of the role of smart meters and advanced ICT,
- there is scope for further moves towards integrating demand in network operation and development; this might involve trials demonstrating both technical and non-technical approaches;
- there is scope for continuing trialling of technical innovation.

2.7. DNOs should make better use of the appendices to give a clearer description of the project and what will actually be done. Clear signposting of useful information in the appendices would aid all of those involved in assessing projects.

3. Social Cost Benefit Analysis, SCBA (David Newbery)

3.1. SCBA compares how the world would be with and without the project taking place and attempts to evaluate the value added of the project. The relevant criteria for a SCBA are:

- the extent to which a project accelerates the low carbon transition plan,
- whether there is a direct impact on the operations of the DNO;
- the amount of risk involved in the project,
- the extent to which the learning generated from the project can be disseminated, and
- whether the project has the ability to deliver benefits to customers.

3.2. DN emphasised that SCBAs attempt to evaluate the value added by a project. It compares the world with and without the project.

Factors affecting benefits

3.3. A number of factors affect the benefits that might be gained from potential projects. The first of these is the probability of success of a trial. If this is 100 percent then there is no point in doing the trial, so the assumption is that the project may not be successful.

3.4. Consideration also needs to be given to the benefits of the project compared to the next best alternative. DN posed a number of questions:

- What would be done if we did not learn from trial?
- Are there already similar projects elsewhere?
- If so what extra will this project demonstrate?
- Would these lessons be picked up anyway? Or do they need local testing to validate results?

3.5. The value of the information that can be gained from the project should also be taken into account. If the project is successful does it simply accelerate the implementation of the technology or method on the network or will future projects be able to usefully learn from and advance beyond it. How much sooner can it be adopted, and with what consequences. Also, if a project is not (fully) successful, the question is what will be learned and whether companies will return to business as usual afterwards or try another option.

3.6. DN noted that carrying out a SCBA of innovation is one of the most challenging problems around. Particular difficulty lies in highlighting the counterfactual and identifying how long it would otherwise take to get to the same place or identify how much the innovation opens up other options. DN concluded that there is more value to be gained from a qualitative assessment of relevant aspects of the project, with reference to the counterfactual, rather than detailed estimates that lack plausible counterfactuals.

4. Project Management (Sean Sutcliffe)

4.1. SS highlighted three key areas of interest: project management experience; business culture and setting challenging deliverables.

4.2. Large integrated projects should be able to demonstrate that there is a depth of project management experience involved in the project. Project management and risk identification should not be a case of box ticking but should resonate throughout the projects.

4.3. The LCN Fund should be about changing the culture of the DNOs as well as the way in which the network operates. Senior management in the businesses need to demonstrate they support the work of the project and submissions should explain how they will integrate the learning into the entire business model of the company. This should be conveyed in a clear business case or justification for the project.

4.4. In 2011 bids will be judged to an extent based upon the Successful Delivery Criteria put forward in their bids. DNOs should focus on outlining more challenging deliverables in this area which are linked to clear project outputs, not inputs that are easily achievable.

5. Consumer Impacts (Sharon Darcy)

Feedback on Submissions in first year (2010)

5.1. Not all proposals had considered customer segmentation – which groups of customers would be affected and over what timeframe. Where a trial looks to monitor customer behaviour, customers should be segmented by geography / size / social economic group / vulnerable etc. Further, many projects did not address the question of which consumer groups the costs and benefits would accrue to.

5.2. The Panel had to ask what would happen in important areas for consumers such as data security as this was not made clear in submissions.

5.3. It was not clear in some submissions that a key element of the project was the use of intermediaries and aggregators – and they did not explain how these arrangements would work.

5.4. Many proposals focused on the process of carrying out consumer engagement rather than how the outcomes of this would be integrated into the project plan. It was not always clear how communications with customers would be managed especially around interruptions and links to smart metering.

Hopes for second year (2011)

5.5. The risk of consumers not participating needs to be directly addressed and managed by DNOs as an integral part of the project. An LCN Fund project is not just business as usual and DNOs should clearly communicate to customers what value is being added by the trials.

5.6. DNOs need to demonstrate that customer engagement is not just an 'add on', but a clear deliverable for the project. Consumer engagement needs to be well structured with enough time built in to influence outcomes.

5.7. LCN Fund projects are an opportunity for culture change within the companies. In their submissions DNOs should say how the project will help the DNO become more proactive, outward facing and customer focused.

5.8. Projects should not just focus on technical innovation – there is room for more emphasis on non technical aspects such as commercial arrangements.

6. DNO feedback

6.1. The DNOs understood the limited time in year one due to the tight timetable of creating the LCN Fund and running the first round of the Second Tier. However they noted that they would value more time to explain their projects and more space within the proforma. There was a tension between being concise and descriptive, especially for the more complex projects.

6.2. The DNOs would appreciate more dialogue with the consultants, a more structured (and clearly signposted) questions process and an initial opportunity to present an overview of the project to the Expert Panel.