



SmartGridGB

Low Carbon Networks Fund: two year review consultation

23rd January 2012

SmartGrid GB
Russell Square House
10 – 12 Russell Square
London
WC1B 5EE

Contact: Rob McNamara
T 0207 331 2017
E robert.mcnamara@smartgridgb.org

About SmartGrid GB

SmartGrid GB (SGGB) is a not-for-profit membership organisation for stakeholders involved in any aspect of the development or delivery of smart grid in Britain.

Launched by Charles Hendry MP, Minister of State for Energy and Climate Change in June 2011, SGGB has been established by industry to provide an open and independent forum in which a wide range of concerned organisations can come together and share ideas and information in order to help shape policy and make a British smart grid a reality.

SGGB's members come from a variety of different backgrounds including the utilities, IT, communications and professional services sectors. As of January 2012, SGGB's growing membership includes the following companies: Accenture; Airwave; Arqiva; British Gas; BT; Cable & Wireless; EDF Energy; Exelon; GE; HP; IBM; Intellect; Oracle; Power Plus Communications; SAP; Scottish Power; Sensus; Siemens; Toshiba; UK Power Networks; Utiligroup; and Wipro. The Department of Energy and Climate Change (DECC) and Ofgem are observer members of SGGB.

Introduction

The LCNF is acknowledged as a major success by industry and SGGB appreciates the opportunity to offer our thoughts on how it might be improved even further.

The LCNF has achieved the admirable feat of generating some world leading projects and encouraging a level of engagement between different parts of the smart grid industry in the UK that had not previously existed. Through our international work, SGGB is always sure to tell foreign audiences about the achievements of the LCNF and the feedback we receive is almost always positive, with comments invariably made about its uniqueness and ambition as an initiative. As a result, it is undoubtedly proving responsible for an upsurge in interest in the UK electricity market from international companies.

Inevitably, and like most other large policy areas, there is certainly room for further refinement and the observations offered in this response are intended to be constructive. They are based upon the experiences of SGGB's member companies who represent a wide spread of the smart grid community – from energy retailers and DNOs to blue chip ICT companies and SMEs – some of whom are involved in LCNF projects and can offer observations from first hand, whilst those who are not, can offer advice from an 'outsider' perspective.

In this response, SGGB has offered more general comments and observations first, and then moved on to respond to each of the individual questions in the review. Should Ofgem have any questions on the observations made in this response, please contact Rob McNamara at robert.mcnamara@smartgridgb.org or on 0207 331 2017.

Opening comments

Following a period of engagement with SGGB members, three issues on the LCNF emerged that SGGB would like to bring to the attention of Ofgem. Some of these issues relate to the main questions, whilst others relate to the LCNF more generally:

1. There is a concern that the LCNF's current evaluation criteria is leading to certain learning outcomes being overlooked. The neglect of two aspects of smart grid development are of particular concern to SGGB members.

The first relates to a lack of work being done on cyber security and network security. The second relates to the fact the current scope has not encouraged many projects that look into the 'off network' aspects of smart grid development – for example, EVs, infrastructure and buildings.

In response to this, SGGB members would like to see the LCNF take more consideration over how it can meet the long term strategic needs of smart grid development.

2. The LCNF currently is lacking engagement from SMEs and SGGB would like Ofgem to explore ways in which the LCNF could improve its engagement with this important constituency. SGGB notes that Ofgem had originally looked at a variety of means through which SME engagement in the scheme could be stimulated. Should Ofgem wish to revisit such issues, SGGB would be keen to provide assistance since one of our driving goals is to help the smart grid value chain work together effectively and for companies to realise the commercial opportunities smart grid might bring.
3. All SGGB members believe that significant improvements could be made around dissemination of learning. Whilst last year's LCNF conference was acknowledged as a great success by industry, much more needs to be done to ensure that learning is taking place.

This is an area in which SGGB would be delighted to help Ofgem achieve its aims. For example, with our members we are already working hard to produce a seminar in which updates on LCNF and other projects are planned. By doing this effectively, we will be able to make sure that LCNF projects and their findings benefit not just those participating in the projects but also those outside the LCNF.

As well as events, SGGB is also keen to help with the dissemination of information online and we are already working closely with the DECC/Ofgem Smart Grid Forum to understand how we can best do this.

Main questions

Evaluation criteria

1. Do respondents consider that the evaluation criteria have driven certain types of projects at the expense of other learning outcomes? If so, what are these learning outcomes and do they need to be specifically stimulated?

The current evaluation criteria has driven certain types of projects and often successfully so. As a result, though, SGGB is concerned that certain learning outcomes are being overlooked. In particular, SGGB believes that two areas require further research: cyber security and network security; and 'off network' parts of the smart grid such as EVs, infrastructure and intelligent building design. If the LCNF were able to stimulate learning in these particular areas, it would be for the better.

On the mechanics of the how evaluation criteria is actually applied to projects, SGGB would like to request that further information is published on the way that the tier 2 evaluation criteria is being used, and the weighting that is applied to them. SGGB has a concern that the weighting applied to the evaluation criteria might deter projects when the criteria are in potential conflict. For example, a case in point offered by one of SGGB's members is that whilst a project may have low impact on the network (criteria c), it could significantly help low carbon development (criteria a) which would be positive.

A practical way for Ofgem to start the process of stimulating learning outcomes that are currently being overlooked would be to undertake a gap analysis of the current portfolio of LCNF projects with a view to identifying gaps that currently exist.

2. Do the evaluation criteria ensure that the LCN fund is compatible with future developments in smart grids?

As mentioned in our answer to question 1, there is a concern that the current evaluation criteria for the LCNF is not encouraging work that is compatible with certain important parts of future smart grid development. For example, cyber security and network security are major issues for smart grid development and future projects that address these areas in detail would provide crucial learning.

In addition to this, Ofgem should consider how to address the current lack of 'off network' projects in the LCNF. Whilst networks are of course crucial parts of developing low carbon ecosystems, the key to success in the development of smart grid will be the flexibility of all the components within the ecosystem – particularly those parts relating to infrastructure and transport. The LCNF's portfolio of projects understandably reflects the current interest in parts of the smart grid such as demand response and human interaction with energy delivery, but for the LCNF fund to be compatible with future developments in smart grid, it must recognise and facilitate developments in "off network" areas which will undoubtedly also have an impact on the way in which the network operates.

Finally, the LCNF could also better cater for future developments in smart grids by focussing even more on the role of the consumer. Whilst SGGB acknowledges the work that LCNF projects are already doing to engage the consumer, we think it is important that even more of this is done and that future projects that focus on different ways of messaging and interacting with customers about smart grids would be welcomed.

Best use of learning

3. We welcome your views and experiences on how we can enhance the requirements on learning dissemination for LCN Fund projects to ensure that industry gets the best value from them.

This is a major area for potential improvements, particularly because of the expected growth in learning as the LCNF develops, enabling even more projects. SGGB acknowledges that the current lack of knowledge dissemination might reflect the relative immaturity of most of the projects. Nonetheless, we think that more can be done to improve learning dissemination and much of it is straight-forward.

A particular highlight of 2011 was the LCNF conference in Gateshead. A logical next step from here would be to encourage more regular events that would give industry an opportunity to come together and learn more about the progress the various LCNF projects are making. In particular, the workshops could allow discussion of DNO needs, and provide opportunities for other stakeholders to offer views and solutions. SGGB would be happy to assist with facilitating these events and is already working with two DNOs to make this happen as noted in our introductory remarks. These workshops would form an excellent opportunity for facilitating collaboration.

SGGB would also add that the issue of learning dissemination is equally important within the DNO organisation itself, to ensure knowledge transfer. We are entering a critical stage of learning that will inform investment planning for future regulatory periods and it could also have a profound impact on organisational structures within DNOs, and need for change. With this in mind, SGGB would encourage each DNO to share an 'internal looking' view of organisational and cultural changes that they foresee having to undertake in the future— this will help industry be prepared to support the change process.

As well as the need for additional events and activities, online dissemination will of course be very important to get right. Again, this is an area where SGGB is keen to help with the dissemination process and we are already working closely with the DECC/Ofgem Smart Grid Forum (work stream 5) to better understand how we can be of most help.

Duplication

4. *We welcome respondents' views on the level of duplication across first and second tier LCN Fund projects and what changes, if any, we should make to the LCN Fund governance to address this duplication.*

Responses received from SGGB members, indicate that there is currently not an undue level of concern about duplication on the LCNF. Most SGGB members acknowledge that duplication, where it does exist, can often deliver its own benefits. For example; our understanding of the area singled out by Ofgem in the review letter (network monitoring) might actually benefit from the differing approaches that are being taken: it might contribute to a more diverse mix of ideas and innovation.

5. *We welcome views on whether there is merit in each DNO undertaking its own monitoring or whether this could be avoided if all monitoring data was held in a single place and accessible to all DNOs.*

SGGB starts from the point that, as far as possible, all data should be fully transparent to Ofgem and, where appropriate, that data should also be made available to a wider community than just DNOs – for example, universities, manufacturers, consultants, etc – since the understanding which can be developed from this data can help to drive technology and application advances and accelerate the deployment of low carbon technologies.

If this can be achieved through holding the data in a single place that would be very positive, though SGGB appreciates that there might be difficulties in making this happen. If a single data repository were not feasible, SGGB and its members would be happy to discuss potential alternative approaches with Ofgem.

Focussing learning outcomes

6. *Given their wider scope, how can we best gain greater up front clarity in submissions on the learning outcomes of the larger, more complex projects?*

Collaboration

7. *We would be interested to hear your views on your experiences of this website and other means of facilitating collaboration.*

The website has not been viewed as particularly useful by SGGB members, with many noting that it has been underused by the DNOs.

As per our earlier answer in question three, SGGB would strongly recommend that Ofgem encourages more workshops throughout 2012 with those undertaking LCNF projects as a means of facilitating collaboration with wider industry. As also mentioned earlier in this

response, SGGB is currently working closely with the DECC/Ofgem Smart Grid Forum (work stream 5) to understand how it can best help the online dissemination of material and other ways of using the internet to facilitate collaboration.

Cost benefit analysis

8. How should we design the form and content of guidance on carbon benefits so that they are comparable across projects?

Process

9. How can we improve the LCN fund first and second tier processes?

SGGB notes that the LCNF first and second tier processes have been largely successful, with most agreeing with the recommendations of the expert panel. Whilst some members have noted that the 'two-stage' process (that comprises of the Initial Screening Process (ISP) prior to a Full Submission stage) has helped to reduce risk of funds committed to unsuccessful bids, it does not wholly address the upfront costs encountered by applicants in the wider supply chain. As a consequence of this, LCNF bid design has occasionally been compressed into shorter than desirable timescales, leaving relatively little time between bid submission and presentations to the Expert Panel.

SGGB members endorse the LCNF expert panel recommendation to allow projects to incorporate comments from other stakeholders as they see this as something that would help to encourage more innovative and flexible projects that are able to respond to technology availability and customer reaction to name but a few things.

10. How could we implement an additional stage to allow DNOs to amend submissions in response to comments from the Expert Panel or technical consultants without undermining the competitive nature of the process?

SGGB is supportive of the proposal to include an extra stage in the process to allow DNOs to amend submissions in response to comments from the Expert Panel. One suggested way of doing this might be to allow DNOs opportunities to make amended submissions based on stakeholder consultation and Expert Panel comments at fixed points in the submission process timeline.

Discretionary funding

11. We welcome your views on the suggested timings and whether or not the delay between project submissions and potential discretionary funding dampens the incentive.



Transition to the NIC

12. We would appreciate views on the easiest way to ensure a smooth transition from the LCN Fund to the new price control, whilst fulfilling the commitments we made on the LCN Fund in DPCR5 Final Proposals.

SGGB approves of Ofgem's current approach that will likely lead to the discretionary funding carrying over into the RIIO – ED1 period, by allowing the LCNF to run its course before it is folded into the electricity NIC.

We would stress the importance of ensuring that the transition from the LCNF to the NIC regime is carefully managed in order to provide certainty to participants, investors and the wider supply chain. By ensuring the transition is carefully managed, momentum will be maintained and any potential interruptions in investments will be avoided.