



### **Low Carbon Network Fund: Two Year Review (1 December 2011)**

SP Energy Networks (SPEN) welcomes the opportunity to respond to the open letter issued on 1 December 2011.

In general we think that the LCNF has worked well in its first two years. We think that some consideration - perhaps in relation to the development of the NIC - should be given to refining the evaluation criteria so as to permit innovation to be funded that may offer limited benefits in terms of carbon, but which may lead to significant customer benefits in other areas.

As regards transition arrangements to the new NIC, we think that funding and other arrangements for LCNF projects approved up to 31 March 2015 should be allowed to run their course alongside the new price control regime.

Our detailed comments on each of the questions set out in the letter are set out below.

***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?***

We think that the evaluation criteria have provided a good framework to date but believe that it has driven particular behaviours. In particular the requirement for the project to be ready to implement at the time of the proposal does disincentivise DNOs from proposing projects which present more risk and may require further development work as part of the project. We believe that this may be one of the principal reasons for the point noted by the Expert Panel that only a limited amount of new technical equipment featured in the 2011 submissions.

Given the title of the fund, it is understandable that the criteria focused on low carbon initiatives, but as a result this may preclude other innovation such as in the areas of quality of supply, cyber security or network security, all of which would benefit from innovation at a larger scale than can be investigated through the IFI mechanism.

We recognise the Expert Panel's comments that value for money should be a key consideration and this is something that SPEN have paid particular attention to in the development of all our projects. It should be recognised that many of the LCNF projects are trying out solutions which have never before been undertaken in the UK, if not the world. The fact that the DNO already has to make a contribution of at least 10% of the project costs means that it is in its own interests to deliver value for money.

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

Generally the LCN fund has assisted in the development of smart grids but as mentioned above, we think that the scope of the LCN fund may preclude projects which would be considered 'smart grids', but which primarily address security, quality of supply or network security, rather than a low carbon future. For this reason, although the current criteria do not hinder the current development of smart grids, they may not fully accommodate the range of opportunities that could be pursued in this area.

***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.***

We believe that to date there has been insufficient dissemination from projects, in particular Tier 2 projects which have been ongoing for over one year. One suggestion would be that the six monthly reports provided to Ofgem for Tier 2 projects are published in full rather than only the executive summaries, so that other DNOs have visibility of some of the successes or challenges which other DNOs are experiencing which they can then draw on or offer solutions.

We think that each project should have a common objective such as providing a transparent cost benefit analysis or similar of the technology or techniques that have been deployed. It may be useful to require DNOs to provide this in such a format that it can be openly used within the various models that are being developed as part of the Smart Grid Forum activity under Work streams 2 and 3 and can then be used in the future within business plans.

***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.***

We do not believe that there is any evidence of unnecessary duplication in projects across either Tier 1 or Tier 2 to date. The current evaluation criteria and the associated process require DNOs to ensure that they are not duplicating effort. As recognised by the Expert Panel, a level of duplication may be necessary for capacity building in terms of the culture and skills of DNOs, and addressing the different network configurations which are present across GB therefore we do not think any changes are required.

With respect to the level of monitoring that is being undertaken, we are of the view that this is necessary to quantify and understand what is happening as a result of the projects rather than viewing this as a solution in itself.

***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.***

A key element of a number of the LCNF projects, and in particular the Tier 2 'LV Network Templates', is to determine the value of monitoring to understand what the costs are for different levels of data acquisition, and what the optimal level is. We think it may be advantageous for the DNOs to collectively develop a common standard for monitoring equipment as a result of the monitoring that is being undertaken in the projects. We do not think that it would be practical for DNOs to generate a common repository for all monitoring data given the different IT systems which each DNO operates, the different formats of the data that is being collected and different levels of granularity

of data. In itself, monitored data is unlikely to be useful without a full understanding of the circumstances of what is being measured in the first place.

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

Given the longer term visibility of funding availability in future years, in both the LCNF and the NIC following that, we think it would be sensible for larger projects to be broken down into smaller elements which then build upon each other and are subsequently approved by the Expert Panel. This would move away from the Expert Panel having to recommend a project which consumes a large proportion of the funding in any given year, and creates a higher risk that the learning outcomes may not be achieved. This would allow more, smaller, projects to be pursued, albeit that each project may have a larger long term vision which it is ultimately aspiring towards.

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

We do not believe that the website is extensively utilised by DNOs. The website provides access to a number of parties with useful skills but most of these are already registered with the existing procurement systems that are currently in place. DNOs are already duty bound to follow a robust procurement procedure which we continue to apply to LCNF projects where applicable. Our experience to date is that a huge number of parties have expressed interest in participating in LCNF activity and managing all of these has proven to be extremely time consuming and onerous which is why a formal procurement process has been used in many instances to date for LCNF projects to identify the various parties that could provide services.

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

Given the experience in the first year of the LCNF process regarding estimating the carbon benefits, we believe that this should remain as a qualitative process. We agree with the comments made by the Expert Panel in this respect that a quantitative process is highly subjective and does not provide a comparison between projects due to the extremely varied assumptions that may be made.

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

We believe that the Tier 2 process in 2011 has been a significant improvement on 2010 and agree with the comments made by the Expert Panel in Report and recommendations for 2011.

Generally we have found the Tier 1 process to be fit for purpose.

***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?***

We found that the 2011 process operated well and the opportunity that the Expert Panel provided for DNOs to revise their proposals was appropriate. Should a formal and extended opportunity be given for DNOs to revise their bid, it may be useful to hold the initial meeting with the Expert Panel at a much earlier stage such as at the ISP stage to get initial feedback. Following this meeting, the

DNOs could then consider their feedback as they develop their full submissions. The risk with this approach is that it may lead to too great an emphasis on the ISP stage to the point where it may require a DNO to have a fully developed solution earlier than would be desirable. It may also be perceived that the Expert Panel are steering the projects rather than allowing the DNO to develop their own ideas.

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

No. The DNO is aware of the associated timescale for receiving a discretionary reward when a project is submitted and this is considered when they make their submission. A suitable period of time is required for a variety of projects to be undertaken and to determine the level of success.

***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.***

At this stage, we think that funding and other arrangements for LCNF projects approved up to March 31 2015 should be allowed to run their course, so that LCNF funding arrangements would apply in the early part of the ED1 period.