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Our ref

Your ref

Date

-

10 January 2012

Dear Dora

Low Carbon Networks Fund: Two Year Review

Thank you for your letter and the opportunity to contribute to the review of the Low Carbon Networks (LCN) Fund following two years of operation.

The LCN fund has filled a previous gap between Research and Development (supported by the Innovation Funding Incentive - IFI) and the day to day engineering innovation that has more immediate returns.

We welcome all new ideas and solutions proposed by third party organisations, our BRISTOL project is mainly based on ideas from third parties who are involved in the project.

We also welcome the proposal to introduce the Network Innovation Allowance (NIA) and Network Innovation Competition (NIC) to electricity distribution businesses for ED1 price control period. We support Ofgem's aim to ensure a smooth transition from the IFI mechanism and LCN fund to the NIA / NIC. On a practical level we see no issue with working under IFI/LCN governance until the switch over to NIA/NIC rules on 1 April 2015. We would be supportive of harmonising eligibility criteria and processes where appropriate in advance of this which could be achieved through revisions to the LCN governance document and IFI rules.

Western Power Distribution continues to work closely with our stakeholders, Government and Ofgem to better assess the implications on local grids from low carbon technologies. Our Innovation Strategy and Future Networks Programme have been carefully put together to reflect priorities, and are constantly reviewed and adapted as necessary to ensure learning is maximised for future business plans.

The attached appendix sets out specific responses to the questions posed in your letter.

Should you wish to discuss any aspects of our response please contact Roger Hey (rhay@westernpower.co.uk).

Yours sincerely

A handwritten signature in black ink, appearing to be 'AS', written in a cursive style.

Alison Sleightholm
Regulation and Government Affairs Manager
Western Power Distribution

APPENDIX – Response to Consultation Question Areas

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

The evaluation criteria for Tier 1 and Tier 2 projects act as a useful framework for establishing the eligibility of initiatives. We would make the following comments:

- Some initiatives, whilst we believe there are “in the spirit of the LCN Fund”, have failed to pass the eligibility criteria. Common aspects of such projects are those that involve innovation to reduce DNO operational carbon footprint, early benefits/learning from smart metering or community groups.
- Closer alignment of the evaluation criteria between Innovation Funding Incentive (IFI) and LCN would assist in progressing an integrated “pipeline” of projects spanning technology readiness levels.
- The additional rigour and process associated with the LCN fund Tier 2 criteria although appropriate for larger integrated projects can be overly burdensome for smaller more focused projects. The original intent of Tier 2 was to facilitate the development of projects that were either large in value / complex or smaller ones that involve funding activities beyond the normal boundaries of a DNO (eg. Equipment in customer homes or provision of generation). A distinction could be made between these two types of project in the governance process.
- The evaluation criteria, and particularly the lengthy Tier 2 process, have made it difficult to combine LCN funding with other local and national mechanisms. It should be possible to develop specific mechanisms for such projects to ensure the LCN portion of a project can be designed so it fully integrates with other funding sources.

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.

We are keen to ensure that learning from all LCN funded projects is shared effectively with DNOs and industry players. The inaugural DNO LCN conference held in July 2011, facilitated by the Energy Networks Association (ENA), was widely acknowledged as being successful in sharing learning. WPD are currently working with all DNOs to plan the format and topics for the 2012 event.

We also note that DNOs continue to participate on a voluntary basis in a range of other conferences and events, including the publication of papers to national and international bodies. Through our trade associations, ENA and EURELECTRIC, we use this learning to actively contribute to the development of standards and directives. DNOs have a strong track record and reputation for openly sharing knowledge with each other and third parties where this is in the best interests of GB customers. The ENA has several long

standing groups, often with external participants from industry and public sector organisations, as testament to this.

The requirements for learning dissemination associated with Tier 2 projects are closely scrutinised and agreed through the evaluation process. These learning outcomes are directly linked to successful delivery reward criteria and therefore we feel DNOs are already strongly incentivised to ensure knowledge is shared effectively.

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.

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.

We do not believe there is evidence of unnecessary duplication learning from projects registered under the LCN fund.

- We note your observation on the apparent duplication of activities by projects in different DNO groups. It is often desirable to replicate findings of innovative solutions prior to mainstream adoption, and in any event our experience of sharing learning with other DNOs has yielded knowledge of important differences in project approaches and testing methodologies.
- Your letter also points to duplication of substation monitoring by DNOs. Substation and asset monitoring is an integral components of the smart grid and hence it is inevitable that this is a common activity. It is useful to draw a distinction between monitoring equipment that is an "enabler" for project learning (eg. In collecting data that can be analysed or used to control the local grid – where we deploy proven and low cost solutions) or where it is the "subject" of the project. In the case of the latter we have recently established an arrangement with the National Physical Laboratory to carry out bench and field tests of innovative new equipment. UK Power Networks have already decided to collaborate with us in this arrangement, and we hope other DNOs will decide to do so in subsequent years when testing is repeated with newly introduced equipment.
- On the basis of the above we feel the establishment of a national data repository would be unnecessary and costly.
- Subject to data protection and confidentiality restrictions we do continue to make relevant network data available to universities and other institutions on request. Conversely we continue to find it extremely difficult to access data from other organisations, for example access to early smart metering data and building fabric data.

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?

The current process of evaluating larger complex projects (Tier 2) already subjects bidding DNOs to substantial challenge, and ensures projects benefits and learning are detailed. We would expect any project that fails to do this would not be selected to receive LCN funding.

For projects with a multiyear duration, we acknowledge that there is bound to be less certainty over the details of later stages. Where this is the case, for example in the case of WPD Project FALCON, to mitigate this risk we have built in specific mobilise, design, built, test phases. At the end of each phase, the subsequent detailed activities will be confirmed. We would be happy to consult on these and share with Ofgem or their expert panel.

Collaboration

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

The website is a standing agenda item at the ENA R&D group and further enhancements and changes are planned.

We receive regular approaches both through the website and directly from external parties. Most potential partners and suppliers have suggested they prefer to speak directly to DNOs rather than have dialogue via the web portal.

Cost Benefit Analysis

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

We are supportive of the expert panel view that a qualitative analysis of carbon benefits is sufficient in selecting projects to receive funding, whilst retaining a quantitative analysis for the financial business case. We are happy to support Ofgem in exploring again whether there is a reliable means of quantifying carbon benefits, but would wish to ensure the effort associated with developing it is proportionate to the additional value it gives the panel.

Process

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

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?

The LCN fund process is overall working well. We offer the following suggestions of ways in which it could be further improved:

- The tier 2 bidding process places a substantial burden on DNO resources for a prolonged period over the year. We would suggest compressing the overall timescales to alleviate this. In particular we would welcome an earlier deadline for "final submission" and more of an opportunity to take on board feedback from the expert panel.
- The current "Q&A" process would be improved by a site visit which would avoid the need for many of the formal questions.
- Consideration could be given to identifying different project types and having variations in the evaluation process and submission forms.

Funding profile

Although the funding profile and annual cap on Tier 2 has not caused an issue in the 2011 round, it may do so again in the future. As in 2010 this will mean some "good projects" are not progressed, and the costs associated in developing them is wasted. To avoid this it would seem sensible to give Ofgem and the expert panel more latitude for move funding between years whilst remaining within the DPCR5 total amounts.

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.

As we approach the completion of the first LCN funded projects, we look forward to working with Ofgem to agree the details of how the mechanism will work in practice.

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.

We support Ofgem's aim to ensure a smooth transition from the IFI mechanism and LCN fund to the NIA / NIC. On a practical level we see no issue with working under IFI/LCN governance until the switch over to NIA/NIC rules on 1 April 2015. We would support a harmonisation of eligibility criteria and processes where appropriate in advance of this which could be achieved through revisions to the LCN governance document and IFI rules.