



Electricity distribution network operators (DNOs) and other interested parties

Promoting choice and value for all gas and electricity customers

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Low Carbon Networks Fund: New Collaboration Criterion

This letter states our intention to add a criterion to the Initial Screening Process (ISP) in version 6 of the Governance Document of the Low Carbon Networks (LCN) Fund. Distribution Network Operators (DNOs) should take this proposed criterion into account when developing submissions for next year's second tier funding competition.

Background

As part of the Electricity Distribution Price Control (DPCR5) Final Proposals¹ we established the £500 million LCN Fund to encourage DNOs to use the DPCR5 period (1 April 2010 to 31 March 2015) to try out new technology, operating and commercial arrangements. The objective of these trials is to help all DNOs understand how they can provide security of supply at value for money as Great Britain moves to a low carbon economy. The competition consists of two stages. The first is the ISP stage, which provides early sight of the projects and an early indication of whether projects are eligible for funding. If projects pass the ISP, DNOs can submit Full Submissions which are evaluated by an Expert Panel and Ofgem against detailed criteria.

Collaboration

Collaboration with third parties is a key element in maximising the value for money of the LCN Fund. It is crucial that third parties do not face barriers to involvement in the LCN Fund and that DNOs are open to the widest possible range of ideas that could provide benefits to distribution customers. Following our two year review of the LCN Fund² we changed the Full Submission evaluation criteria to reflect this key element by assessing projects' approach to collaboration. In addition, as collaboration is such an important issue in delivering value for money, we stated in the two year review that we would also consider introducing a similar criterion at the ISP if appropriate.

Following further stakeholder engagement on this issue, including through the development of the governance of the Network Innovation Competition (NIC), we note that some stakeholders have raised concerns that there are still barriers to participation. In response to these concerns, we consider that additional measures to encourage collaboration are appropriate. We propose to include an evaluation of network companies' approaches to collaboration with third parties at the ISP stage of the LCN Fund, in much the same way that it has been included in the NIC.

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>

² <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=115&refer=Networks/ElecDist/lcnf>

Next steps

We intend to consult on version six of the Governance Document, which will govern next year's competition, to take effect by April 2013. Annex 1 contains the proposed drafting for the ISP collaboration criterion, which is based on the NIC draft governance document.

All DNOs and potential collaborators should note this proposed change when developing projects for next year's competition.

If you would like to discuss any of the issues raised in this letter, please contact Sam Williams (sam.williams@ofgem.gov.uk or 020 7901 0532).

Yours faithfully,

Dora Guzeleva

Head of Networks Policy: Local Grids

Annex 1.

(e) Involvement of other partners

A Second Tier Project must demonstrate that it has run a fair and transparent process to select ideas and Project Partners.

DNOs must provide evidence of how Project Partners have been identified and selected, including details of the process that has been followed and the rationale for selecting Participants and ideas for the project.