



Distribution Network Operators

*Promoting choice and value for  
all gas and electricity customers*

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### **Low Carbon Networks (LCN) Fund – compliance with governance framework**

I am writing to emphasise the importance of compliance with the LCN Fund governance framework. Failure to comply brings risks to the effective dissemination of learning, efficient delivery of projects and, ultimately, value to customers. We have written to individual DNOs with the specific concerns we have identified so far.

#### **Background**

We established the LCN Fund to encourage DNOs to prepare for the challenges of the low carbon economy. The LCN Fund provides DNOs with up to £500 million to undertake projects trialling new technologies, operating practices and commercial arrangements to help meet these challenges. Rolling out the learning from these trials across Great Britain could result in significant cost savings and carbon benefits.

The LCN Fund is implemented through Charge Restriction Condition (CRC) 13 of the DNOs' licences and the LCN Fund Governance Document (governance document), which provide the ground rules for the regulation, governance and administration of the LCN Fund. We designed the governance document to maximise the benefits from projects and ensure efficient use of customers' money. We have consulted extensively on its content throughout its development and following each annual competition for funding.

The governance document places a number of important obligations on DNOs. It aims to ensure adequate protection of customers' interests and DNOs must comply with all applicable requirements. If they do not, there is a risk that projects could fail to deliver learning or funding could be misspent, affecting customers' ability to receive the expected return on their investment. It is your responsibility to ensure that LCN Fund projects are undertaken in accordance with the governance document, including work undertaken by any project partners.

#### **Concerns**

DNOs must comply with all applicable provisions of the governance document as if it formed part of the Electricity Distribution Licence. As mentioned above, we have written to DNOs on an individual basis to address specific compliance issues.

We would much prefer all DNOs to take the initiative and ensure that they continue to comply with the requirements of CRC 13 of the Electricity Distribution Licence and the governance document. However, if they do not, we have powers to ensure that regulated companies comply with licence conditions and relevant statutory requirements, and can take enforcement action including imposing financial penalties.

If you would like to discuss any of the issues raised in this letter, please contact Dora Guzeleva (dora.guzeleva@ofgem.gov.uk or 020 7901 1851).

Yours sincerely,

A handwritten signature in blue ink, reading "Andy Burgess".

**Andrew Burgess**

Associate Partner, Transmission and Distribution Policy