



All Distribution Network
Operators and other interested
parties

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

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Low Carbon Networks Fund: version six of the Low Carbon Networks (LCN) Fund Governance Document

This letter explains our proposed approach to issuing version six of the LCN Fund Governance Document (the governance document), following consultation with Distribution Network Operators (DNOs). The governance document explains the regulation, governance and administration of the LCN Fund. This letter is formal notice of our intent to issue version six of the LCN Fund governance document. We have attached a draft of the governance document to this letter. We currently plan to issue the governance document by 16 April 2013.

Please send any representations or objections to this notice to arun.pontin@ofgem.gov.uk on or before Friday 5 April 2013. We will consider representations or objections ahead of issuing the governance document on or before 16 April 2013.

We propose to make a number of changes to the governance document based on lessons learnt from the third annual competition¹ and lessons learnt from the development of the Network Innovation Competitions (NICs)². These changes will allow the LCN Fund to provide better value for money to current and future consumers. We explain the proposed changes and our reasons for making them below.

Electricity demand reduction (pages 24 and 82)

Stakeholders have suggested that shifting or reducing electricity demand could provide DNOs with a way to reduce peak loads and avoid the need for network reinforcement. They have also suggested that the current drafting of the governance document may prevent DNOs from trialling such methods in LCN Fund projects. On 7 December 2012 we published a consultation³ on amending the governance document to allow DNOs to trial these methods.

The majority of stakeholders supported our proposals. However, one respondent was concerned that the funding could be used to pay for products or services already provided under other programmes or that the products used would not be innovative. We recognise these concerns and do not want the LCN Fund to replicate any existing programmes or incentives. All projects must meet all LCN Fund criteria, including the criterion which says

¹ More information on the third competition is available [here](#)

² More information about the NIC can be found [here](#)

³ The consultation and responses are available [here](#)

that only projects involving novel or unproven arrangements or equipment are eligible to receive funding. The governance document also requires DNOs to justify why projects and methods should receive funding from the LCN Fund and cannot be undertaken using other sources of funding.

A stakeholder also commented that, given DNOs' relative lack of experience of engaging with end consumers, there was some risk of customer dissatisfaction, which could affect the smart meter roll-out. The governance document contains strict controls to ensure that customers are treated properly. DNOs' approaches to engagement with customers as part of LCN Fund projects must be approved by us. We also require DNOs to ensure that their engagement with customers does not impede smart meter roll-out in any way.

After reviewing responses, and further consideration of the drafting to ensure that it reflects our policy intent, we consider that there are significant benefits in removing this barrier and we have decided to implement our proposals.

Collaboration (page 41)

We have added a criterion to the Initial Screening Process (ISP) stage of the Second Tier Competition, titled "(e) Involvement of other partners". This will require DNOs to have a fair and open process for recruiting partners and selecting ideas for projects. We published a letter⁴ informing DNOs of our intent to add this criterion on 2 October 2012.

Consistency with NIC (pages 32, 50 and 56)

We have been developing the governance arrangements for the NICs over the last year. This development built on the LCN Fund but also incorporated lessons learnt from the LCN Fund process and issues specific to the RIIO price controls. We consider that generally these changes would improve the LCN Fund process. In particular, we have amended the Full Submission evaluation criterion "(b) Provides value for money to distribution Customers" to require DNOs to justify how their project is innovative and why it requires funding through the LCN Fund. We have also amended the arrangements for holding the LCN Fund annual conference so that it can be combined with the NIC conference. Additionally we have added a requirement that DNOs submit eight hard copies of their submissions within two days of the electronic deadline.

First tier (pages 24, 30-31)

We have added a requirement that where payments are made to a Related Undertaking the DNO must demonstrate it has taken steps to ensure value for money for distribution customers in procuring that service. We have also amended the closedown report requirements for first tier projects to ensure learning is disseminated effectively.

Other

We have made some other minor changes. These include:

- amending the requirements for the First Tier (**page 14**) and Second Tier Competition (**page 39**) to ensure that the measures trialled are specific;
- amending the description of how royalties should be treated to reflect the formulae (**page 79**); and
- amending typographical errors and paragraph numbers (**throughout**).

⁴ The letter is available [here](#)

Yours faithfully,

A handwritten signature in blue ink that reads "Andy Burgess". The signature is written in a cursive style with a large initial 'A'.

Andrew Burgess
Associate Partner, Transmission and Distribution Policy
For and on behalf of the Gas and Electricity Markets Authority