



All Distribution Network
Operators and other interested
parties

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

Direct Dial: 020 7901 7159
Email: andy.burgess@ofgem.gov.uk

Date: 12 April 2013

Publication of the Low Carbon Networks (LCN) Fund Governance Document v.6

On 8 March 2013 we published notice of our intent to issue version six of the LCN Fund Governance Document (the governance document). The governance document explains the regulation, governance and administration of the LCN Fund. The amendments to this version reflect the lessons that have been learnt from the third annual competition and the development of the Network Innovation Competition¹ (NIC). We asked for comments, representations or objections to the notice on or before Friday, 5 April 2013.

Stakeholder comments

We received four responses from Distribution Network Operators (DNOs) to our consultation.

Three DNOs commented that the proposed requirement that DNOs submit hard copies of their full submission 48 hours following the electronic deadline could clash with weekends or bank holidays. We agree with these comments and have stated in paragraph 3.31 of section two that DNOs must provide eight hard copies of their full submission within two working days of the deadline.

One DNO questioned the need to provide ring bound hard copies of the full submission. We have included this requirement so that we can ensure full submissions are sent to the expert panel in time for the evaluation meetings. This requirement is also included within the NIC and we are introducing it for the LCN Fund to ensure consistency.

The DNO queried why the requirement for DNOs to inform us of delayed first tier projects had been removed from paragraph 5.4 of section one. We removed this requirement as it duplicates a requirement in paragraph 2.35 of section one. We have amended paragraph 2.35 of section one to clarify this.

The DNO also queried where day rates and person days, for Second Tier projects, should be reported. These figures should be reported in the full submission proforma. We will issue guidance on completing the proforma ahead of the full submission deadline.

Another DNO commented that the requirement, at the Initial Screening Process stage of the competition, to identify the approach to selecting ideas and participants for projects could adversely affect existing partnerships. In October 2012 we published a letter² informing DNOs of our intent to include this requirement in the governance document. It is

¹ More information about the Network Innovation Competition can be found on our website:

<http://www.ofgem.gov.uk/Networks/nic/Pages/nic.aspx>

² <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=123&refer=Networks/ElecDist/lcnf>

important 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. We recognise the importance of existing partnerships, but we do not consider that requiring DNOs to have fair and transparent processes to select ideas and Project Partners will jeopardise existing partnerships on current projects. The requirement will ensure that LCN Fund projects involve the best ideas and most capable partners.

We have included a requirement for DNOs to demonstrate that they are delivering value for money if the project involves the DNO making payments to related undertakings (eg generator affiliates). One DNO commented that the requirement to undertake tender processes could be uneconomic where the payments involved are small. The current drafting does not require a tender process in all situations – it requires DNOs to demonstrate the steps taken to ensure value for customers' money. While these steps could include a tender they could also include other steps that are proportionate to the sums involved and we will consider this on a case by case basis. As such we have decided to retain the proposed drafting.

A number of DNOs provided minor drafting comments. We have corrected typographical errors on the front cover, in the context, in paragraph 1.8 of the introduction, in paragraph 3.21 of section two, in paragraph 3.65 of section two and paragraph 1.2 of section five.

Next steps

In accordance with Charge Restriction Condition 13 of the distribution licence, we have today published the LCN Fund Governance Document v.6.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Andy Burgess'.

Andrew Burgess

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