LCN Fund Full Submission

Supplementary Answer Form

Tick if this answer is Confidential: ☐

Tick if this answer has been provided verbally: ☐

Project code:	SPT2005	Question Number	15, 16, 17
Question date	12th September 2013	Answer date	16th September 2013
Submission section question relates to	Technical Consultants Meeting		
Topic	Financial		
Question	Please explain who will pay the £25k Annual DNO contract fee? Please explain what is meant by the £72k DNO Availability Payment and how this is calculated. Please explain what is meant by the £130k DNO Utilisation Payment and how this is calculated.		
Notes on question	We have responded to these questions as one as they are all interlinked, as they cover the payments from DNO to the service provider (Menter Mon)		
Answer	The Business Model presented in the ACE proposal is intended to illustrate the potential for a realistic post-trial Business Model. It is a "strawman" illustration to show that it is possible to create a win-win-win scenario for the Customer, Mentor Mon and the DNO. The numbers presented in the model are average numbers, but we have also carried out a sensitivity analysis to show that the simple Business Model does work for a range of numbers, allowing Memtor Mon to scale their service activities accordingly. The Annual DNO contract fee (from the DNO to Menter Mon) is one of the components of the cost model which aims to disaggregate and balance the risks. This is aimed to illustrate the likely need for an annual fee to be paid to the Intermediary by the DNO in order to balance the risk of the service provider, giving Menter Mon some guaranteed income, and therefore making Menter Mon's charge for the actual service provision more in line with the cost of the service provision (i.e. the service provision is not loaded with risk management components). The DNO availability payment is the next component in the disaggregated risk cost model. The purpose of this component is to ensure that the service provider is able to provide the necessary demand response, by signing up the appropriate number of customers. The size of this payment is therefore related to the number of signed-up customers and their collective capability. It is also related to the requirement specified by the DNO (i.e. will need to		

	meet a minimum threshold as well as being capped). The DNO utilisation payment is the final component of the cost model. This is a payment related to the operation of the demand response. This is the most important aspect of the cost model and is the component with the greatest uncertainty. Our intention is to link this to payment to the periods for which the scheme will need to be "active" – i.e. for up to 3 months of the year. We did consider linking this payment to actual events, but this creates too much uncertainty for all parties, creating a scenario of a few events during the year providing the trigger for large payments, making participation in the scheme too much like a lottery. In conclusion, the Income is similar to that of the STOR service providers or utility-scale energy storage systems. Income = fixed cost + availability payment + utilisation payment To develop these costs we estimated to forecast cost of providing these services, and then broke this estimated cost down into the three components to ensure an adequate balance of incentive for Mentor Mon to identify and manage services as required (Availability and utilisation payments), but with some underlying certainty of revenue for Mentor Mon (Annual contract fee). Mentor Mon will also get a fee from customers in exchange for the energy savings which they will achieve by being part of the scheme. By examining the overall revenue model for Mentor Mon, this translates to: DNO Annual contract: 5% of revenue Club fees: 40-50% Availability payments: 15-20% Utilisation payments: 30-40% These are shown as ranges as it depends on the number of customers signed up, and utilisation. The balace of revenues for Mentor Mon are focussed on incentives for participation rather than fixed allowances. The revenues are also split between fees from customers as they will have a further benefit in terms of reduced energy bills, and DNO cost savings. The overall costs are currently based on joint forecasts by Mentor Mon and Scottish Power on the likely costs of implementing the proposed solution. A learning outcome form the project would help to refine this model so that the DNO and future intermediaries understand the detailed costs and risk model. The learning from this project will inform decisions concerning the relative sizes of the components and identifying the best parameters to base the calculation on.
Attachments	
Verbal Clarifications (Consultants)	