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### **Learning from innovative network projects**

In the fifth electricity distribution price control review (DPCR5) we recognised that distribution network operators (DNOs) would begin to face new challenges, such as increased levels of demand from low carbon technologies and new sources of distributed generation. We recognised the need for DNOs to innovate to address these new challenges in order to minimise cost to customers.

The Low Carbon Networks (LCN) Fund allows DNOs to trial new technologies, and operating and commercial arrangements. The objective of these trials is to generate learning 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.

In order for this significant investment to deliver benefit to customers, learning from successful projects – where cheaper or more effective approaches are realised – must be used by DNOs in evolving their normal investment practices. In order to maximise the adoption of innovative approaches into business as usual, learning from projects must be available to, and considered by, all DNOs. In this regard, project closedown reports are key.

The LCN Fund Governance Document requires DNOs to provide a close down report for each project that receives LCN Funding. This letter sets out our expectations of -

- How each DNO should validate that its Second Tier close down reports are sufficiently clear and informative for other network operators to understand what has been learnt from projects.
- How each DNO should demonstrate its consideration of LCN Fund projects in evolving its normal investment practices.

### **Industry validation of second tier close down reports**

We want DNOs to properly consider whether they should implement learning developed by other licensees into their own businesses. Given their importance, we are keen to ensure that close down reports contain the information necessary for DNOs to fully understand the implementation and outcomes of projects. It is important DNOs are able to use close down reports from other licensees to assess whether they can apply new learning in their own business as usual activities.

We consider that the implementation of learning from projects into business as usual will be more successful if close down reports are clear, understandable and provide sufficient information for DNOs to evaluate the opportunity provided by what has been learnt through

each trial. With this in mind, and following consultation, we recently published guidance on the content and structure of second tier close down reports.<sup>1</sup>

In addition to this, we are now setting out our expectation for each DNO to provide, for review, a draft of each second tier close down report to at least one other DNO. The reviewing DNO is expected to review the draft close down report before its publication. Evidence of robust peer review will be a key consideration in our acceptance of the report.

The reviewing DNO should review the close down report and confirm -

That the report is clear and understandable and provides sufficient information to enable a DNO, not closely involved in the project, to effectively consider whether to implement the project's learning in to business as usual activities.

Where the reviewer provides this confirmation, the DNO developing the report should publish it alongside the final version of the report. Where the reviewer does not consider the report meets these expectations, it should provide feedback on the areas for improvement. Before publishing the report the DNO should update its close down report to account for such feedback. It should also demonstrate how it has addressed the reviewing DNO's comments.

### **Incorporating innovation in to business as usual**

It is by DNOs incorporating learning from innovation projects into business as usual activities that consumers will receive return on their investment in innovation projects. There are a number of incentives in the new RIIO price control framework to encourage licensees to use the output of innovation projects in their business as usual activities.

In addition, and following the Innovation Working Group meeting of 19 February 2014,<sup>2</sup> we understand that some DNOs plan to publically document their assessment of the suitability of **all** LCN Fund projects and Innovation Funding Incentive projects for incorporation into business as usual. They plan to do this through updates to their Innovation Strategies.<sup>3</sup>

**We consider this to be a suitable approach and consider that all DNOs should adopt it.**

### **Next Steps**

We expect to consult on including both these requirements as part of the development of the Governance Documents that will be in place from 1 April 2015. However, we expect DNOs to note and adopt these practices from now on. In addition, consider it would be appropriate to make similar provisions for the other network licensees that receive innovation funding.

Yours sincerely,



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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund---decision-required-structure-and-content-second-tier-close-down-reports>

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/materials-%E2%80%93-innovation-working-group-19-february-2014>

<sup>3</sup> As part of the RIIO-ED1 price control review licensees were required to submit an innovation strategy. This document sets out the licensees approach to innovation, how they consider what to trial and how they consider what successful innovations to incorporate in to their business as usual activities. Standard Licence Condition 48 that will come into force on 1 April will require licensees to have in place an innovation strategy for the duration of the RIIO-ED1 period