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Dear Arun

Implementing the Discretionary Funding Mechanism under the Low Carbon Networks (LCN) Fund

We welcome the opportunity to comment on the implementation the Second Tier Delivery Reward element of the Discretionary Funding Mechanism in the LCN Fund. The recent completion of a Second Tier project has expedited the need to define the evaluation process for awarding a Second Tier Delivery Reward but we would like to have seen this consultation covering all aspects of the Discretionary Funding Mechanism as there will be similar co-ordination issues in managing the application process and similarities in assessment approach for the other reward schemes.

We support the creation of an annual window for the submission and evaluation of applications for a Second Tier Delivery Reward but we note that the proposed timing potentially coincides with the submission of a number of the Second Tier Close Down reports and so may not assist with workload management as originally thought. There is also concern that the proposed timing of the annual window may elongate the timing before receipt of a reward; for example a project completing late in a calendar year ie in November or December may not be able to submit an application until the following year and if successful may not receive a reward for another year.

A review of the track record and change management techniques applied in a project's delivery should form part of the evaluation to assess how well or not a Second Tier project has been managed.

In Annex 1 I have provided detailed responses to your consultation questions.

Please do not hesitate to contact Steve Cox or Simon Brooke if you have further questions on the attached annex.

Yours sincerely,



Sarah Walls
Head of Economic Regulation

Annex 1: Consultation question responses

These are our detailed responses to the consultation questions.

Q1: Should we introduce an annual window for Successful Delivery Reward applications? What do you consider are the advantages and disadvantages of this approach?

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Q2: Do you have any views regarding the proposed timing of an assessment window for the Successful Delivery Reward?

A1 & A2:

An annual window for receiving and evaluating projects for a discretionary reward seems a sensible approach. The advantages of an annual window are:

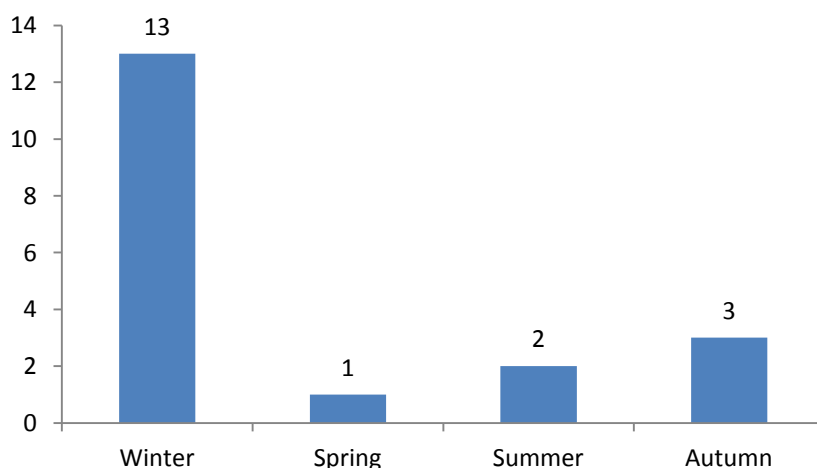
- A defined window in the annual cycle for DNOs to target applying for a discretionary reward following the project completion; and
- Enables discretionary reward process to fit into existing workload aiding resource management.

Whereas the disadvantages of this approach are:

- Potentially becomes another peak workload period if multiple applications received;
- Potential clash with existing workload, contingent on the timing of the annual window; and
- Potential mismatch between award and reward payment contingent on the timing of the annual window.

However the choice of the window period is important. Ofgem's proposal of a window in January to March on the surface seems fine as it fits neatly into the existing Second Tier LCN Fund and NIC workload schedule. There is a potential issue with this time period in that the majority of current Second Tier LCN Fund projects will complete in the winter period and then submit Close Down reports for review and approval. The chart below shows in which season the currently funded Second Tier projects were planned to be completed, as indicated in the Full Submission. Thirteen out of the nineteen projects (about 70%) are due to be completed in the winter period with ten of the thirteen due to complete in the month of December.

Completion period of Second Tier projects



This means that Ofgem will be potentially reviewing Project Close Down reports of just completed projects in addition to reviewing applications from projects wishing to receive the Second Tier Delivery Reward; as the timing for the approval process for a Close Down Report is unclear we are uncertain whether there is sufficient time to submit a Close Down report in December and receive approval in time to be able to submit a Second Tier Delivery Reward application between the annual window (ie mid-January and mid-March). The worst case scenario is that a project completing in December misses the first annual window and waits a whole year before submitting in the second annual window; assuming the application is successful the project will receive its reward potentially two years after its completion.

We are supportive of an annual window and the proposal of a mid-January to mid-March window period is sensible. We seek clarity on the expected timing of the approval process for Close Down reports as we intend to draft a Second Tier Delivery Reward application in conjunction with the Close Down report and submit it at the first opportunity following the completion date of the project.

Q3: Are the three principles of timeliness, quality of outcomes and cost effectiveness appropriate for assessing project performance and delivery of SDRCs?

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Q4: What sort of specific evidence should be submitted to us in order to allow us to assess against SDRCs?

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Q5: Do you agree that we should assess management of change when assessing Successful Delivery Reward submissions? What do you consider are the advantages and disadvantages of this approach?

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Q6: Do you have any views on the most effective way to assess the way that change has been managed during the life of a project?

A3 to A6:

We suggest that in order to achieve a Successful Delivery Reward an applicant must provide detailed evidence that shows the project firstly has been well managed and secondly has achieved its Successful Delivery Reward Criteria. We believe that to assess whether a project has been well managed the evaluation process must consider:

- the scope, schedule, cost and proposed outputs as described in the Full Submission - this describes the project starting assumptions;
- the project management approach, including the assessment and management of project risks and the management and application for scope change, applied in the delivery of the project – these enable assessment of how the project has been managed; and
- the achievement of the proposed outputs in terms of time and cost – these describe whether the SDRCs have been achieved.

This bottom-up review of the project will uncover how well the project was originally scoped and the level of on-boarded risk at the onset and how successful the project has been in delivering its outputs within the timescales and budget. The evaluation of project performance must include a review of the change management processes, including any application(s) for a change of scope, as change management is a standard project delivery process to enable the project to deal with both an intended change and the unexpected need for a change; both of which are valid and how the project manages this process and subsequent requests should be considered in the assessment.

We believe that timeliness and quality of the delivered outputs are the two criteria for assessing whether the project has delivered its SDRCs; and we would expect to provide evidence on the delivery time of an SDRC (for example the date of publication of a report) and on the quality of the SDRC (for example in the assessment of a report we would look to obtain third party endorsement). As the capture and sharing of the knowledge gained from delivering a project is a fundamental obligation of all LCN funded initiatives the assessment should review how the project has presented materials to other DNOs to aid ease of evaluation and adoption of the learning.

Q7: Do you have any other views on the assessment of the Successful Delivery Reward submissions?

A7: We agree that there will be similarities in the timings and approach of accepting applications and the assessment of projects for awarding a First Tier Portfolio Reward and the Second Tier Reward. Ideally we would have liked to see the development of the application processes and project assessments completed together in one consultation rather than in isolation so that no unintended consequences are produced from defining one reward mechanism first. It is suggested that you consult on the First Tier Portfolio Reward and Second Tier Reward aspects not long after reviewing the responses from this consultation so that the whole of Discretionary Reward Mechanism can be developed together.