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Your ref

Our Ref

Date
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Contact / Extension
Martin Hill
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Dear Arun,

Implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund

ScottishPower Energy Networks welcome the opportunity to comment on your proposals for "Implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund".

This discretionary funding mechanism recognises that DNO's, such as Scottish Power, commit shareholder funds for the long term benefit of the customer in ensuring the delivery of a low carbon future. However your proposals have created some confusion in that they appear to propose another set of criteria over and above the agreed Successful Delivery Reward Criteria (SDRC). SDRCs are agreed as part of the project direction as the criteria against which we would have our contribution to the project refunded on the successful delivery of these SDRC's. This consultation appears to place another layer of criteria on the return of the contribution. We feel that this consultation has significantly muddied the waters and created uncertainty around the recovery of the DNOs contribution. As innovation projects by their very nature contain uncertainty Ofgem may stifle that innovation to the detriment of the customer.

The discretionary funding mechanism provides DNOs a means to justifiably recover costs that have been incurred, however the tone of the consultation appears to have shifted this to being a bonus or reward (page 2, para 1) for successful delivery, as the DNO's can do no more than recover their own costs, this is misleading. These projects have been partly funded by customers and partly by our shareholders. The requirements of the projects are such that customers receive all of the benefits, not shareholders. As such, this mechanism is for cost recovery of our shareholder funds, not our performance, therefore additional criteria should not be applied which are subjective nor were previously agreed. This subjective approach more applicable to the Second tier reward or First Tier portfolio reward. Taking this approach, whereby our shareholders costs are not recovered is likely to dis-incentivise the discretionary investment in these projects as we do not stand to cover the costs from benefits achieved, as benefits are distributed back to customers and not shareholders.

In summary ScottishPower Energy Networks believe that the award of the Second Tier Successful Delivery Reward should be based on the agreed SDRC's as committed to at the inception of the project. We would propose to maintain the reward criteria as previously agreed as the primary assessment.

Kind regards

Martin Hill

Martin Hill

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

Rather than a fixed annual window for SDRC applications, SPEN would prefer year round applications, with a relaxation of the 30 days notification period for the SDRC submissions to reflect Ofgem's constraints. The rationale behind this is that the timing of submissions may mean that there is a considerable delay between the Project Close Down Report and submission of the SDRC application. Assuming an annual 2 month window for applications to be submitted, then worst case will be a ten month delay in the submission of SDRC applications. During this time knowledge of the project and specifically its timely relevance may well be lost. Innovation is very much time bound, what is innovation today may well be common practice in a year's time. Consequently we do not support the annual window concept as proposed.

We would hope that given the size of money that we are talking about, the document should be fairly succinct.

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

For the reasons stated in the response to Q1 we do not believe that an annual window for applications is not appropriate. The proposed window also creates and issue of funding recovery as if a decision is made by late March, it will be the following April before money can be recovered which may result in it being up to two years after project completion before any funding is recovered.

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

and

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

It was always our understanding that the project would be assessed against the SDRC's, and that this assessment would include timeliness and cost effectiveness as well as the main deliverable of the stated objective. Achieving the stated objective as per the agreed plan is a good measure of output, if Ofgem's meaning of cost effectiveness is to deliver the stated outcome at or below budgeted cost again this is a good measure. However both measures need to take into account any agreed change variations, should this rely on the objectives, time scales and budget in the original bid rather than those agreed through an authorised variation this would not be appropriate.

SPEN believe that a measure of quality of outcomes would be too subjective, within the consultation there is no measure proposed for quality of outcome without such a definition it is not possible to comment on its applicability

The standard project management tools of programme and financial reporting, which an effectively managed project should provide sufficient evidence without imposing additional and unnecessary reporting measures on the DNOs. We can think of no measure of quality of outcomes that is not subjective and therefore open to interpretation.

Given that delivery to programme and to budget are explicitly contained within the specification of a SDRC, and that there is no objective measure of quality of output, we further content that there is nothing to be gained from these additional measures.

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

and

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

Effective management of change is key to the successful delivery of any project; however it is not clear from the consultation the materiality of change management that will be assessed. At one level all projects should have the basic project management tools of change management procedures, change request forms and a change register – all of which can evidence the management of change. Should the magnitude of change require a variation request then the submission by the DNO and subsequent assessment by Ofgem of that change is required under the existing arrangements.

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

We firmly believe that the assessment of the project should be based on whether or not the criteria set out in the bid document and subsequently agreed variations have been met or not. These inherently include the other elements that have been discussed and it is not clear from the consultation why other criteria should be applied and what that benefit is to the customer.