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Dear Arun,

Implementing the Discretionary Funding Mechansim under the Low Carbon Networks Fund

Scottish and Southern Energy Power Distribution (SSEPD) welcomes the opportunity to respond to the recent letter seeking views on proposals regarding the above. SSEPD believes the Low Carbon Networks Fund has played a crucial role in the transition to a low carbon economy, allowing SSEPD to trial a broad range of innovative approaches to business operations. We believe the Discretionary Funding is an essential component of the funding, providing a strong incentive for DNOS to develop but more importantly deliver successful projects and wide industry learning.

We have provided specific comments on aspects of Ofgem's proposals in relation to the Successful Delivery Reward and individual questions in the Appendix 1.

We hope that this information is helpful. If you have any questions on the information provided, or would like to discuss this further then please do not hesitate to contact me.

Yours sincerely

Beverley Grubb
Regulation Manager, Smarter Networks

Appendix 1

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

We consider that introducing an annual window is advantageous because it allows both DNOs and Ofgem to plan and manage resource efficiently. We generally support clearly defined processes and timescales. We agree that any delay in payment of reward can be managed. However, a specific date or window is likely to be more convenient for some projects than others. The application deadline may fall very soon after some projects are first eligible to apply, while for others may have almost a year to prepare. We therefore recommend that if a window is introduced, projects should be able to apply in the first or second window available if the first submission deadline falls within three months of the project's close-down report being approved by Ofgem. This will help ensure projects that are eligible close to the submission deadline are not unduly disadvantaged.

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

We propose the deadline for applications for the Successful Delivery Reward should be at the end of April. The proposed early January deadline would not be our preferred option as most of the work preparing submissions would need to be undertaken during November/December. This coincides with review and agreement of Project Directions, preparation of six monthly reports and peak operational requirements e.g. winter storms. We believe an end of April deadline would be better.

We appreciate this also coincides with submission and Ofgem review of ISPs. In view of this it may be appropriate to consider extending the deadline for an Ofgem decision to say three months rather than two.

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

Our views on these criteria are as follows:

- **Timeliness -** To be eligible for the full value of the Successful Delivery Reward, we believe it is essential that each SDRC must have been met or delivered within the timescale specified and the report must have been submitted by the relevant date in force in the Project Direction.
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- **Quality of outcomes –** We believe this is a relevant criterion. Projects should be assessed in terms of whether they met and exceeded the criteria set in the individual SDRCs and have provided evidence to support this (Governance Document p72 paragraph 4.1 states that projects will be judged against the SDRCs). SDRCs clearly define minimum evidence requirements, however many projects undertake activities and produce material to allow others to replicate benefits and learning which goes beyond specified minimum requirements. The Successful Delivery Reward should recognise and reward such additional effort based on a broad range of supporting evidence. It is important that evidence is not too prescriptive; it should be relevant to the individual project and circumstances.

- **Cost effectiveness** – Given the level or risk and uncertainty generally associated with such projects we believe it is appropriate to assess overall project cost effectiveness rather than cost effectiveness in delivering individual SDRCs. Financial tracking and reporting for our projects is based around budget Categories and Tasks (as set out in the budget in Project Directions) rather than SDRCs. It would therefore be difficult for projects to report on and for a third party to assess whether delivery of individual SDRCs had been cost effective or not. However, efficiency and cost effectiveness is very relevant in assessing the extent to which projects have been well-managed overall and we recommend it is assessed at this level.

- **Well Managed** – In addition to assessing progress/performance against SDRCs in terms of timeliness, quality and cost effectiveness, we suggest the Successful Delivery Reward evaluation should also consider the following aspects when considering the extent to which a project has been generally "well-managed".

    - Cost effectiveness of the Full Submissions should be tested by the Expert Panel but poor management of costs is already effectively penalised by making projects which apply for this funding ineligible for the Successful Delivery Reward. Where projects are managed effectively so that savings are made on original cost estimates, this should be rewarded, providing the full scope and range of benefits is also delivered. That said, we do not believe the absolute value or proportion of project funding returned to customers should be used as the only measure of reward as the scale of many costs under such projects can be difficult to predict in advance and may not be entirely within the Project Manager's direct or absolute control. The reward should also be careful not to incentivise cost savings at the expense of learning and wider customer benefits.

- The extent to which overall project aims/learning objectives have been met (will be reported on the Close-down report). This is slightly different to assessing whether SDRCs have been met, since SDRCs are milestones defined to demonstrate project progress. It would therefore be relevant for projects to summarise performance against these wider objectives. Assessment here should credit projects for answering critical questions rather than focusing only on delivering expected benefits e.g. proving that a solution is not viable e.g. due to technical, economic or social barriers, or because the actual business/carbon benefits are not as predicted is also of value. This recognises risk and outcomes associated with such projects are not certain but the project can still have been well managed.
- Whether learning dissemination has been completed to at least the standard that could be expected from Section 5 of the Full Submission, is of good quality, has been targeted to involve relevant stakeholders and been cost effective. We feel quality and impact of knowledge dissemination and assessment against these criteria should be demonstrated, evaluated and if appropriate rewarded. Large scale and high profile publicity and marketing activities may be highly visible but not necessarily relevant or effective.
- The extent to which effective project planning, governance arrangements and risk management techniques have been employed to ensure successful delivery is essential. In our experience, innovation projects are inherently higher risk than other types of project because they involve new, untested activities and technologies and there can be dependencies on external parties with different priorities, strategies, funding and governance arrangements. They can also change during long duration projects. Foreseen and unforeseen risks frequently materialise as a result. However effective planning, governance and risk control can help ensure learning can be delivered as originally planned or equivalent learning delivered through project refinement.

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

Licensees already submit detailed evidence for each SDRC completed. We therefore suggest a report in 5 sections as follows:

1. To assess timeliness and quality of SDRC outputs: concise detail of how the project has (i) met and (ii) exceeded requirements as set out in SDRCs should be provided, backed up with evidence. This should also reference the original SDRC reports. We think 1-2 pages per

SDRC would be appropriate. It is difficult to give more specific detail regarding requirements at this stage as we believe evidence and detail required are likely to be specific to each project and each SDRC.

2. To assess cost effectiveness: a section which sets out details of how the project has demonstrated all of the following as relevant:
    a. tender processes, contracts and/or internal resources have been managed in a way that provides savings on original budgeted cost;
    b. tender processes, contracts and/or internal resources have been managed in a way that provides additional learning or value compared to that planned at final submission;
    c. additional effort or ingenuity employed to keep costs within budget while still delivering relevant learning and despite foreseen or unforeseen risks materialising;
    d. use of funding from the 'Contingency' category has been subject to appropriate controls, is well justified and more efficient than alternatives investigated;
    e. incentives for participation are proportionate and allow realistic assessment by the DNO of the likely uptake, impacts and cost effectiveness of the solution in a business as usual context.
3. To assess whether overall aims/learning objectives have been met: a section which summarises relevant aims/objectives and outcomes/findings, backed up with references to evidence from the close-down report which justifies these claims
4. To assess the quality of learning dissemination: a section which sets out details of
    a. Dissemination activities undertaken
    b. Stakeholders engaged and why they are relevant
    c. Outcomes and feedback, including how it has been taken into account
    d. Why the dissemination programme represents value for money
5. To assess the effectiveness of project planning, governance arrangements and risk control: a section describing approach to planning or providing copies of project plans; a section describing approach to risk identification and control; and a section describing risks encountered and how they were managed to ensure relevant learning was delivered. This could include details of modifications to the project plan (which may or may not have required Ofgem approval through the Change Request process) and evidence of how robust planning and governance allowed early identification of risks, systematic assessment of contingency and mitigation measures, decision-making processes etc.

5. 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?

We disagree with the statement on page 4 of the consultation letter that "projects that are well designed and managed may not require changes". Given the novel, complex and long duration of some LCNF Tier 2 innovation projects, it is likely that a number of projects will undergo some form of change throughout the life of the project. We believe this is inherent in the nature of such projects and was generally recognised as one of the main contributing factors in setting up the innovation stimulus package. If change is perceived as a failure rather than a dynamic response to new learning, improved understanding or changing circumstances this may incentivise less ambitious projects and lower value projects going forward or encourage loss of value or inefficient costs under existing projects in order to deliver according to the original plan. Change does not in itself indicate a project has been poorly designed or managed.

We believe management of change should be one of the criteria used in the assessment process and recommend it is assessed as above, through evaluation of project planning and risk management techniques. Change management may or may not have required a formal Change Request. Therefore assessment should not be limited to projects which have gone through the Change Request process.

We believe it is appropriate to reward projects with good change management procedures. Change should be encouraged where it is in the best interests of customers and helps protect project value. Reward for good change management processes and procedures would help offset some of the risk currently associated with lack of clarity and the open ended nature of the current Change Request process.

Question 6: 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?

As above, assessment should be focused on project planning, governance arrangements and risk control / mitigation measures.

Question 7: Do you have any other views on the assessment of the Successful Delivery Reward submissions?

We understand and support Ofgem's view that the Successful Delivery Reward is not an automatic entitlement for projects which have simply done the minimum in terms of meeting SDRCs and have suggested an approach to assessment which allows the reward to take into account quality of outputs and how well projects have been managed. However, we feel there is a need to maintain the distinction between the standards and outputs required for this reward and the Second Tier Reward, to ensure lack of repetition and overlap in submissions.

The Second Tier Reward clearly emphasises that it is designed to reward 'exceptional' projects and performance only, and will be made to a limited number of projects. As a result, projects should have to differentiate themselves from the average standard and demonstrate outputs, impacts or effort that are significantly over and above any commitments made in the Full Submission.

By contrast, for the Successful Delivery Reward, **all** projects should have the potential to be rewarded if they demonstrate they have met the SDRC, have delivered good quality outputs, are cost effective and had robust project management arrangements. Projects should be judged on their own merits, taking into account the individual nature and circumstances of the project, rather than having to prove they are above average or exceptional.

Question 8: Do you have any views on the areas flagged above or developing an efficient overall framework?

We recommend that some flexibility is retained in allocation between and within rewards. If quality is higher in one category than another, it would be unfortunate for funding limits to have been fixed in advance. For example, the Expert Panel could find there are no Tier 2 projects of sufficient quality but several exceptional Tier 1 Portfolios. To counteract this funding not allocated in any round of assessment could be available for use in future assessments. That said, consideration should also be given to setting at least a provisional threshold for the maximum amount of funding that could be used in the earlier rounds of each assessment, to ensure there is sufficient funding available for later rounds.

In relation to the First Tier Portfolio Reward and Second Tier Reward the first two existing Discretionary Reward Criteria are fairly specific – exceptional performance against one or more

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evaluation criteria/specific requirements and expenditure by the DNO above the compulsory contribution. However the third Discretionary Reward Criterion is less defined, we suggest assessment of “exceptional effort to ensure the Project exceeds expected delivery outcomes” could be based on ‘case study’ type descriptions of activities or events which involved exceptional effort by the DNO/partners/suppliers, the effort required, why this was over and above what could have been expected and how the expected outcomes were exceeded. This criterion appears to lend itself more to qualitative assessment through narrative and descriptive evidence, supported by quantitative figures where appropriate.

Assessment of “exceptional effort to ensure...the learning from [[the project] is maximised for the good of all DNO customers” could be made based evidence of the impact of learning. In academia, there is a trend towards assessing value in terms of impact; this would therefore fit with practice applied to other GB R&D funding. High quality outputs, of real value to industry and customers, will be used by the DNO, partners, and other industry participants. DNOs should demonstrate how learning has been used, to show that its value has been maximised for the good of all customers. We suggest factors to be considered here could include for instance some or all of the following:

- physical benefits to the licensee’s network (e.g. capacity released, reinforcement deferred, other measurable benefits) as a result of the project;
- Actual and planned roll out of innovations trialled through the project on other parts of the licensee’s network and the physical benefits of this, assessed through business plans, and real results;
- Uptake of innovations trialled by other networks e.g. inclusion in business plans, details of physical benefits to other networks, orders for commercial products developed / demonstrated etc.;
- Use of results in further R&D by DNOs or other parties and evidence of new studies or trials building on results from projects based on DNO innovation strategies, projects and R&D funded by other mechanisms e.g. universities, research councils, TSB;
- Development of standards, policy and regulation; influence on / use of results in work by British and European standards development and policy/regulatory bodies;
- Academic papers published, impact factor of the publications they appear in, and citations of papers by other authors;
- Qualifications gained through involvement in projects and use of project findings in courses and development programmes;
- Savings or expected benefits to customers following implementation as Business as Usual;