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Dear Arun

### **Implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund**

Thank you for the opportunity to comment on the above consultation. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. Our response is not confidential and can be published via the Ofgem website.

We believe this consultation to be timely given that our earliest LCNF Tier 2 projects, Low Carbon London and Flexible Plug and Play, are scheduled to conclude at the end of this year. Our response, as requested, is limited to the Second Tier Successful Delivery Reward of the Discretionary Funding Mechanism although we would welcome the opportunity to consult on the other components of the Discretionary Funding Mechanism in the future. Further details and specific answers to your questions can be found in the attached appendices.

I hope that the above feedback is beneficial. If you have any queries please do not hesitate to contact Paul Measday in the first instance.

Yours sincerely



Keith Hutton  
Head of Regulation  
UK Power Networks

Copy: Dora Guzeleva, Head of Networks Policy, Local Grids (Ofgem)  
Paul Measday, Regulatory Returns & Compliance Manager (UK Power Networks)  
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## Appendix

### Implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund

#### UK Power Networks' Answers to the Consultation Questions

*Question 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 understand the benefits of an annual window but are concerned that if a January window is chosen this is likely to build in a delay from the end of the project of over twelve months where a project closes at the end of a calendar year. Such a delay will result in a greater risk of lost project knowledge for both Ofgem and the licensee as for both there is a greater increase in staff moving on to other roles once a project has ended. Furthermore we are concerned that such a timing window could introduce a delay to the release of any reward to the DNOs and as such would be a change in previously published policy in this area.

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

We recognise the timings you have proposed, which create busy periods for LCNF associated teams in both the DNOs and Ofgem, for preparation and assessment of Tier 2 projects respectively.

However, the timing of all future close-down reports is known to within three months, and the majority of these do not fall in the June – October period identified by Ofgem in the consultation letter due to projects frequently having a 31 December end date.

Nevertheless, if it is necessary to structure this further, then we agree that the use of 'windows' is appropriate. We would expect to either:

- a) submit our successful delivery reward application into the proposed January window alongside and in parallel with a close-down report, brought forward from its 31 March formal due date; or
- b) submit a successful delivery reward application into a window specifically designed for projects with a 31 December end date and project close-down report due on 31 March. We suggest that an April window is more appropriate in this case.

Finally in this area, should Ofgem introduce a window for DNOs to submit applications for reward then we would require an equivalent commitment from Ofgem for a time bounded decision from them on making a decision on the application. We believe such a time band should be two months maximum.

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

We agree and endorse these values as appropriate principles for SDRCs.

We note, however, that the word 'timeliness' or 'timing' has connotations in the Second Tier bidding process of 'the right project at the right time'. This was assessed at bid stage and was a pass/fail criterion to award the funding in the first place. As such, we propose a clarification in the drafting that 'timeliness' refers to the delivery of deliverables within the project to the timescales set out in the SDRCs.

Also, if an annual window is introduced then we need to ensure that quality of outcomes is assessed as per the project end date, and not assessed based on additional information which comes to light, roll-out or uptake since the end of the project – since there will be varying periods of time between end date and SDR application for different projects.

*Question 4: What sort of specific evidence do you think that you may be able to submit to us in order to allow us to assess against SDRCs?*

You will be aware that UK Power Networks put great emphasis on the quality of the existing SDRC submissions, for example:

- Smart Network Storage – Planning Permission;
- Low Carbon London – Smart Meter Trial recruitment; and
- Flexible Plug and Play – Quadrature-booster – SDRC 9.8.

We welcome feedback on our approach to date as we feel these documents are the level/standard you should request to assess against SDRCs.

We intend continuing to submit a similar level evidence and quality of report for our future SDRCs (subject to any guidance from Ofgem on this) and will happily resubmit all the SDRC reports for each project at the time of the submission of the application from the reward.

*Question 5: Do you agree that we should be assessing management of change when assessing Successful Delivery Reward submissions? What do you consider are the advantages and disadvantages of this approach?*

Please see our answer to Question 6

*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?*

We believe that truly innovative projects cannot be rigidly planned and delivered without a robust approach to management of change. Given that all of the projects are working with concepts or technologies which are maturing, we believe that the ultimate assessment of the quality of change management will be how close it has come to delivering on its original (or amended) objectives.

Where a project has undergone a formal change request with Ofgem, we believe it is sensible to review evidence that the change was in the interests of customers, and how the change has gone on to benefit the learning.

Where a project has not gone through formal change control with Ofgem, we would propose that the SDR application should be free form, for the DNOs to present and make a case for how they have managed change.

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

We regard the LCNF as having been an extremely successful example of having set rules and governance that have stood the test of time over four rounds of bidding and four years of Tier 1 and Tier 2 projects being delivered. The Expert Panel has rightly focused on SMART targets for Successful Delivery Reward Criteria, and DNOs have rightly focused on providing supporting

evidence to demonstrate that they have achieved these SDRCs to quality and time. We agree that a level of additional assessment is required to capture cost effectiveness over and above simply delivering the project within the terms of the direction, and trust that we have provided a forerunner for this in the information and commentary that we are including in our Tier 1 close-down reports.