

By e-mail

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Your ref

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Contact / Extension

**Martin Hill
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Dear Arun

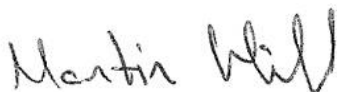
Further Consultation on implementing the Discretionary Funding Mechanism under the Low Carbon Network Fund

I am writing on behalf of SP Energy Networks in response to the above consultation on the Discretionary Funding Mechanism under the Low Carbon Network Fund.

The proposals outlined in the consultation are constructive and build on previous discussions. We are concerned with the proposed timeline for the evaluation of Tier 2 projects and would favour two opportunities for projects to be assessed for the second tier reward. We also believe that the NIC expert panel are the most appropriate entity to assess projects and make a recommendation to the authority. This panel is made up of a broad range of experts which can independently evaluate projects and also use this information to inform decisions around future NIC projects.

I hope that this is helpful, but please contact me if there are any queries.

Yours sincerely



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Question 1: Do you agree with our proposed approach to allocating the £100m across the rewards?

SPEN agree with the principle proposed within the document for the allocation of the £100m as it is linked to the actual level of funding.

Question 2: Do you have an alternative proposal for how we should allocate the £100m between rewards? Please explain why you think this is a better option.

As per response to Q1, SPEN believe the proposed approach is reasonable.

Question 3: Which of the two options for assessment of the STR do you support? Why?

SPEN strongly support the option for two assessments; one in 2017 and a further one in 2020/21. Our reasoning for this approach is to allow a timely review of the early projects and to ensure that they get the credit that they deserve. As was recognised in Ofgem's decision on Successful Delivery reward, the availability of staff involved in the project is vital to support any application for this reward. Projects which started in the early part of DPCR5 would have to wait up to 6 years before they are eligible to apply for the Second Tier reward which would not seem appropriate. After this period of time, many of the staff and partners involved are likely to have moved on and may not be available to support the application. This is also likely to be true of Ofgem and other individuals who have been involved in the assessment of the project and awarding funding.

The significance of the learning at the time the project was undertaken will also be more difficult to analyse after such a long period of time. It is foreseeable that once a project is completed and the solution is being adopted, the level of progress that was made as a result of the project will be hard to differentiate from normal working practices.

Question 4: If you support having two assessments, how should the available funding be split between the two and why?

SPEN support the option of having two assessments. On the same basis as the allocation of the different rewards is proposed to be on the basis of funding allocation, SPEN would propose that the available funding be split on the value of projects that are eligible to apply at the time. For example, if 50% of the projects by value are completed in advance of the 2017 application window, then 50% of the reward funding should be available at this time. We would not suggest that the level of individual rewards should be linked to the size of projects, but the portfolio of projects being evaluated should be linked to the overall size of the fund.

A cut off point for when projects have been completed to be eligible for the 2017 application window should be set so that it is clear which subset of projects would be eligible to apply for which assessment. This should be approximately 6 months before

the assessment window to allow for the results to be effectively evaluated and the learning reviewed by other DNOs and other stakeholders.

Question 5: Do you agree with having one assessment for the FTPR?

SPEN agree that one assessment would be reasonable as the reward is based on a portfolio of projects therefore all projects need to be considered at one time.

Question 6: Should First Tier projects that conclude under the NIA be considered in the assessment? Why?

SPEN strongly believe that projects which have commenced under LCNF T1 but will conclude under NIA should be considered. Tier 1 projects are eligible to take up to three years to complete, therefore without this approach, Ofgem have effectively ruled out a large number of projects which commenced in 2013 and beyond. At the time of commencing these projects, no indication was given by Ofgem that these would not be considered as part of the overall portfolio.

It is foreseeable that a project where the majority of the work could be undertaken through LCNF Tier 1 could require the final stages to be completed as part of NIA. The majority of learning and demonstration would have been undertaken within the LCNF yet the final phase which disseminates the learning and benefits is completed in NIA. In this instance it would not seem appropriate to discount this project in being considered as part of the portfolio. A compromise may be that only projects with at least 50% of the overall planned time scales being within DPCR5 could be considered. Any project where less than 50% of the project duration was in DPCR5 period would not be eligible.

Question 7: When should we conduct the assessment for the FTPR? Why?

Based on our view of the assessment including projects which conclude in NIA, it would seem reasonable to undertake the assessment in mid 2017 which is two years after the completion of the LCNF funding period. Our proposal to only consider projects where the majority of activity took place in LCNF would ensure projects which were concluded under NIA are still eligible.

Question 8: Do you agree with our proposed changes to the criteria?

SPEN agree with the approach to reconsider the wording of the criteria to ensure that they are relevant to reviewing completed projects opposed to the eligibility of proposed projects as it was initially drafted.

Based on SPEN's experiences of the Tier 2 competitive process, one of the most difficult areas to document and assess effectively is future forecasts of the benefits of the technology. As this evaluation is on the basis of the completed project, we believe a stronger emphasis should be placed on the benefits the project delivered opposed to projected benefits that the solution could offer. It is not unrealistic for a project to be able to quantify the benefits that it has achieved either in the form of facilitation of the carbon

plan, capacity released or financial benefits to customers. Relying on a future projection of this when a project in itself has not delivered the benefit would be difficult to robustly assess on a like for like basis between projects.

Question 9: Do you have any suggested alternatives to these criteria? Please explain why you believe they are appropriate.

SPEN believe these to be largely appropriate and clarification has been provided on which criteria are not applicable in an ex-post assessment as they were for eligibility rather than evaluation such as methods which are at the trialling stage or lead to unnecessary duplication.

Question 10: What do you believe is the most appropriate way for applications to be assessed? Why?

The consultation presents three options for the evaluation of applications; the NIC Expert Panel, the Consumer Challenge Group or Ofgem with the aid of consultants. SPENs preference is for the use of the NIC expert panel to assess the applications. The panel is made up of a broad group of experts with a good representation of industry, academic, stakeholder and environmental perspectives which are all aspects that are to be considered in the evaluation. A subset of the group are also likely to have been involved in the initial approval of the project proposal so should have a good insight into the background to many of the projects. This will also help to inform the Expert Panel of previous projects to ensure that new projects are complementary to the previous learning.

To make a judgement on projects, particularly around the delivery of net benefits which includes network capacity and other technical aspects, a technically competent assessor is required which understands the operation of the market and the role of the network operator. We do not believe that the consumer challenge panel has the technical competence to make such an evaluation, particularly where some of the LCNF projects are technically complex. The consumer perspective is a vital element, and is already catered for through the NIC expert panel.

SPEN believe that the use of consultants is likely to be difficult as a vast array of consultants have been involved in LCNF projects, both Tier 1 and Tier 2 at some stage or another and it is likely to be very difficult for a project to be independently evaluated by a party who has been involved in the implementation of a project at one stage or another.