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Dear Arun

Further consultation on implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund

I am writing to you on behalf of Northern Powergrid Holdings Company and its wholly owned electricity distribution licensees Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc. This letter provides our response to Ofgem's recent further consultation regarding the implementation of the Discretionary Funding Mechanism under the Low Carbon Networks (LCN) fund.

We have reviewed Ofgem's proposals and find ourselves broadly in agreement with most of the arrangements suggested. On a couple of specific points, we favour the two assessment periods option described for second tier awards; the first of which should be relatively early. We also believe that there has been an important omission from the second tier assessment criteria and that due credit should be given for exceptional effort and additional resources expended on projects, above and beyond the commitments made in the original bids.

Our comments on each of the consultation questions are set out below.

1. *Do you agree with our proposed approach to allocating the £100m across the rewards.*

We agree with the proposed approach.

2. *Do you have an alternate proposal for how we should allocate the £100m between rewards.*

No. We agree with the proposed approach.

3. *Which of the two options for assessment of the STR do you support? Why?*

There should be two assessment windows for the second tier rewards. It can be difficult to assess the apparent value of learning from a project that concluded over five years previously without putting it in the context of what was known at the time of

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completion. It is difficult to avoid making a judgement without the benefit of hindsight that would have not been available to the project delivery team.

As an example, imagine a scenario where a project developed numerous practical and low-cost ways to absorb electric vehicle charging loads on to the distribution network. Subsequently government policy changes favouring biogas fuelled vehicles and the importance of the original project learning appears lessened (even though the learning may have even informed such government policy changes). Rewards for the exceptional learning should be in the context of the project at the time of delivery. The passing of time makes it difficult for a judging body to reward the project appropriately.

We recognise the concern that there should be sufficient projects completed prior to the assessment period to enable a better judgement of the value of the learning from each. We believe that there will be more than sufficient projects available by the first assessment window in 2017 to compare and contrast the quality of outcomes in the different portfolios.

Having advocated an early assessment it is appropriate that later-starting second tier projects, given their typical size and duration, get a similar opportunity. This will need to be later, once outcomes are known. We therefore conclude that two windows are necessary.

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

The most equitable way to split costs across these two windows is based on the value of the projects under consideration, given that will already be known in 2017. The higher cost projects will generally be associated with higher value benefits. The size of the potential discretionary rewards would therefore be appropriately correlated with the benefit provided.

5. *Do you agree with having one assessment for the FTTP?*

The nature of the tier one projects makes a single assessment appropriate.

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

We consider that there should be sufficient completed projects by the start of the NIA to be able to form a clear judgement on the exceptional nature of the learning in any portfolio of activities. As with the second tier we believe that there is a significant advantage in early assessment of projects and do not see any benefit to the industry or customers by delaying this to accommodate the relatively few later-starting projects which are likely to be small in comparison to the overall size of portfolios.

7. *When should we conduct the assessment for the FTTP? Why?*

The second half of 2015 would seem to be a reasonable time to hold the assessment, allowing time for final reporting.

8. *Do you agree with our proposed changes to the criteria?*

We agree with the proposed changes.

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

There needs to be recognition of any contributions which are over and above the bid commitments and this is not explicit in the current proposed criteria. Such contribution can be monetary in the form of additional DNO or other external funding. It may also be in the form of additional senior management time or other key, and often scarce, resources required to complete a project through what can be difficult conditions in an uncertain environment that is typical of such projects. Such contributions should not be underestimated with respect to their support in enabling successful project outcomes. We feel that this aspect could be usefully included as part of evaluation item (d) - the involvement of partners and external funding.

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

We believe that the process for making the assessment for the second tier merits a similar level of time, effort and expertise as was put into the original selection of the projects at the bidding stage. The values at stake in this process are of a similar magnitude to those involved in the annual bidding round for the LCN fund which would suggest to us that an equivalent process of scrutiny would be entirely proportionate. An expert panel type process which includes an initial application, an opportunity to present and receive challenge and, if necessary, expand on that application, could be appropriate. In addition to rewarding exceptional results, the process should be used to promote further the benefits from all DNOs adopting the learning. In order to support this objective, the expert panel, following the decision made by Ofgem, could provide feedback to all applicants and DNOs as a whole.

We further suggest that the Network Innovation Competition (NIC) panel could be appropriate to perform this expert panel task. There may be an opportunity to enhance the NIC panel by the addition of an Energy Network Association (ENA) and/or an Innovate UK representative, or indeed representatives of another stakeholder with expert insight on the delivery of innovation and adoption into routine practices.

Although smaller in scale, the maximum value for the first tier portfolio reward is of a similar magnitude. Therefore, we propose that it also follows a similar process to that outlined above.

We believe that the more limited assessment options outlined, whilst each having their own advantages, would not be sufficiently thorough or insightful to justify the potential value of the discretionary reward that is at stake.

I hope you find these comments useful. If you have any questions arising from this response please do not hesitate to make contact.

Yours sincerely



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Head of Regulation & Strategy