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Dear Arun,

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

Scottish and Southern Energy Power Distribution (SSEPD) welcomes the opportunity to respond to this consultation. 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 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

Jenny Rogers
Regulation Adviser, Networks Advisory

Appendix 1

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

Yes, we agree with the proposed split between the FTPR and STR. However, we would suggest that Ofgem consider allowing roll over of any funds set aside for the SDR but not allocated through that reward to the FTPR and STR. Allowing roll over of unused funds would enhance the potential incentive on DNOs but as there is no obligation on Ofgem to award the funds, and clear criteria which projects must meet to be eligible for the reward, there is no reduction in control over customer funding.

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

No, see above.

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

We support the second option to have two assessments; one in 2017 and another in 2020 or 2021. In our opinion this provides some momentum, increases industry focus on the incentive and project outputs, and on balance, provides a more level playing field.

The first option of a single assessment in 2020 or 2021 means projects would have to wait up to eight years after their end date to apply for the STR. While all projects could be compared against each other in a single assessment, with such wide variation in time since completion it is possible that earlier projects could be perceived as less innovative and exceptional than more recent ones because the industry has moved on from the issues they were investigating, although these issues and solutions developed were relevant and timely when the projects were developed. The energy landscape and key challenges at the end of RIIO-ED1 may be considerably different from what was envisaged at the beginning of DPCR5.

Conversely, earlier projects could have an advantage because there has been more time available to demonstrate roll out and measurable benefits.

There is also an issue of practicality for earlier projects; although all project findings and outputs are thoroughly documented and disseminated (as a result of the LCNF's emphasis on knowledge transfer) it is inevitable that personal experience of projects and roll out of proven innovations are likely to enhance the quality of STR applications. It is likely that earlier projects would be disadvantaged compared to later ones in this practical respect by the long gap between project completion and submission.

Having two rewards maintains interest and momentum in the STR mechanism and in our opinion is likely to result in more active participation and higher quality submissions.

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

We recommend funding is split pro-rata on the funding of the projects ending pre-first assessment and those ending post first assessment. This is a fair and logical split which reflects the principle of the split between FTPR and STR.

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

Yes, one assessment seems appropriate.

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

We believe First Tier projects that conclude under NIA do not need to be included in the assessment, based on the fact we expect a relatively small number of projects will be affected and it allows for an earlier assessment.

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

We believe the assessment should be conducted in 2016 (see above)

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

Yes.

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

No.

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

Our strong opinion is that an independent, customer focussed group is best placed to make the assessment. In our opinion successful applications should be able to clearly demonstrate customer benefits and be assessed from this perspective.

We therefore believe the Customer Challenge Group (or nearest equivalent at the time of assessment) is the most appropriate group to assess applications. This group will have the best understanding of customer needs and issues in relation to energy networks given their role and most clearly represents customer interests. As the Discretionary Reward criteria are focussed on delivery of outcomes to benefit customers this is appropriate. Lack of previous involvement in LCNF or NIC project selection is also an advantage; it provides transparency because (provided there is no overlap in membership of this group and the LCNF Expert Panel) there is clearly no risk preconceptions based on assessment at bid stage are carried over. While the NIC Expert Panel is independent, there is current overlap with the LCNF panel and we feel this group does not have such a customer focussed remit or background.

While Ofgem supported by consultants could make the assessment, there is again less transparency and control against potential preconceptions than with an entirely independent group.