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By email only to: arun.pontin@ofgem.gov.uk

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Dear Arun

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

Thank you for the opportunity to respond to 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.

Our answers to the consultation questions are set out in the appendix to this letter and we hope that you will find our comments helpful. If any part of our response requires further explanation or clarification, please do not hesitate to contact me.

Yours sincerely



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Head of Regulation
UK Power Networks

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Appendix

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

UK Power Networks' answers to the consultation questions

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

We agree that reward funds set aside for the SDR, and not allocated through that reward, should not be rolled over to the FTPR and STR. We also agree with the proposed method of allocating reward funding between the FTPR and STR, based on the proportion of funding available in each of the two tiers.

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.

Please see our answer to question 1, in which we endorse Ofgem's approach.

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

We support the option for two assessments; one in 2017 and another in 2020 or 2021. The reasons for this are as follows:

- The governance document as it currently stands is unambiguous in stating that Ofgem “will undertake more than one assessment about whether to award any Second Tier Rewards”. The other statements related to the timings and total number of assessments make it clear that there are other elements yet to be decided upon, but the fact that more than one assessment will be undertaken is clear.
- A single assessment process would be more challenging for Ofgem, due to this allowing the widest possible range of project end dates and therefore the widest possible range of time periods over which benefits from projects will be demonstrated by the DNOs. This will be somewhat less of a challenge if two assessments are conducted.
- A single assessment process would also be more challenging for the DNOs, as this will require the tracking of benefits attributable explicitly to the project under consideration for a significantly longer period of time than would be the case if two assessments are undertaken. As time progresses and more projects and initiatives deliver benefits in similar areas, it becomes more challenging to maintain separate benefits tracking for individual projects.
- While both Ofgem and the DNOs manage resource changes as a matter of course, this is usually undertaken in the context of ongoing operations or projects. As the preparation for the assessment by the DNOs and the actual assessment by Ofgem will be carried out some time after the projects have completed, resource changes at both the DNOs and Ofgem in the intervening period will be more challenging to manage due to the fact that there will be no ongoing activity on the project at the time of the change. This will lead to additional challenges in preparing for and undertaking assessments. A single assessment will amplify this challenge significantly for projects which have concluded earlier compared to projects which have concluded later, both for Ofgem and for the DNOs.

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

We believe that the STR split between the two assessments should be based on a simple ratio, which could be either the ratio of the number of projects in the first assessment to the number of projects in the second assessment, or the ratio of funding awarded to the projects in the first assessment to funding awarded to the projects in the second assessment.

In any event, we would propose that Ofgem retain the option to rollover to the second assessment any funding made available for the first assessment but not awarded, thus allowing them the flexibility to adjust the funding available between the two assessments irrespective of the ratio selected.

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

Yes.

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

Yes, any First Tier project that concludes under the NIA should be considered in the FTPR assessment for the following reasons:

- It will have been an element of a First Tier Portfolio for some if not most of the life of the project, so it should be considered as such;
- Effort to develop project concepts and initiate the project will all have been expended under the auspices of the LCNF;
- The timescales of any such project extend beyond the LCNF funding period for good reasons and this, in and of itself, is not a suitable rationale for it being excluded from the FTPR assessment.

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

The assessment should be conducted in 2017 to ensure that projects concluded under the NIA can be considered. We accept that this delays the evaluation by one year compared to the option of excluding the projects concluded under the NIA, however we consider a one year delay as a relatively short delay (for example, compared to the potential four year delay as a result of conducting only one STR assessment).

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

We agree with the proposed changes in principle; however, we believe that the proposed criteria further strengthen the argument for two STR assessments, as assessment against some of the criteria may be influenced by how soon after project closure an assessment is undertaken. Any criterion which is based on what has been facilitated by outcomes delivered by the project will be affected by the elapsed time between project closure and the assessment. Projects which have been closed for longer will have had a longer time to demonstrate benefits, whereas projects closed for a shorter period may have to focus more on providing evidence of likely benefits. Also, with a longer elapsed time between project closure and assessment, it will be more challenging to identify clearly those benefits which are due solely to the delivery of the project and those benefits which are attributable to other initiatives.

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

Please see our response to question 8. We endorse the revised wording, but advise that it will be simpler to put into practice over two assessments closer to the end date of projects.

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

We believe that Ofgem were extremely successful in appointing the Expert Panel to judge submissions and have established a best-in-class process. Given that the panel were selected as 'best of breed' we feel that anything less than this would by definition be second best. We support the use of consultants to advise the panel but believe that the assessment should be led by the Expert Panel, who should be retained for this task. We understand that there may be turnover in the panel members, but the continuing Network Innovation Competitions should provide an opportunity for the panel to accommodate and induct new panel members.