Making a positive difference
for energy consumers

Distribution network operators
and other interested parties

Direct dial: 020 7901 3869
Email: arun.pontin@ofgem.gov.uk

Date: 17 December 2014

Decision on implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund

Following our public consultation we have taken the following decisions about the Discretionary Funding Mechanism (DFM):

1. Allocation of funding: Funds not allocated to the Second Tier Successful Delivery Reward (SDR) will be split 4:1 between the Second Tier Reward (STR) and the First Tier Portfolio Reward (FTPR).
2. Timing: There will be two assessments for the STR, one in 2018 and another two years after the final project has closed down. There will be one assessment for the FTPR, in 2017.
3. Assessment criteria: We propose to amend the evaluation criteria in the Low Carbon Networks (LCN) Fund Governance Document (the governance document) to ensure they are relevant to an ex post assessment.
4. Conducting the assessment: The electricity Network Innovation Competition (NIC) Expert Panel will assess project performance and make a recommendation to the Authority.[1] The Authority will make the final decision on the rewards that should be provided. We may provide guidance to applicants and the panel ahead of each assessment.

We will implement our decisions by proposing amendments to the governance document. An opportunity to do this is when we update the governance document for the next price control period, RIIO-ED1. The updated governance document is expected to be in place for 1 April 2015.

Background

The consultation closed on 3 October 2014. You can read it and responses to it on our website.

There is detailed background on the LCN Fund and the DFM in the DPCR5 Final Proposals and the governance document.

The total funding available under the LCN Fund is £500m. Of this, up to £100m is available through the DFM. This funding can provide discretionary rewards to projects that bring particular value to the challenge of preparing networks for the low-carbon

[1] The Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

economy. It was developed to give distribution network operators (DNOs) a strong incentive to design and manage successful projects. The total £100m is split between three rewards:

- the Second Tier Successful Delivery Reward (SDR)
- the First Tier Portfolio Reward (FTPR)
- the Second Tier Reward (STR).

The SDR will reward projects that have been well managed and completed to at least the standard that could be expected given the information provided in the project Full Submission.

The STR and FTPR provide an incentive for DNOs to actively engage in the objectives of the LCN Fund and conduct projects that lead to exceptional benefits for customers.

Consultation decisions

We received seven responses to the consultation, one from each of the DNOs and one from an energy supplier. Implementing these proposals will require changes to the governance document. We'll consult on these changes when we start updating the governance document for RIIO-ED1.

Allocating the £100m

The £100m of the DFM is not currently allocated between the three rewards. Dividing the £100m between the rewards will ensure that adequate funds are available for each. The consultation proposed that funds not required to cover the SDR (which can at most be the same value as the DNOs' Compulsory Contribution) would be split between the STR and FTPR. This split would be done on the basis of the funding available in the two tiers. The Second Tier has a total value of £320m and the First Tier of £80m. The proposed split was 4:1 between the STR and the FTPR.

Our decision

Having carefully considered all of the consultation responses we have decided that we will allocate the funding as proposed in the consultation. Funds not required to cover the SDR will be apportioned 4:1 between the STR and the FTPR. Funds allocated to the SDR but not awarded will not be rolled over to the other rewards – they will be returned to customers. The split between rewards is as follows:

Figure 1. The money available in each reward (total less than £100m due to rounding).

Reward	Funding available
Second Tier Successful Delivery Reward (SDR)	£23m
Second Tier Reward (STR)	£61m
First Tier Portfolio Reward (FTPR)	£15m

Any funds required to cover a shortfall in direct benefits would be deducted from the STR and FTPR on a 4:1 ratio.

Consultation responses

All respondents to the consultation supported the proposed approach to allocating the £100m, with some caveats. One suggested splitting the STR and FTPR based on the actual level of funding used in the tiers, rather than their total potential value. Another suggested that funds allocated to the SDR but not used should roll over to the other rewards. One respondent suggested that 5% of the value of the second tier funding of

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

£320m (£16m) should be ring-fenced to cover cost overruns and shortfalls in direct benefits.[2]

Reasons for our decision

There is merit in the proposal to allocate the funding based on the expenditure in the two tiers, rather than the potential value. However, the First Tier has been used less than the Second Tier. As such, this approach would disproportionately affect the FTPR, roughly halving its value. The corresponding increase in the STR would be a small proportion of its overall value. We believe this undermines the FTPR as an incentive for exceptional delivery. We consider that the most appropriate way to allocate the funding is the one proposed in the consultation document.

One respondent suggested that funds not used in the SDR should be made available for the other rewards. We would only know what funds were surplus once the SDR assessments had concluded. This would mean that in practice, this funding could only be made available to the second STR assessment. This would increase the potential rewards for projects that concluded later. This reward is returning DNO Compulsory Contributions, so where funding is left due to failures in delivery it is appropriate that this is returned to customers.

Projects that apply for funding to cover cost overruns are not eligible to enter the SDR. As such we do not think it is necessary to ring-fence funds for this purpose. We do not think funds should be ring-fenced to cover shortfalls in direct benefits, as only a small proportion of projects have direct benefits. If any projects do apply for relief from a shortfall in direct benefits, the funding to cover that shortfall would be deducted from the STR and FTPR on a 4:1 ratio (as this is the basis on which the available funding was split between the two rewards).

Timing of assessments

For the STR, we proposed two options in our consultation. The first was to have two assessments, one in 2017 and one when the final projects had concluded. The second was to have one assessment when all projects had concluded. The consultation also sought views on when the FTPR assessment should occur and whether projects concluded under the Network Innovation Allowance (NIA) should be eligible for funding.

<u>*Second Tier Reward*</u>

Our decision

There will be two assessments for the STR. One will be in 2018 for projects that have closed down (ie the closedown report has been finalised) before the end of June 2016, and the other will be two years after the final project has closed down. The funding available will be split equally between the two assessments. Funds will <u>not</u> roll over between assessments. Projects may only be put forward to one assessment.

Consultation responses

All DNOs preferred the option of having two assessments. There were two concerns with having only one assessment. The first was that the significance of learning may appear to diminish over time, as new challenges emerge. The other was that one assessment would include comparing projects that concluded over varying time periods, with different amounts of time for rollout, dissemination and benefits to accrue.

[2] Direct benefits are benefits of a project to the DNO from avoided spending on activities funded by the DPCR5 financial settlement.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

DNOs suggested that the funding available in the two assessments should be decided based on either the value or the number of projects in each assessment.

One respondent said there should be sufficient notice of any assessment so changes in network charges were predictable. It also said projects should only enter one assessment.

Reasons for our decision

We proposed having only one assessment as all projects would be assessed together. It would allow the longest amount of time for benefits to accrue, meaning more robust evidence of exceptional performance could be included in applications. We consider that having two assessments, but conducting them two years after the closedown of the final project eligible to enter, allows sufficient time for benefits to accrue for all of the projects being considered. Having two assessments also mitigates some of the concerns with having only one assessment, by reducing the length of time projects have to wait before the assessment and not assessing all projects at the same time.

We have considered splitting the funding between the assessments based on either the number of projects or the value of projects. These result in a very similar split (roughly 50:50) of funding between the two rewards, if all projects conclude when currently planned. We therefore intend to split the funding available in the STR equally between the two assessments.

We agree that projects should only be eligible to apply to one assessment. It would be unfair to consider projects that have already had their application assessed alongside other projects being submitted for the first time. This also provides applicants with a strong incentive to submit good quality applications the first time.

First Tier Portfolio Reward

Our decision

Projects that have spent more than half of their duration under the LCN Fund will be eligible to enter the FTPR assessment. The assessment will take place in 2017.

Consultation responses

All respondents agreed with having one assessment for the FTPR. Views were mixed on when the assessment should occur and whether projects concluding under the NIA should be considered. Three respondents favoured including NIA projects and delaying the assessment, noting that the projects will have had most of their life, including their inception, under the LCN Fund. Four respondents favoured an earlier assessment that didn't include NIA projects. They noted that the NIA is a separate mechanism.

Reasons for our decision

We consider that projects that have spent most of their life as LCN Fund projects should be considered in the assessment. First Tier projects shouldn't last longer than three years, so all projects that will be eligible for the FTPR will have concluded by September 2016 – 18 months after March 2015. Solutions developed under the First Tier may require further development and trialling before they are incorporated into business as usual. As such we do not consider that the same arguments for delaying the STR assessment for two years after project conclusion apply. Therefore the assessment will take place in 2017, allowing time for all of the projects to close down.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Assessment criteria

The current criteria for the rewards in the governance document includes *"To perform exceptionally against one or more of the Specific Requirements set 2*[3] *(for First Tier LCN Projects) or the Evaluation Criteria (for Second Tier Projects)."* These were designed for an upfront assessment of project proposals. We proposed to adjust them for the purposes of the rewards to ensure they are relevant for an ex post assessment.

Our decision

We propose to combine criteria (c) and (d) for the STR.[4] The remaining evaluation criteria and Specific Requirements set 2 will be altered as proposed in the consultation. See appendix one for our proposed aments to the criteria. Projects that have breached the requirements of the governance document will not be eligible for the rewards.

Consultation responses

Respondents agreed with the proposed changes to the assessment criteria, with some caveats. For the STR, one respondent suggested combining criteria (c) and (d), as they overlap. It also suggested removing criterion (f).[5] On the FTPR, this respondent noted that our proposals resulted in only two criteria to assess the portfolios. It suggested three additional criteria that could be used (these are described in the summary of responses).

Another respondent suggested that we should recognise where DNOs and project partners had put effort and resources into a project beyond what was originally envisaged. A third respondent proposed a list of ineligibility criteria that would exclude a project from entering any assessment. These criteria related to breaches of the requirements of the governance document and to the DNOs' RIIO-ED1 business plans.

Reasons for our decision

We agree with the respondent who suggested that criteria (c) and (d) for the STR are similar and should be combined. We do not agree that criterion (f) should be removed. This criterion covers project readiness, and some projects were more ready to begin than others. We also disagree that additional criteria are needed for the FTPR. We consider that the extra criteria suggested are already covered by the two existing criteria. However, we have updated the criteria to refer explicitly to the consideration of a portfolio of projects. We have also made some other minor clarifications to the criteria, including to refer explicitly to projects that have trialled unsuccessful solutions.

The other Discretionary Reward Criteria (ie not the evaluation criteria or Specific Requirements set 2) already refer to DNOs investing their own money or making exceptional effort to exceed expected delivery targets. We therefore do not agree with the respondent who suggested further mentioning extra effort and resources.

We agree with the proposed ineligibility criteria. Breaches of the governance document would indicate that a DNO did not have appropriate project management and senior oversight in place to ensure compliance with the legal framework. These projects shouldn't be eligible for exceptional delivery rewards.

Conducting the assessment

---

[3] The First Tier specific requirements set 2 are similar to the evaluation criteria for the Second Tier and are described on pages 15-17 of the governance document v6.
[4] Criterion (c) is 'generation of new knowledge', criterion (d) is 'involvement of other partners and external funding'.
[5] Criterion (f) is 'demonstration of a robust methodology and that the project is ready to implement'.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Our consultation sought views on who should assess applications to the FTPR and STR.

Our decision

The electricity NIC Expert Panel will conduct each assessment and make a recommendation to the Authority. The Authority will make the final decision on the rewards. We will provide guidance to applicants and the panel ahead of each assessment.

Consultation responses

Five respondents suggested that the electricity NIC Expert Panel is the most appropriate group to assess applications. They said that the value of rewards warranted a process as robust as the annual competitions. They noted that the panel members are independent, competitively recruited and possess a breadth of knowledge and industry experience.

One respondent suggested that the ED1 Consumer Challenge Group or an equivalent would be the most appropriate group to assess applications.

Reasons for our decision

We agree that the electricity NIC Expert Panel will bring a wealth of relevant expertise to the assessment. As respondents have noted, the value of rewards could be significant, so ensuring that applications are scrutinised robustly and fairly is important. This solution is closest to the intent of the DPCR5 Final Proposals. We will support the NIC Expert Panel in its assessment.

Next steps

We will implement our decisions by proposing amendments to the governance document. We will be updating the governance document for the purposes of the next price control, RIIO-ED1, and will consult on the changes proposed in this document as part of that consultation. The updated governance document is expected to be in place for 1 April 2015.

This document constitutes notice of our reasons for our decision in accordance with section 49A of the Electricity Act 1989.

If you have any queries, please contact Arun.Pontin@ofgem.co.uk.

Yours faithfully,

Dora Guzeleva
Head of Networks Policy, Local Grids

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Appendix 1: Final proposed alterations to the evaluation criteria and specific requirements set 2

Evaluation criteria *– additions since the consultation are underlined, deletions are struck through.*

(a) Accelerated the development of a low carbon energy sector & delivered net financial benefits to future and/or existing customers

A DNO must demonstrate how the Solution or Solutions associated with the Project makes or could make a contribution to the UK Government's current strategy for reducing greenhouse gas emissions as set out in the document entitled "The Carbon Plan", as published by the Department of Energy and Climate Change (DECC). This may be amended from time to time or may be replaced by the Government, such change to be notified to the DNOs in writing by Ofgem. To reduce carbon in the energy sector, the Carbon Plan considers that electricity use may increase. This criterion also requires that the Solution(s) can provide financial benefits compared to the most efficient method currently in use.

<u>Exceptional performance could be demonstrated by actual rollout of project outcomes (by the DNO or by other DNOs).</u> In demonstrating exceptional performance against this criterion, DNOs should:

- describe and provide evidence of the aspects of the Carbon Plan that have been facilitated
- describe and provide evidence of the network capacity released
- describe and provide evidence of the financial benefits
- describe and provide evidence of the scale of rollout of the Method(s) (or techniques derived from the Method(s)) across their system and across GB
- <u>describe and provide evidence of how outputs and learning from unsuccessful solutions have impacted on other innovation projects and informed DNO business operations.</u>

Exceptional performance could also be achieved as a result of planned rollout of the Solution(s). DNOs could demonstrate the potential benefits that could be achieved by the project by:

- describing and providing analysis and assumptions of the aspects of the Carbon Plan that will be facilitated
- describing and providing analysis and assumptions of the capacity that has been/will be released
- describing and providing analysis and assumptions of the financial benefits that has been/will be realised

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

- describing and providing analysis and assumptions of the scale of rollout of the Method(s) (or techniques derived from the Method(s)) across their system and across GB.

- describing and providing evidence of how outputs and learning from unsuccessful solutions could impact on other innovation projects and inform DNO business operations.

(b) Value for money provided to distribution Customers in the delivery of the project

The LCN Fund is focussed on the role that DNOs can play as GB moves towards a low carbon economy. Therefore Projects will be evaluated on the size of benefits and resulting learning from the Project that can be attributed to or are applicable to the Distribution System versus elsewhere, taking into account the level of funding requested.

In demonstrating exceptional performance against this criterion, the DNO should:

- describe and provide evidence that the project was value for money to Customers[6]

- describe the size of project benefits in comparison to the project funding (including use of competitive processes to minimise costs)

- demonstrate persistence to deliver a Project through exceptional effort and/or additional external funds that exceeds the expected delivery of outcomes.

(c) Knowledge shared amongst all DNOs

One of the main purposes of the LCN Fund is to generate and share knowledge from Projects to help DNOs prepare for the role they will play as GB moves towards a low carbon economy.

In demonstrating exceptional performance against this criterion, the DNO should:

- describe and provide evidence of the level of new learning generated (including learning from things that didn't work)

- describe and provide evidence of effective knowledge dissemination by the project

- describe and provide evidence of the applicability of the new learning to other DNOs. This evidence should include examples of other DNOs using the learning

- describe and provide evidence of the value of the IP generated by the project to customers and how the IP has been shared

[6] Customers are defined in the electricity distribution licence as "any person who is supplied or requires to be supplied with electricity at any premises in Great Britain, but does not include any Authorised Electricity Operator in its capacity as such."

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

- describe and provide evidence of effective dissemination of learning of the role of project partners to allow that role to be completed by the DNO or another third party during in the event of rollout.

~~(d) Involvement of other partners and external funding~~

~~Collaboration between DNOs and other parties in the energy supply chain is a central objective of the LCN Fund.~~

~~In demonstrating exceptional performance against this criterion, the DNO should:~~

- ~~describe and provide evidence of effective dissemination of partner learning to allow the roll to be completed by the DNO or another third party.~~

(e) Relevance and timing

Consideration will be given to Projects that aim to address those developments that are more likely to happen. ~~However, for the avoidance of doubt, this does not mean we will necessarily favour the Method that is most likely to be successful, as we recognise that there will be benefits associated with trialling a variety of Methods.~~

In demonstrating exceptional performance against this criterion, the DNO should:

- describe and provide evidence of how the outcomes of the project are being used in business planning

- describe and provide evidence of how the outcomes of the project are being used in the DNO's day to day activities.

(f) Demonstration of a robust methodology and that the project is ready to implement

At Full Submission, projects' methodology and readiness are scrutinised. In demonstrating exceptional performance against this criterion, DNOs should:

- demonstrate that the project's methodology and execution were at least as robust as specified in the Full Submission (eg trials resulting in statistically robust sample sizes), and were evolved as appropriate

- demonstrate that the project's readiness was at least the level specified in the Full Submission (eg project begun in timely manner and delivered in line with project plan).

First tier specific requirements – set 2

(a) Accelerated the development of a low carbon energy sector & has delivered net financial benefits to future and/or existing customers

A DNO must demonstrate how the Solution or Solutions associated with the ~~Project~~ Portfolio makes or could make a contribution to the UK Government's current strategy

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

for reducing greenhouse gas emissions as set out in the document entitled "The Carbon Plan", as published by the Department of Energy and Climate Change (DECC). This may be amended from time to time or may be replaced by the Government, such change to be notified to the DNOs in writing by Ofgem. To reduce carbon in the energy sector, the Carbon Plan considers that electricity use may increase. This criterion also requires that the Solution(s) can provide financial benefits compared to the most efficient method currently in use.

Exceptional performance could be demonstrated by actual rollout of project outcomes (by the DNO or by other DNOs). In demonstrating exceptional performance against this criterion, DNOs should:

- describe and provide evidence of the aspects of the Carbon Plan that have been facilitated
- describe and provide evidence of the network capacity released
- describe and provide evidence of the financial benefits
- describe and provide evidence of the scale of rollout of the Method(s) (or techniques derived from the Method(s)) across their system and across GB.
- describe and provide evidence of how outputs and learning from unsuccessful solutions have impacted on other innovation projects and informed DNO business operations.

Exceptional performance could also be achieved as a result of planned rollout of the Solution(s). DNOs could demonstrate the potential benefits that could be achieved by the project by:

- describing and providing analysis and assumptions of the aspects of the Carbon Plan that will be accelerated
- describing and providing analysis and assumptions of the capacity that has been/will be released
- describing and providing analysis and assumptions of the financial benefits that has been/will be realised
- describing and providing analysis and assumptions of the scale of rollout of the Method(s) (or techniques derived from the Method(s)) across their system and across GB.
- describing and providing evidence of how outputs and learning from unsuccessful solutions could impact on other innovation projects and inform DNO business operations.

~~(b) Has a Direct Impact on the operation of a DNO's Distribution System~~

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

(c) Knowledge that has been shared amongst all DNOs

One of the main purposes of the LCN Fund is to generate and share knowledge from the Portfolio ~~Projects~~ to help DNOs prepare for the role they will play as GB moves towards a low carbon economy.

In demonstrating exceptional performance against this criterion, the DNO should:

- describe and provide evidence of the level of new learning generated (including learning from things that didn't work)
- describe and provide evidence of effective knowledge dissemination by the project
- describe and provide evidence of the applicability of the new learning to other DNOs. This evidence should include examples of other DNOs using the learning.
- describe and provide evidence of the value of the IP generated by the project to customers and how the IP has been shared.

~~**(d) Focuses on network Methods that are at the trialling stage**~~

~~**(e) Does not lead to unnecessary duplication**~~

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Appendix 2: Summary of consultation responses

We received seven responses to our August consultation, "Further consultation on implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund".

The responses came from the six DNOs and one energy supplier. We have published non-confidential responses on our website as documents associated with the consultation.

Here we summarise the views of respondents against each of the questions in the consultation. Not all respondents answered every question.

Questions 1 and 2: Do you agree with our proposed approach to allocating the £100m across the rewards?

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.

All respondents supported the proposed approach to allocating the £100m, with some caveats. One DNO suggested that the allocation between the STR and FTPR is based on the funding used in the first and second tiers, rather than their total value. Another DNO suggested that funds allocated to the SDR but not used should roll over to the other rewards, increasing the delivery incentive for DNOs.

One respondent suggested that 5% of the value of the second tier (£16m) should be ring-fenced to cover cost overruns and shortfalls in direct benefits. The respondent noted that this was one of the purposes of the fund. It said the remaining funds should be allocated between the rewards as proposed. This respondent also suggested that there may be merit in limiting rewards to a maximum of 10% of a project's value.

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

All DNOs preferred the option of having two assessments. There were two related concerns with the idea of having only one assessment. The first was the amount of time that would elapse before some early-concluding projects could be considered, as the significance of outputs and learning may appear to diminish over time. The other concern was that having one assessment would mean comparing projects that concluded over varying time periods, with varying amounts of time for rollout, dissemination and benefits to accrue. DNOs suggested that having two assessments would maintain interest and the momentum of the rewards. One noted that the current wording of the governance document is clear that there will be more than one assessment.

The other respondent did not have a strong view on the number of assessments required or when they should occur. This respondent did note that appropriate advanced notice of the rewards was required before funds where recovered through distribution use of system charges.

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

Respondents to this question proposed two methods of allocating the funding between assessments. Three respondents said funding should be split based on the value of projects in the two assessments. Two respondents commented that the funding should be split based on the number of projects entered in each assessment. One respondent said either of these approaches could be used.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

One respondent noted that the allocation should be flexible as some projects may alter their end dates between now and the first assessment in 2017.

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

All respondents supported having one assessment for the FTPR.

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

Responses to this question were mixed. Four respondents thought projects concluded under the NIA shouldn't be considered. Three respondents said projects concluding under the NIA should be considered.

Respondents against considering NIA projects noted that the NIA was a separate mechanism to the LCN Fund and that including these projects would delay the assessment.

Respondents in favour stated that these projects will have been developed and mostly completed under the LCN Fund, that there's no previous indication that they wouldn't be eligible for a reward, and that the NIA has been in place since the outset of the first tier.

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

Respondents had different views about when the assessment should occur. Two respondents said the assessment should take place in 2015, as soon as practicable after the mechanism has concluded.

Three respondents favoured a later assessment to allow projects concluding under the NIA to be assessed. Respondents suggested either 2017 or 2018.

One respondent stated that the assessment should occur once all projects had concluded.

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

All respondents agreed with the proposed assessment criteria overall.

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

Three respondents suggested additions or amendments. One respondent suggested combining criteria (c) and (d) for the STR, as they overlap. It also suggested removing criterion (f).

On the FTPR, this respondent noted that the proposals resulted in there being only two criteria to assess the portfolios. The respondent suggested three additional criteria that could be used when considering portfolios. These were *"value for money (ie value for money of outputs against project costs) relevance (influence on other innovations or business planning) and balanced innovation portfolio (targeted use of funding) to consider the portfolio as a whole."*

Another respondent stated that recognition should be given where DNOs and project partners had invested extra effort and resources into a project beyond what was originally envisaged. The respondent noted that these resources were often scarce.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

The third respondent proposed a list of ineligibility criteria that would exclude a project from entering any assessment. These criteria related to breaches of the requirements of the governance document and relevance to DNOs’ RIIO-ED1 business plans.

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

Six of the respondents commented on this question. Five suggested that the electricity NIC Expert Panel is the most appropriate group to assess reward applications. They noted that the value of rewards warranted a process as robust as the annual competitions. They said the interests of customers and applicants would be protected as the panel are independent, competitively recruited and possess a breadth of knowledge and industry experience.

One of these respondents suggested that Innovate UK (formerly the Technology Strategy Board) or the Energy Networks Association may be able to assist, due to their experience of innovation delivery and adoption. Another noted that it would be difficult for Ofgem to conduct the assessment with consultants as most consultants with relevant expertise would have been involved in an LCN Fund project at some point.

One respondent suggested that the ED1 Consumer Challenge Group (CCG) or an equivalent would be the most appropriate group to assess applications. This respondent noted that applications should be able to demonstrate customer benefits and that the CCG would have a good understanding of customer needs and issues in relation to energy networks. The respondent also noted that not using the Expert Panel would remove any preconceptions from the evaluation of bids. One of the respondents that supported the use of the Electricity NIC panel stated that the CCG may not have sufficient understanding of the market and DNOs’ role to conduct the assessment.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**