

Distribution Network Operators

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Dear Company Secretary

Low Carbon Networks (LCN) Fund - Funding Direction

The Authority issues a direction (the Funding Direction) every year pursuant to the provisions of Section Four of the LCN Fund Governance document and pursuant to the provisions of the Charge Restriction Condition (CRC) 13 of the Distribution Licence.^{1 2}

This Funding Direction details how much each Distribution Services Provider (DSP) can recover from customers through Use of System Charges to cover the costs of funding Eligible LCN Fund Projects. It also details the net amounts to be transferred between DSPs to ensure that each DSP receives an amount (if any) equal to the proportion of the Second Tier Funding for the Regulatory Year that is attributable to the DSP's Eligible LCN Fund Projects.

The value that each DSP can recover includes Second Tier Funding and Discretionary Funding and is adjusted to take into account any funding returned to customers by existing projects, Halted Project Revenue and Disallowed Expenditure.

On 25 July 2014, DSPs submitted four projects to be considered for funding through the LCN Fund.³ In this year's decision, we selected all four projects for funding.⁴ The projects are listed in Table 1.

Table 1 – projects awarded funding

Project	DSP	Funding awarded (£)
Fault Level Active Response	Electricity North West Limited	4,425,277.76
Kent Active System Management	South Eastern Power Networks plc	3,344,537.59
Low Energy Automated Networks	Southern Electric Power Distribution plc	2,669,964.11
Network Equilibrium	Western Power Distribution (South West) plc	11,477,542.69
Total		21,917,322.15

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

² [LCN Fund Governance Document version 6.](#)

³ Information on these projects is available [here](#).

⁴ This year's decision document is available [here](#).

As the potential learning from these Eligible LCN Fund Projects would provide benefits to all DSPs, the projects are to be funded by all DSPs through Distribution Use of System Charges. Therefore, we are amending the allowed revenues of all DSPs for the Regulatory Year 2015/16 and set here the amount each needs to transfer to the DSPs listed in Table 1.

We have also approved amendments to three Eligible LCN Fund Projects. These allowed the respective DSPs to mitigate challenges presented by some material changes in circumstances beyond their control, which have arisen since we funded the projects. These changes resulted in lower costs for the Eligible LCN Fund Projects, meaning that some funds will be returned to customers.

- Scottish Power Distribution's (SPD) Flexible Networks for a Low Carbon Future project identified, after we provided funding to it, that monitoring equipment would not be needed in two of the trial areas identified in the project plan. We approved a change request to enable the funds associated with installing voltage monitoring equipment to be returned to customers. We also approved a reduction in the project's contingency funding. In total, this reduced the cost of the project to customers by £1,019,000.⁵
- Western Power Distribution (WPD) South West's Sola Bristol project was unable to recruit the 10 schools envisaged in the project plan. After satisfying ourselves that this would not significantly impact on the project's learning, we approved amendments to the project to reduce the number of schools in the trial to 5. The reduced sample size reduced the cost of the project to customers by £202,100.⁶
- WPD South Wales was unable to recruit as many customers for the Low Voltage Network Templates project as envisaged in the project plan. After satisfying ourselves that this would not significantly impact on the project's learning, we approved an amendment to the project to reduce the sample size of the trials. This meant that funding for monitoring equipment could be returned to customers, along with some unspent funds at the end of the project. In total, this reduced the cost of the project to customers by £349,000.⁷

These amendments allowed the projects to continue to deliver value for money to customers. The reductions in costs from these projects will be returned from these DSPs to the customers of all DSPs, as they originally funded the projects. Therefore, we are amending the allowed revenues of all DSPs for the Regulatory Year 2015/16 and setting the amounts SPD and WPD need to transfer back to other DSPs in this Funding Direction.

To implement these amendments to DSPs' allowed revenues, in accordance with the LCN Fund Governance Document, the schedule to this Funding Direction includes the below information for the Regulatory Year 2015/16:

1. It sets the value LCN2_t for each DSP. This is the amount to be recovered by each DSP through Use of System Charges in order to contribute to its own or another DSP's Second Tier Funding;
2. It identifies the net amounts to be transferred between DSPs in order to ensure that each DSP receives an amount (if any) equal to the proportion of the Second Tier Funding that is attributable to the DSP's Eligible LCN Fund Projects (taking into account any funds returned to customers by existing projects, Halted Project Revenue and Disallowed Expenditure); and

⁵ [Low Carbon Networks Fund – amendments to Flexible Networks for a Low Carbon Future project](#)

⁶ [Low Carbon Networks Fund – amendments to Western Power Distribution's Sola Bristol project](#)

⁷ [Low Carbon Networks Fund – amendments to Western Power Distribution's Low Voltage Network Templates project](#)

3. It directs the manner and timescale over which the net amounts are to be transferred.

In accordance with paragraph 13.18 of CRC 13 of the Distribution Licence and in accordance with the LCN Governance Document, the Authority hereby requires all DSPs to comply with the conditions in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.



Dora Guzeleva
Head of Networks Policy, Local Grids
For and on behalf of the Authority

Schedule to Funding Direction

1. The value that each DSP can recover from customers to cover Second Tier and Discretionary Funding in 2015/16

Table 1 contains the amount that the DSPs must recover in the Regulatory Year commencing 1 April 2015. The amount that the DSPs must recover is based on the total Approved Amounts for Regulatory Year 2015/16 shared according to each DSP's customer numbers in 2013/14.⁸ This also takes account of the funding returned by existing projects. The amount each DSP must recover constitutes the value for LCN_{2t} in the LCN_t Formula for the purposes of Part B of CRC 13.

2. The net amounts that must be transferred between DSPs

Table 2 contains the net amounts that must be transferred between DSPs over the Regulatory Year commencing 1 April 2015. The DSPs named in column 1 of Table 2 must transfer the amounts contained in each of the columns 2 to 15 to the DSPs named at the top of each column.

3. The manner and timescale over which the net amounts will be transferred

The transfers must be made on an equal monthly basis, for the entirety of the Regulatory Year commencing 1 April 2015 such that the total amount transferred over the Regulatory Year commencing 1 April 2015 equals the net amount set out in Table 2.

The DSPs that will be receiving funding from other DSPs must provide their bank account details to the DSPs that will be transferring funding by 1 March 2015. DSPs will make transfers to the specified bank accounts on the day of the month agreed by the DSP making the transfer.

Table 1

DSP	Number of customers	LCN _{2t} £
Electricity North West Limited (ENWL)	2,371,790	1,646,130.91
Northern Powergrid (Northeast) Ltd (NP NE)	1,586,437	1,101,059.94
Northern Powergrid (Yorkshire) plc (NP Yorkshire)	2,277,373	1,580,601.17
Southern Electric Power Distribution plc (SEPD)	2,984,187	2,071,162.47
Scottish Hydro Electric Power Distribution plc (SHEPD)	754,258	523,489.59
Scottish Power Distribution Ltd (SPD)	1,996,758	1,385,841.51
Scottish Power Manweb plc (SPM)	1,494,271	1,037,092.50
Eastern Power Networks plc (UKPN EPN)	3,565,115	2,474,353.11
London Power Networks plc (UKPN LPN)	2,286,322	1,586,812.18
South Eastern Power Networks plc (UKPN SPN)	2,262,882	1,570,543.78
Western Power Distribution (Midlands East) plc (WPD East)	2,604,846	1,807,882.44
Western Power Distribution (South Wales) plc (WPD SWales)	1,113,015	772,483.40
Western Power Distribution (South West) plc (WPD SWest)	1,570,645	1,090,099.56
Western Power Distribution (Midlands West) plc (WPD West)	2,448,930	1,699,669.59
Total	29,316,829	20,347,222.15

⁸ Approved Amount has the meaning given in CRC 13 Part G.

Table 2

DSP	ENWL £	NP NE £	NP Yorkshire £	SEPD £	SHEPD £	SPD £	SPM £	UKPN EPN £	UKPN LPN £	UKPN SPN £	WPD East £	WPD SWales £	WPD SWest £	WPD West £
ENWL		-	-	-	-	-	-	-	-	-	-	-	675,122.19	-
NP NE	239,467.38		-	144,481.17	-	-	-	-	-	180,984.72	-	-	610,153.97	-
NP Yorkshire	343,761.87	-		207,406.61	-	-	-	-	-	259,808.44	-	-	875,892.44	-
SEPD	234,447.67	-	-		-	-	-	-	-	134,356.68	-	-	1,004,694.73	-
SHEPD	113,852.73	-	-	68,692.35		-	-	-	-	86,047.65	-	-	290,092.52	-
SPD	383,843.11	55,141.68	79,157.37	285,575.18	26,216.65		51,938.16	123,916.96	79,468.42	306,448.86	90,539.74	14,916.13	822,558.87	85,120.38
SPM	225,555.23	-	-	136,087.36	-	-		-	-	170,470.19	-	-	574,706.32	-
UKPN EPN	538,142.24	-	-	324,684.81	-	-	-		-	406,717.29	-	-	1,371,166.37	-
UKPN LPN	345,112.70	-	-	208,221.62	-	-	-		-	260,829.36	-	-	879,334.28	-
UKPN SPN	70,994.74	-	-	-	-	-	-		-		-	-	691,135.97	-
WPD East	393,192.83	-	-	237,230.48	-	-	-		-	297,167.38		-	1,001,840.68	-
WPD Swales	196,240.71	18,885.62	27,110.82	136,890.36	8,979.01		17,788.44	42,440.65	27,217.35	153,913.86	31,009.19		446,770.42	29,153.10
WPD SWest	-	-	-	-	-	-	-		-	-	-	-		-
WPD West	369,657.83	-	-	223,030.78	-	-	-		-	279,380.09	-	-	941,874.37	