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All Distribution Network  
Operators and other interested  
parties

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## **Version seven of the Low Carbon Networks (LCN) Fund Governance Document**

This letter explains our<sup>1</sup> approach to issuing version seven of the LCN Fund Governance Document (the governance document), following consultation with Distribution Network Operators (DNOs) and other interested parties. The governance document explains the regulation, governance and administration of the LCN Fund. This letter is formal notice of our intent to issue version seven of the LCN Fund governance document. We have attached a draft of the governance document to this letter. We currently plan to issue the governance document incorporating representations we receive by 1 April 2015.

**Please send any representations or objections to this notice to [arun.pontin@ofgem.gov.uk](mailto:arun.pontin@ofgem.gov.uk) on or before 25 March 2015. We will consider representations or objections and may incorporate them into the governance document ahead of issuing the governance document on or before 1 April 2015.**

### **RIIO-ED1**

The Network Innovation Allowance (NIA) and Network Innovation Competition (NIC) will replace the LCN Fund at the start of the next electricity distribution price control, RIIO-ED1.<sup>2</sup> No new projects will be funded under the LCN Fund during RIIO-ED1. However, some Second Tier LCN Fund projects will continue.

We propose to remove parts of the document that will not be used during RIIO-ED1. These include the sections on the First Tier and the competitive process for the Second Tier. We propose to retain all elements of the document required to ensure the effective governance of ongoing Second Tier projects.

### **Close-Down Report process**

In April 2014, we published the process we expected DNOs to follow before publishing their Second Tier close-down reports.<sup>3</sup> We have now proposed changes to incorporate this process in to the governance document.

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<sup>1</sup> The terms "the Authority", "Ofgem", "we" "us" and "our" are used to refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

<sup>2</sup> RIIO-ED1 starts on 1 April 2015.

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/letter-setting-out-expectations-regarding-learning-innovative-network-projects>

## Discretionary Funding Mechanism

During 2014 we developed our approach to administering the Discretionary Funding Mechanism (DFM). We made two sets of policy decisions in 2014 (in August<sup>4</sup> and December<sup>5</sup>) following consultation with industry. We propose to make changes to the governance document to reflect these decisions.<sup>6</sup>

### *Second Tier Successful Delivery Reward*

This reward is for 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.<sup>7</sup> The proposed changes to the governance document reflect our decisions to:

- introduce an annual assessment window for applications between 1 May and 31 July each year,
- assess whether the Successful Delivery Reward Criteria<sup>8</sup> have been achieved against quality, cost and time of delivery, and
- assess management of uncertainty and change as part of our assessment of whether a project has been well managed.

### *Second Tier Reward*

The Second Tier Reward provides an incentive for DNOs to engage actively in the objectives of the LCN Fund and conduct Second Tier Projects that perform exceptionally. The proposed changes reflect our decisions that:

- a maximum of £61m is available under the reward,
- there will be two assessments, one in 2018 and another two years after the final project has concluded, and
- the detailed assessment criteria (known as the Evaluation Criteria in previous versions of the governance document), should be revised for the purposes of this reward as the original criteria related to assessing project proposals.

### *First Tier Portfolio Reward*

The First Tier Portfolio Reward provides an incentive for DNOs to engage actively in the objectives of the LCN Fund and conduct a portfolio of First Tier Projects that perform exceptionally. The proposed changes to the governance document reflect our decisions that:

- a maximum of £15m is available under the reward,
- there will be one assessment in 2017,
- First Tier projects that conclude under the NIA but have spent more than half of their life under the LCN Fund are eligible to enter, and
- the detailed assessment criteria (known as the Specific Requirements set 2 in previous versions of the governance document), should be revised for the purposes of this reward as they relate to registering projects.

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<sup>4</sup> [Our August 2014 decision.](#)

<sup>5</sup> [Our December 2014 decision.](#)

<sup>6</sup> A detailed background of the DFM and the rewards can be found in the governance document and our 2014 decisions.

<sup>7</sup> The term "Full Submission" has the meaning given to it in the governance document.

<sup>8</sup> The term "Successful Delivery Reward Criteria" has the meaning given to it in the governance document.

## Other

We have proposed some other minor changes to the text of the governance document. These include proposed amendments to correct typographical errors and paragraph numbers throughout the governance document.

## Next steps

Please send any representations or objections to this notice to [arun.pontin@ofgem.gov.uk](mailto:arun.pontin@ofgem.gov.uk) on or before 25 March 2015. We will consider representations or objections and may incorporate them into the document ahead of issuing the governance document on or before 1 April 2015.

Yours sincerely,



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