

Low Carbon Network Fund
Project Partners, Consumer
groups, sustainable development
groups, smart grid research and
development companies, and
other interested parties

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Dear stakeholder,

Consultation on the Successful Delivery Reward Applications for Low Carbon Networks Fund projects

This letter is to notify you of, and seek your views on, the Successful Delivery Reward applications from network companies for their completed innovation projects.

The Successful Delivery Reward (SDR) is an annual award funded under the Discretionary Funding Mechanism from the Low Carbon Networks (LCN) Fund for projects that are funded under the second tier funding mechanism.

The SDR is awarded for projects that have been well managed and completed at least to the standard that could be expected given the information provided in the Full Submission. The maximum value of each SDR will be the level of the network company's compulsory contribution to the innovation project.

The applications

By 1 May 2015, the application deadline, we had received applications for the following four projects, to be considered for the SDR:

1. Low Voltage Network Templates by Western Power Distribution
2. Low Carbon London by UK Power Networks
3. Flexible Plug and Play by UK Power Networks
4. Customer-led Network Revolution by Northern Powergrid

The applications are published on our website.¹ The licensees have applied for the SDR on the basis that they have met all of their Successful Delivery Reward Criteria (SDRCs) and that the project was well managed and completed at least to the standard that could be expected given the information provided in the Full Submission.

¹ Low Voltage Network Templates at <https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund/second-tier-projects/western-power-distribution>
Low Carbon London at <https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund/second-tier-projects/uk-power-networks>
Flexible Plug and Play at <https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund/second-tier-projects/uk-power-networks>
Customer-led Network Revolution at <https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund/second-tier-projects/northern-powergrid>

Background

The SDR is available for innovation projects that have finalised their close-down reports.² There is an annual application window. Only one application can be made for an individual project. The purpose of the SDR is to reward network companies that have designed and managed well the delivery of their innovation project funded through the LCN Fund. It will additionally be available for projects that have been funded under the Network Innovation Competitions (NIC).

These LCN Fund projects are largely funded by consumers through charges raised in accordance with the Charge Restriction Condition (CRC) 2J of the Electricity Distribution Licence. The licensees have competed for this funding under either the second-tier funding mechanism of the LCN Fund or NIC. The network companies make a compulsory contribution of 10 per cent. The SDR effectively allows the network companies to achieve a "return", limited to the value of their compulsory contribution, if they meet a certain standard of project management.

In carrying out our SDR assessment our principal objective is to protect the interests of existing and future consumers. On this basis we must ensure licensees are incentivised to manage and deliver innovation projects to an appropriate standard.

The standard of delivery expected from the project is based on the Full Submission, which is the full project proposal that we use to evaluate a project for sponsorship by the LCN Fund or NIC. The SDRCs that must be met are set out in the Project Direction at the start of the project. The Full Submission and Project Direction for each project can be found on our website.¹

Our assessment process

We published the assessment process and criteria for determining the SDR in our decisions on implementing the Discretionary Funding Mechanism under the LCN Fund.³ The decisions were incorporated into the LCN Fund Governance Document.⁴ A summary of our assessment criteria is given below.

- We will assess whether the project has been well managed and SDRCs have been achieved against quality, cost and time. DNOs should provide evidence of this.
- We will assess all projects on their management of uncertainty and change. DNOs should provide evidence of how they did this.

An SDR application must provide sufficient evidence to enable us to assess whether the project has been well managed. We recently published guidance notes to aid companies applying for the reward.⁵

A high-level summary of the timeline and key steps is given below.

- Applications are due by 1 May for every year the SDR runs.
- Applications will be made public and consulted upon.
- If the application lacks sufficient evidence for us to make an assessment we will make a single request for this additional evidence.
- We will make a decision by 31 July following the submission of the applications. We may extend this deadline if requesting further evidence for the assessment delays the process.

² The purpose of the Close-Down Report is to provide sufficient information for third parties to understand what has been learnt from the Project.

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-implementing-discretionary-funding-mechanism-under-low-carbon-networks-fund>

⁴ Section 2, chapter 4, paragraph 4.5 to 4.8 of Low Carbon Networks Fund Governance Document v.7, found at - <https://www.ofgem.gov.uk/ofgem-publications/94379/lcnfgovdocv7-finalclean-pdf>

⁵ Guidance Notes on Successful Delivery Reward Application can be found at - <https://www.ofgem.gov.uk/publications-and-updates/guidance-notes-successful-delivery-reward-application>

A key part of the process is to seek stakeholders' views on the applications, which will be considered as part of our assessment to determine any SDR. With respect to the SDR applications, we would welcome views from any interested party on the questions set out below.

Consultation questions

The three consultation questions listed below are general to the four projects; therefore please ensure that you indicate the project(s) to which your responses relate.

When responding to these questions, please consider your experiences, the actions that the network company has taken and the actions that you consider it could have reasonably taken.

→ **Question 1:** Do you consider that the SDRCs have been delivered to a quality expected from the Full Submission, in a timely and cost effective manner?

When answering Question 1, please reflect on the following points:

- Did the Project meet the SDRCs to at least the quality expected from the project deliverables supplied in the Full Submission and Project Direction, and is this supported by sufficient evidence in the SDR application?
- Were the SDRCs delivered in a timely manner, as expected from the target deadlines given in the Project Direction?
- Were the project costs for meeting the SDRCs managed to ensure delivery within the project budget, and were efficient prices obtained for significant project costs (above 5 per cent of the whole project budget)?

→ **Question 2:** Do you consider the project has been well-managed and has implemented best available principles, processes and practices for managing change and risk?

When answering Question 2, please reflect on the following points:

- Were project risks and uncertainties pre-emptively identified and managed adequately by the network company?
- Were any mitigation measures communicated and implemented effectively?
- Did the risk identification and management process allow for the consideration and implementation of opportunities?
- If the projects were adversely affected by change or uncertainty which did not require a change proposal, do you consider this to have been due to circumstances within the company's control?

As is expected for innovation projects, some may have undergone changes during the project life that required our approval. We believe that management of these change proposals requests reflects the project's management. Details of these change proposals can be found on our website.¹ We would be grateful for any views you have on how change proposals were managed.

Question 3: Do you consider that the change proposal process was managed well by the network company?

When answering Question 3, please reflect on the following points:

- Were change proposal requests identified and brought to light in a timely manner?
- For a material change requests, were all practicable measures implemented to prevent a change proposal?
- Was suitable justification for proposals (including how the change was in the best interests of customers) provided in the change requests?

- Did the project perform well against what was originally intended?

Responding to this consultation and next steps

This letter contains three questions for consultation. We would also like to hear the views of any interested party in relation to any of the issues discussed in this letter. We would especially welcome responses to the specific questions set out above. If you do not have experience in relation to a question, please share your views on those questions you feel you can answer.

Responses to this consultation should be received by 22 May and should be sent, preferably by email, to LCNFund@ofgem.gov.uk or in writing to:

Nisha Doshi
Smarter Grids and Governance team,
Ofgem,
9 Millbank,
London,
SW1P 3GE

Unless marked confidential, all responses will be published by placing them on our website at www.ofgem.gov.uk. Respondents may request that their response is kept confidential. We shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their responses and if possible include a non-confidential summary of their response.

Having considered the responses to this consultation, we intend to publish our decision on the SDR applications by 31 July 2015.

If you have any queries regarding this letter, please contact Nisha Doshi at nisha.doshi@ofgem.gov.uk or on 0207 901 7429.

Yours sincerely,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy