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Date: 19 August 2015

Dear Mr Dale

Sola Bristol budget and compliance with the Low Carbon Networks (LCN) Fund Governance Framework

This letter contains our¹ decision to give our consent to Western Power Distribution (South West) Plc (WPD) overspending against its Sola Bristol (the project) budget set out in Appendix 1 of the Project Direction.² This is on the basis that any overspend is funded in its entirety by WPD. In relation to this, we also note that WPD has not complied with section 6 of the Project Direction and should take action to avoid this happening again.

Background

On 19 December 2011, we issued a Project Direction to WPD. The Project Direction contains the terms to be followed by WPD in relation to the project as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism.³

On 11 December 2014, we amended the Project Direction to:

- revise the project deliverable dates due to delays in the installation of equipment;
- reduce the sample size of schools taking part in the project; and
- reduce the project's budget by £202k, due to fewer schools taking part.⁴

On 13 March 2015 we made further amendments to the Project Direction to:

- reduce the sample size of domestic properties taking part in the project; and
- re-use and re-deploy surplus Sola Bristol domestic units.⁵

The project has now installed all of its equipment and moved into its final phase, reviewing and concluding on the data it has collected. The project is due to complete in January 2016.

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

² The Authority issued a Project Direction to WPD pursuant to the LCN Fund Governance Document issued pursuant to Part E of Charge Restriction Condition 13 (Low Carbon Networks Fund) (CRC13) of the Electricity Distribution Licence setting out the terms to be followed in relation to the project as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism. The Project Direction can be found at: <https://www.ofgem.gov.uk/publications-and-updates/low-carbon-network-fund-project-direction-bristol>

³ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

⁴ <https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund-%E2%80%93-amendments-western-power-distribution%E2%80%99s-sola-bristol-project>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund-amendments-wpd-s-sola-bristol-project-household-sample>

Budget reporting issues

In WPD's June 2015 six month progress report to us, it explained that the project would overspend against its total budget. WPD also said it would cover these excess costs and we welcome this quick acknowledgement.

However, we have found that WPD has already substantively overspent in one of its project costs categories. In the 'equipment' category, it is currently overspent by 14% (around £70k).

Section 6 of the Project Direction requires WPD not to spend more than 110 per cent of any cost category total in Annex 1 of the Project Direction without our prior consent. We have not given prior consent to this overspend and therefore WPD's actions are in breach of the provisions of the Project Direction.

In the June 2015 six month progress report, a reason cited for the overspend at the end of the project is the extension of the project timeline, approved as part of our 11 December 2014 decision to amend the Project Direction. WPD considers that the extension has led, in particular, to higher partner costs. While this may be one of the causes of the increased costs, we consider that WPD should have processes in place to highlight any potential overspends against specific cost categories.

Further discussion with WPD on this issue has identified that the internal budget monitoring spreadsheet for the project does not fully reconcile with the budget cost categories set out in the Project Direction. In our opinion, this has made it difficult for WPD to quickly identify a potential breach of the provisions relating to the budget set out in the Project Direction and should be corrected.

As part of the project's Close-Down Report early next year, we will look to WPD to consider further the causes of the increased project costs, how they were managed and any lessons for future projects.

Decision

We recognise that the project is likely to overspend against its approved budget by the time it concludes in January 2016. In line with section 6 of the Project Direction we consent to the project spending more than 110% of any cost category total outlined in annex A of the Project Direction. This is on the basis that all overspends are funded fully by WPD.

We note that WPD has not complied with section 6 of the Project Direction by spending more than 110% against one of the project's cost categories before obtaining our consent. We want to remind WPD that it has a duty to comply with the governance framework for the LCN fund. Please note that we raised similar issues last month in relation to the FALCON project.⁶ WPD should consider whether improved project and budget management process could be implemented across all projects funded by the LCN Fund or the Network Innovation Competition, to mitigate the risk of substantive overspend without our prior consent.

If we receive an application for the Successful Delivery Reward at the end of this project, project and budget management will form part of our assessment. The issues raised in this letter are likely to be part of our consideration of any application made by WPD.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund-amendments-wpd-s-falcon-project-direction>

If you would like to discuss any of the issues raised in this letter, please contact Tom Mackenzie at thomas.mackenzie@ofgem.gov.uk or 020 7901 7406.

Yours sincerely,

A handwritten signature in blue ink that reads "Andy Burgess".

Andy Burgess
Associate Partner, Electricity Distribution
For and on behalf of the Authority