Decision on the 2015 Successful Delivery Reward for innovation projects

Decision

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Overview:

In May 2015, we consulted on applications from network licensees for the Successful Delivery Reward for four completed Low Carbon Networks Fund projects. We have assessed whether the projects listed below have been sufficiently well managed and whether they have met their Successful Delivery Reward Criteria on the basis of quality, cost and time. This document sets out our assessment of each project's Successful Delivery Reward application and the consequential award.

Context

Our framework for regulating network companies contains incentives to stimulate innovation. The Low Carbon Network (LCN) Fund finances innovation projects that win an annual competition. Distribution network operators (DNOs) are awarded LCN Funds for projects that will help networks meet the challenges of a low-carbon world. The LCN Fund has now been replaced by the Network Innovation Competition.

The Successful Delivery Reward (SDR) is funded under the Discretionary Funding Mechanism from the LCN Fund. The SDR provides a financial reward on completion of a Second Tier LCN project to network companies that deliver the project well. These LCN projects are funded by the consumers, network companies and Project Partners.

Network companies make a compulsory contribution of 10% of the total project funding. The maximum value of the SDR is the level of the network company’s compulsory contribution. We will only award the maximum value of the SDR to LCN projects that have been completed to at least the standard that could be expected given the information provided in the project’s Full Submission.

There is an annual window for completed LCN projects to apply for their SDR. In 2015, network companies representing four of the completed LCN Fund projects applied for the SDR. We used their applications, along with other evidence, to assess whether each project had been well managed and met its Successful Delivery Reward Criteria (SDRCs). We published a consultation to seek views from interested parties on the applications.

This document sets out the reasons underpinning our decisions on the three areas of focus for this award: delivery of satisfactory quality SDRC outputs in a timely manner; cost-effective delivery of the SDRCs; and overall project management.

Associated documents

Consultation on the 2015 Successful Delivery Reward Applications

Low Voltage Network Templates Successful Delivery Reward Applications

Low Carbon London Successful Delivery Reward Applications

Flexible Plug and Play Successful Delivery Reward Applications

Customer-led Network Revolution Successful Delivery Reward Applications

LCN Fund Governance Document Version 7

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Executive Summary

Three electricity distribution network operators (DNOs) applied for the maximum SDR for four LCN projects.[1] The maximum available reward is limited to the network company's 10% compulsory contribution.

Applications were submitted to us[2] for the following four projects -
1. Customer-led Network Revolution (CLNR) by Northern Powergrid (NPg);
2. Low Carbon London (LCL) by UK Power Networks (UKPN);
3. Low Voltage Network Templates (LVNT) by Western Power Distribution (WPD); and
4. Flexible Plug and Play (FPP) by UKPN.[3]

Each of these projects have now been completed and have delivered valuable learning for all network companies. Further details on the projects are on our website.[4]

2015 Successful Delivery Reward outcome

Our decision and allocation of the reward for each project is presented in Table 1.

Table 1: Allocation of the Successful Delivery Reward for each project.[5]

Innovation project	DNO Compulsory contribution / £ k	Award against the quality and timeliness of the SDRCs delivery (50% weighting) / £ k	Award against cost effective delivery of SDRCs (25% weighting) / £ k	Award against well-managed delivery of the project (25% weighting)/ £ k	Total Awarded SDR value / £ k
CLNR	3,103	1,552	776	388	2,715
LCL	2,451	1,226	613	306	2,145
LVNT	896	448	112	224	784
FPP	989	495	247	247	989

UKPN's was awarded the full SDR for its FPP project. The three other projects received a substantial proportion of the available reward. Our reasons and decisions can be summarised by the following points -

- We have awarded UKPN's FPP project the full SDR as we considered the project was well-managed and met its SDRCs.

[1] The LCN "project" term refers to the definition of "Project" in the LCN Fund governance document which is: the Trial or groups of Trials which is being proposed or undertaken.
[2] The terms "the Authority", "Ofgem", "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.
[3] The applications are published on our website and are referenced in the Associated documents section of this decision.
[4] Details on all LCN Fund Second Tier projects can be found at-https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund/second-tier-projects
[5] The SDR reward values of the three individual elements, do not necessary add up to the total awarded SDR column due to rounding.

- We have reduced the reward to NPg's CLNR because of weaknesses in its management of changes and risk. This is based on evidence of how it handled the main change proposal.
- We have reduced UKPN's LCL reward because of its project management, particularly when submitting a substantial change request.
- We reduced WPD's reward for LVNT because of an overspend of the budget which we consider was due to the way the project risks were managed.

Our Successful Delivery Reward assessment

Each DNO argued that its own project(s) met all of their SDRCs, were well managed and completed at least to the standard that could be expected given the information provided in the Full Submission.[6] The SDRCs were set out at the start for each project in its Project Direction.

To evaluate these areas, we considered whether each of the SDRCs was delivered to a satisfactory standard, on time, and cost-effectively. We did not consider whether projects had been delivered exceptionally. There is a separate reward scheme for this.[7]

Our assessment consisted of three main elements -

1. Whether the SDRCs were delivered to a sufficient standard and to the timelines given in the Project Direction. We considered minor delays to be acceptable if there was a reasonable explanation.
2. We assessed the expenditure against the budget, if processes were used to ensure prices were competitive, how reallocating funds was justified, and how the contingency budget was used.
3. Our decision on the management of the projects focused on how risk, uncertainty, and change proposals were managed.

Our assessment used -

- evidence submitted in companies' applications;
- responses to our supplementary questions;
- responses to our consultation on the applications; and
- information gathered by us throughout the duration of the projects.

Did the projects meet their SDRCs?

We considered that the quality of the SDRCs for all projects met the standard we expected when the funding was awarded and was in line with their Project Directions.

Each project delivered its SDRCs broadly on time and to at least a broadly satisfactory standard, when viewed in light of the expectations set out in its Full Submission. Both WPD and UKPN delivered their projects, LVNT and FPP respectively, to the original timelines. UKPN requested a minor extension to the deadline for one of its SDRCs for FPP. We considered that this was reasonable, and did not delay delivery of the project. We approved

[6] All capitalised terms not otherwise defined in this document have the meaning given to those terms in the LCN Fund Governance Document.
[7] Please refer to Section 2 Chapter 3 of the LCN Fund Governance Document, version 7, for further details of the Second Tier Reward.

change requests for both the CLNR and LCL projects, which extended the delivery deadline of some of their SDRCs. UKPN also requested changing some of the LCL SDRCs' requirements.

Were the SDRCs cost-effectively delivered?

LCL and FPP were completed under budget. We consider they used their funds cost-effectively to meet their SDRCs. CLNR was delivered just over budget and NPg showed evidence of managing its costs by using competitive procurement. However, the increase in project management and equipment costs showed evidence that NPg's original project cost had not accounted for the risks identified at the bid stage. WPD overspent the LVNT budget, particularly in the equipment category. This was a consequence of a delay in the project, because of low participant uptake in their trials, which led to a different approach being used in the project. We consider that WPD should have identified the potential knock-on effects from the known risk of delays in recruiting customers.

How well were the projects managed?

We consider that both FPP and LVNT provided enough evidence that they had dealt effectively with risk and uncertainty, and had managed change. UKPN showed improvements to how it project-managed LCL after we approved its change request in 2012. However, we consider there were some project management weaknesses in its early stages. NPg used project management process and practices for CLNR, but showed weaknesses it its management of change. NPg asked for its budget to be reallocated and for the project timelines to be extended, but did not submit this until the majority of changes had already been made. We do not consider that all the reasons given to justify the change were beyond NPg's control, had it scoped the risks fully at the start of the project.

1. Introduction

Our assessment process

1.1. We evaluated each project on its own evidence and assessed the projects case by case. We used –

- evidence submitted in the applications;
- responses from the companies to our supplementary questions;
- responses from the public consultation; and
- evidence gathered by us during the life of the project.

1.2. We adopted a standard assessment process to ensure the projects were treated consistently and fairly.

1.3. We do not consider exceptional performance of the projects when assessing the projects for SDR. The SDR was intended to create a strong incentive for DNOs to design and manage successful projects. The Discretionary Funding Mechanism for second tier LCN Fund projects will award funding under the Second Tier Reward. This will reward projects which have performed exceptionally, invested the DNOs' own money beyond the compulsory contribution, or made an exceptional effort to exceed delivery outcomes.

1.4. When evaluating the applications for awarding the SDR, we assessed three areas-

1. whether the SDRCs had been met to a quality that we expected and whether they were delivered on time;
2. the final project cost to understand if the SDRCs were met cost-effectively; and
3. the management of the project, in particular how risk and uncertainty were controlled, and how significant changes to the project were managed.

1.5. We placed greater weighting (75%) on the first two areas because they directly related to evaluating how the SDRCs were met. We consider that how the projects were delivered is also important, so we took project management into account too. The reward was always intended to incentivise the DNOs to manage their projects well, and change management is an important part of this. We therefore allocated a smaller proportion of the SDR to project management, which includes how risk, uncertainty and change are managed.

1.6. All projects underwent changes in their scope, methodology and expected outputs. This is expected due to the nature of innovation projects. The DNOs requested that we approve changes to their Project Directions. When we were assessing these change requests, we considered whether there had been a material change in circumstances and whether the changes were in customers' interests. By approving change requests, we were not evaluating the DNO's management of change and it was not an indication of our later decision on this reward.

1.7. We also recognise that these are early LCN projects. We expect lessons from running these initial projects to be applied to current and future innovation projects.

Consultation responses

1.8. We received 27 responses to our consultation on the four applications. Eighteen of the respondents commented on NPg's application for CLNR, seven commented on UKPN's application for LCL, five commented on UKPN's application for FPP and one commented on WPD's application for LVNT.

1.9. We are grateful to all those who responded and have found the responses useful and we have considered the responses carefully in making our assessment. The respondents all supported the SDR applications and they highlighted the significant value that the project's learning has delivered. However, many did not answer our consultation questions directly. In future we would welcome views from a wider range of stakeholders to inform our assessment.

1.10. Many responses discussed how the projects had excelled in their outputs and the legacy of their results. The SDR is to award projects that have satisfactorily met their deliverables and were well-managed. We did not directly consider whether the projects had delivered beyond expectations, as this will be considered in the Second Tier Reward. However, the responses were useful in providing evidence that the project deliverables had been successfully met.

1.11. We have taken into account the relevant views of the consultation responses when evaluating the project for the SDR.

2. Customer-Led Network Revolution (CLNR)

Application assessment

Did the project meet its SDRCs?

2.1. We are satisfied that NPg delivered the SDRCs for CLNR to a good quality and on time. We based our assessment on NPg's SDR application, and its replies to our supplementary questions. This was further highlighted by several responses to our consultation including: EA technology Ltd, Associate Professor Lovell from the University of Tasmania; and Professor Goran Strbac from Imperial College London. The responses point to the high volume and quality of data produced and analysed by the project, giving insight into customers' energy use behaviour. CLNR's network trials produced relevant information that can feed into engineering recommendations and industry standards. The project has resulted in academic papers and a library of the learning that NPg has disseminated to other DNOs.

2.2. NPg requested and was granted an extension to the deadline for the deliverables. With a few exceptions, NPg met the SDRCs on time against the changed timelines. The delay was for a combination of factors. Some of them were out of its control, but we consider others could have been prevented if it had managed the project risks better. On balance, as the SDRCs were met in the approved extra time and delivered to a good quality, we consider the project met its SDRCs well enough for this element of the SDR assessment.

Were the SDRCs cost-effectively delivered?

2.3. The majority of line items in the project budget were delivered to or under budget. For significant budget items, NPg used a competitive procurement process to ensure value, for example when purchasing equipment. NPg reallocated significant funds to project management and contractors because of delays in the project. This was drawn from the contingency fund and reduced customer payments. NPg told us that the increased costs were to address external factors encountered during the course of the project and the extension in the project timelines.

2.4. We asked a supplementary question on the increased costs to contractors, particularly British Gas and Durham University. NPg explained that this was because of the time extension to overcome the external factors which led to the change request. NPg stated that the 22% increase to the original budget for British Gas was required for-

(i) additional design work and installation costs associated with the customer monitoring and direct control propositions; and
(ii) additional costs of managing the unexpected issues arising during the project and its one-year extension.

2.5. NPg explained the of 40% increase in Durham University's costs as being driven by an increase in the project duration from three to four years. We consider that the expenditure of Project Partners should be controlled. Some of the projects risks should be borne by the Project Partners rather than passed onto customers via increased project spending.

2.6. At the time of the change request, we commissioned an external consultant to review the information provided in support of the change request. The consultant found the increase in the cost for Durham University to be reasonable. Furthermore the contracts for both British Gas and Durham University were agreed in the Full Submission as Project Partners. We recognise that NPg had little alternative but to carry on and use these contractors for CLNR to ensure that the agreed project learning outcomes were delivered.

2.7. The contingency fund was set aside for increases in project management costs. We think good budget management means a project identifying the need for extra funds to cover a project risk at the start of the project.

2.8. In assessing whether the SDRCs were met cost-effectively, we took account of the fact that the learning and outputs were still delivered to the original budget. When we considered the increased cost for contractors and project management along with other budget items (which were to budget or used processes for ensuring competitive prices), we consider, on balance, that the costs were allocated and managed effectively.

How well was CLNR managed?

2.9. NPg demonstrated that it used adequate project management practices and processes. NPg provided evidence for this in response to our supplementary questions and some of the consultation responses endorsed this. For example the consultation responses from Siemens, Zero Carbon Futures (UK) Ltd and Nortech Management Ltd showed evidence that NPg had project structure, delivery and governance, reviewed risks and used mitigation measures. The consultant we commissioned to review NPg's change request also noted that project meetings and documentation of actions were good, as was the level of project governance for monitoring issues that arose.

2.10. NPg formally submitted the change request in November 2013, following a consultation with the other DNOs in September 2013. This was too late for us to approve the changes, before the original project deadline of December 2013. NPg requested multiple amendments due to several issues and it took 11 months to submit, although we note that some of this time was taken up by the consultation. Requesting multiple changes for multiple issues in a single proposal complicated the decision making process. Some of the proposed budget changes were due to project delays and others due to changes in method and technology. The effect of the delay on spend to date and the forecast spend to completion was unclear. The information provided by NPg did not provide sufficient evidence that the same learning would be delivered at an efficient cost. We had to ask for more information from NPg to understand the justification for the requested project amendments. These weaknesses were highlighted in the consultant's review of the change request.[8]

2.11. NPg noted in its SDR application that the changes in the project were first presented in a meeting with Ofgem in February 2013. A delay in the project output was mentioned in the December 2012 report and scope of the change request was detailed in the June 2013

[8] Information found in TNEI's confidential review of the CNLR change request

progress report. It is the DNO's responsibility to comply with the terms of the Project Direction and to raise a change request promptly, if it needs to deviate from the conditions set out in the Project Direction. We do not accept that discussing the project's progress with us in update meetings is the same as submitting a case for us to approve or endorse the project changes. We are not able to decide if a change is in consumers' interests until we have obtained the formal change request with the relevant justification for the change. The lateness of this change request put us at risk of not making the correct decision for consumers. Many of the changes had already been made. While we recognise that changes may have been discussed in meetings with us, the change request was, in effect, a post-change notification.

2.12. On reviewing all the external factors which arose, it is clear that mitigation measures were not adequate, nor were they implemented promptly. For example, NPg identified the low uptake of customers to trials as a project risk but its mitigation measure relied on British Gas as a core supplier, and an effective customer engagement plan. A contingency measure included building sufficient time into the planning to accommodate additional recruitment activities. NPg did not identify using other suppliers as a contingency measure for the low uptake of customers, but did include in its methodology engaging with a small numbers of non-British Gas customers for a small element of the project.

2.13. The slow uptake of participants in trials contributed to the one-year delay to the project. In its change request, NPg said that one of the reasons for the delay was because non-British Gas customers were recruited. This was despite the fact that engaging customers from other suppliers was part of the scope of the work, and contingency time had been built into the plan for additional recruitment activities. The eventual need to recruit customers beyond British Gas' customer base is not, of itself, a justifiable reason for additional costs and delays. From our evaluation, we consider that the low carbon technology customer recruitment strategy was not robustly developed. Recruitment and analysis started slowly, and some delays could have been foreseen and avoided.

2.14. Several problems that gave rise to the change proposal were beyond NPg's control, such as bankruptcy and change of ownership of suppliers, and the objection of the major rent-a-roof PV provider. But changes to the project, because the network technology was unavailable or unsuitable reflects inadequate scoping of suppliers and solutions at the bid stage. NPg was awarded funding for projects on the bid stage on the basis that the novel technology had been de-risked during the pre-bid stages involving due diligence and design.

2.15. We did not consider that the reallocation of costs was robustly justified at the time of the change request (for example, from funds allocated to customer payments to project management and contractors). In our decision, we accepted the change request for restructuring the budget but maintained the right to review the final out-turn of cost at the project close-out stage.[9] The reduction in customer and user payments turned out to be more than 50%. The change therefore affected the number of customers who would benefit directly from the trials.

[9] Decision to approve changes to Northern Powergrid Northeast's Low Carbon Networks Fund project – Customer Led Network Revolution

2.16. Furthermore, a month before we made our decision, NPg highlighted to us additional amendments to the change request, asking us to extend the date of several SDRCs. These amendments had not been addressed in the change request but included in modifications made to the Full Submission. We expect all companies to present project changes and the justification for the change in a formal change request so we can assess whether the changes in the SDRCs are reasonable and in the interest of consumers.

2.17. From a review of our records, we appreciate that NPg may have not understood fully the requirements of the LCN Fund governance document or how we expected a change request to be managed. As this is the first round of LCN Funded projects and given the complex nature of the CLNR project we have decided on this occasion to take this into account.

2.18. We expect all projects funded under innovation stimulus to communicate in a timely, transparent manner with us and comply with the governance document. All projects should inform us promptly in writing of any event or circumstance likely to affect the ability of it to deliver the project as set out in its Full Submission. If there has been a material change in circumstance that requires a change to the Project Direction, a request for a change should be submitted to us. The change request should include sufficient information to allow us to decide whether the change is appropriate and whether it would be in the best interest of consumers.

Our decision

2.19. We are satisfied that the evidence supplied demonstrates that NPg delivered its SDRCs to at least a satisfactory quality, in a timely and cost-effective way. In recognition of this successful delivery, we award NPg £2,715k.

2.20. We do not consider NPg should be awarded the full £3,103k requested in its SDR application. This is because of the weaknesses in its management of its change request in 2013 to 2014. Furthermore, the required changes revealed that the project risks had not been managed well. The reasons given for the need to modify the project pointed to insufficient design and scoping at the start of the project. Nor did we consider the justification for the change to be robust. We expect NPg to learn lessons on its management of this project, and use this experience in how it runs other innovation projects funded by consumers.

3. Low Carbon London (LCL)

Application assessment

Did the project meet its SDRCs?

3.1. We consider the evidence submitted by UKPN demonstrates that the SDRCs were delivered to an acceptable quality and on time.[10] We are also satisfied that the project deliverables were met cost-effectively. Against LCL's project budget of £28.3m, UKPN has underspent against all of its individual budget categories (eg employment and equipment costs). Some of this was because of efficiencies it made during the project, such as changing the approach used for aggregator payments in the industrial and commercial demand size response trial. These savings, of around £5m, will be returned to consumers through the next LCN Funding Direction.[11]

Were the SDRCs cost-effectively delivered?

3.2. As well as delivering the project under budget, LCL also secured royalty payments of £420k from an external third party to use the project's Active Network Management system and the Operational Data Store. These royalty payments have already been returned to consumers and are in addition to wider project savings.

How well was LCL managed?

3.3. Management of the project, including risk and uncertainty, has been satisfactory after the approval of the project change request in December 2012.

3.4. The main area of project management weakness that we have identified relates to the period between our review of the project's December 2011 six- monthly report, when we first raised concerns about the progress of the project, and our approval of the project change request in December 2012.

3.5. We consider UKPN did not fully acknowledge and reflect on the challenges of getting this change request approved in its SDR application. Our approval of the change request was the culmination of a significant amount of analysis by UKPN, its Project Partners, and us. We sought further evidence and reflection from UKPN on this change request. In its response, UKPN acknowledged some of the challenges and lessons, particularly around structuring and communicating the evidence to us.

3.6. We note the complexity of the change request and that the reasons driving the change were outside UKPN's control. We consider, however, that managing the change

[10] Parts of the early SDRCs were delivered late by LCL due to circumstances linked to the approved change request in December 2012. This was not noted in LCL's SDR application, but was recognised in response to our supplementary questions to them.
[11] The LCN Funding Direction sets out the amounts that each DNO should recover to fund the LCN Fund projects, and the amounts to transfer between each DNO. More detail on the Funding Direction is provided in chapter 6.

process itself, including the quality of the evidence, was within UKPN's control. Throughout 2012 we had to engage with UKPN to understand and secure the required evidence, to assure ourselves that any departure from the original project scope would still deliver similar benefits to consumers.

Our decision

3.7. We are satisfied that the project adequately delivered its SDRCs and did so in a cost-effective way. We consider that this warrants a substantial reward under the SDR of £2,145k.

3.8. We do not consider that UKPN should be awarded the full £2,451k requested in its SDR application because of the project management weaknesses outlined above. We expect UKPN to take note of the lessons from its management of this project, and use this experience in how it runs other innovation projects funded by consumers.

4. Low Voltage Network Templates (LVNT)

Application assessment

Did the project meet its SDRCs?

4.1. We consider the evidence submitted by WPD in its SDR application for LVNT demonstrates that the SDRCs were delivered to an acceptable quality and most were delivered on time. The project was successful in identifying statistically robust network templates. It further validated these templates across all other DNOs and found that the templates fitted 82% of UK HV/LV substations.

Were the SDRCs cost-effectively delivered?

4.2. When considering cost-effectiveness, we note that the end costs were over budget. The main overspend was in the equipment category. WPD explained that the overspend was due to the low uptake of participants in the trials, not having an alternative supplier for elements of equipment and SCADA software, and GE no longer being able to provide the monitors that WPD had intended to use. The low uptake of customers for the trials meant using an alternative approach. The change in approach led to equipment being purchased that was no longer required. WPD committed to return funds to customers for unused equipment. WPD attempted to control costs, but the significant increase in project costs for equipment reflects that there have been issues which WPD could have addressed when developing the project.

4.3. Although the circumstances were not fully within WPD's control, the likelihood of low participant uptake could have been better mitigated to ensure project costs did not rise. WPD could have undertaken further statistical work before funding was committed to understand the necessary sample size. We note that the other categories, with the exception of the contingency budget, were below or to budget and did show some management of costs. We consider WPD could have done more to deliver the project more cost-effectively.

How well was LVNT managed?

4.4. We consider that the project risk and uncertainty were managed satisfactorily. WPD submitted one change request asking us to approve a change to allow it to implement the project using a smaller than planned sample of customers.[12] WPD attempted to mitigate for the risk and went beyond the commitments it made in the original submission to enrol customers.

[12] Low Carbon Networks Fund - amendments to Low Voltage Network Templates

Our decision

4.5. WPD has delivered LVNT's SDRCs to a satisfactory quality and on time. It has shown management of risk, with effort taken to increase customer numbers. We consider that this warrants a substantial reward under the SDR of £784k.

4.6. We do not consider that WPD should be awarded the full £896k as requested in its SDR application. This is due to some weaknesses in delivering against its criteria in a cost-effective way. We expect WPD to learn the lessons from how it managed this project, and use that experience in how it runs other innovation projects funded by consumers.

5. Flexible Plug and Play (FPP)

Application assessment

Did the project meet its SDRCs?

5.1. We consider UKPN's evidence submitted in its SDR application for FPP demonstrates that it delivered on the SDRCs to an acceptable quality and on time. Many of the connections that the project offered were accepted and commissioned onto the network. The project demonstrated that these can be a cheaper and faster way to connect distributed generation to the network compared to non-flexible business-as-usual connections.

Were the SDRCs cost-effectively delivered?

5.2. UKPN overspent on a number of line items in the FPP budget. This included using consultants instead of internal resources to ensure the project was delivered. However, UKPN did not significantly overspend in any category and overall delivered the project to slightly below budget.

5.3. In addition, UKPN determined that it no longer needed to install frequent use switches. UKPN delivered the same learning outcome and financial benefits, without carrying out the installation, and funds were returned to consumers. We are pleased UKPN identified how it could deliver the project more efficiently and returned money to consumers. Taking all aspects of UKPN's budget management into account, we consider its approach was cost-effective.

How well was FPP managed?

5.4. We consider UKPN to have managed the project risk and uncertainty satisfactorily. UKPN submitted one change proposal, on time, to extend the deadline on SDRC 9.8.[13] While we think it could have anticipated some of these delays, we accept that many could not have been reasonably foreseen. These reflect the innovative nature of the project. We also recognise that the criteria extension requested was relatively short, at six weeks, and did not affect other parts of the project significantly.

Our decision

5.5. We consider the FPP project demonstrated that the SDRCs were delivered to an acceptable quality and on time. We are also satisfied that the project deliverables were met cost-effectively. In recognition of this, we award UKPN the full £989k requested in its SDR application.

5.6. We encourage UKPN to use the positive lessons from delivering this project and use that experience in how it runs other projects, funded ultimately by consumers.

[13] Amendments to Eastern Power Networks Flexible Plug and Play project

6. Next Steps

6.1. We will implement our decisions on this reward by allowing the three DNOs to recover their respective SDRs through the 2016 Funding Direction, in accordance with the LCN Fund Governance Document.

6.2. The Funding Direction will detail how much each Distribution Services Provider (DSP) can recover from customers through Use of System Charges and the net amounts to be transferred between DSPs to cover the costs of eligible funding under the LCN Discretionary Fund. The Funding Directions will take account of any funding to be returned to customers, including revenue from royalties generated by LCN Fund projects.

6.3. We will issue the Funding Directions in time for the DNOs to prepare their indicative use of system tariffs at the end of December 2015. This will allow the DNOs, who have been rewarded funds under the LCN Discretionary Fund, to recover their awarded SDR in the 2016/17 regulatory year.

6.4. Lessons learned from the implementation of this reward will be incorporated in the future LCN Fund Learning review.

6.5. There is a further award available to these second-tier projects under the Discretionary Funding Mechanism, the Second Tier Reward. This reward, in contrast to the SDR, was designed to provide an additional incentive for DNOs to engage in the objectives underpinning the LCN Fund. There will be two assessments for this reward, the first of which will be in run 2018.

6.6. We look forward to receiving applications for the SDR next year for either LCN Fund projects or Network Innovation Competition projects that meet the necessary requirements. As with this year, the application deadline will be 1 May 2016.

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

6.8. If you have any queries, please contact lcnfund@ofgem.gov.uk.