Decision on 2016 Low Carbon Networks Fund Successful Delivery Reward applications

Final decision

Publication date: 29/07/2016

Contact: Neil Copeland

Team: Innovation team

Tel: 020 7901 7193

Email: neil.copeland@ofgem.gov.uk

Overview:

In May 2016 we consulted on applications from network licensees for the Successful Delivery Reward for seven completed Low Carbon Networks Fund Projects. We have assessed whether the Projects 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 mechanisms to stimulate innovation. The Low Carbon Networks (LCN) Fund financed innovation Projects that won an annual competition. Distribution network operators (DNOs) were awarded LCN Funds for Projects that will help networks meet the challenges of a low carbon economy. The LCN Fund has now been replaced by the Network Innovation Competition (NIC).

The Successful Delivery Reward (SDR) is funded under the Discretionary Funding Mechanism of the LCN Fund. The SDR provides for a financial reward on completion of a Second Tier LCN Project to network companies that deliver the Project efficiently. These LCN Fund 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.

There is an annual window for completed LCN Fund Projects to apply for their SDR. In 2016, seven 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 (SDRC). 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 elements of focus for this award: delivery of satisfactory quality SDRC outputs in a timely manner; cost-effective delivery of the SDRC; and overall project management.

Associated documents

Low Carbon Networks Fund Governance Document v.7

Consultation on the 2016 Successful Delivery Reward Applications

Contents

Executive Summary

The Successful Delivery Reward (SDR) is intended to incentivise efficient Project delivery. It rewards licensees that deliver their Project specific Successful Delivery Reward Criteria (SDRC). SDRC are a set of key milestones that the funding licensee needs to deliver over the course of the Project. For the SDR, we consider whether the SDRC have been delivered to the standard that could be expected given the information available when the Project was awarded funding. The maximum reward is limited to the network company's 10% compulsory contribution to the Project.

The SDRC for each Project can be found in its Project Direction. Project Directions[1] can be found on our website[2] with additional Project information (such as learning reports) available on companies' websites[3].

2016 SDR decision

Four electricity distribution network operators (DNOs) applied for a SDR for seven Low Carbon Networks (LCN) Fund Projects. Our decision of the reward for each Project is presented in Table 1.

Table 1: Allocation of the Successful Delivery Reward for each Project

Innovation Project	Network Company	DNO Compulsory contribution (£ k)	Total Awarded SDR (£ k)
Capacity to Customers (C2C)	Electricity Northwest Limited (ENWL)	1,027	899
Customer Load Active System Services (CLASS)	ENWL	760[4]	760
FALCON	Western Power Distribution (WPD)	1,413	1,236
Flexible Networks for a Low Carbon Future (FNs)	Scottish Power Energy Networks (SPEN)	515	515
Low Carbon Hub (LCH)	WPD	350	306
My Electric Avenue (MEA)	Scottish and Southern Electric Power Distribution (SSEPD)	475	416
SOLA BRISTOL	WPD	229	200

[1] This is the document which places a legal obligation on licensees to implement a Second Tier Project and includes the Projects key deliverables and timings.
[2] 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
[3] Table 1 provides hyperlinks to the companies' website for their project.
[4] ENWL will be able to apply for the remaining SDR amount next year, please see Chapter 3 for more information.

Our assessment approach and reasons for our decision

Our assessment for each Project considered three weighted elements around SDRC delivery:

- Whether the SDRC were delivered to a sufficient standard and on time, relative to their Project Direction. (50% of the Project's total available SDR).
- The Project's expenditure against its budget, if processes were used to ensure prices were competitive, how reallocating funds was justified, and how the contingency budget was used (25% of the Projects total available SDR).
- Overall Project management, including how risk, uncertainty, and change proposals were managed (25% of the Projects available SDR).

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.

We did not reduce the reward received by companies in either of the first two elements described above. However, we did reduce the reward for five Projects because of issues with how Projects were managed.

All Projects delivered their SDRC on, or close to, schedule and no companies' SDR was reduced based on our assessment of this element. Where SDRC were delivered late, licensees provided sufficient justification for this. Most Projects were delivered on (or below) budget and where there were overspends, licensees covered any shortfalls using their own money. We do not consider it appropriate to reduce companies' SDR where they have chosen to invest their own money rather than seek additional funding from customers. No companies had their SDR reduced for this element.

Projects were generally managed well. Companies identified the risks associated with their Projects and sought opportunities to improve them during the implementation phase. However, we did reduce the reward – by half the available amount - for this element for five Projects. Some of our concerns included, how licensees managed the change request process and the quality and timeliness of submissions to us.

1. Introduction

1.1. We assessed Projects on a case by case basis. 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 learning from the Projects when assessing the Projects for SDR as it is out of scope. The SDR is intended to incentivise DNOs to design and manage successful Projects. The Second Tier Discretionary Reward may reward Second Tier Projects which have delivered exceptional learning.

1.4. In the Governance Document we explain the three elements we consider as part of assessment of SDR applications, these are summarised here:

- whether the Project specific SDRC, contained in their Project Direction, had been met to a quality that we expected and whether they were delivered on time;
- the final Project cost to understand if the SDRC were met cost-effectively; and
- 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 on the first element (50%) because it is directly related to evaluating how the SDRC were met.

1.6. The remaining weighting was split evenly between cost effectiveness (25%) and project management (25%), which includes how risk, uncertainty and change are managed. Most 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. As part of our assessment of this element we reduced the amount of the reward where we thought the licensee had not made full use of risk management tools. We also reduced the amount of the reward where we considered documents submitted to us as part of a change request were not of the required standard.

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

Consultation responses

1.9. We received two consultation responses, from Northern Powergrid and EA Technology. These have been published alongside this decision document. Both responses commended licensees on the standard of their project delivery.

Structure of this document

1.10. The remainder of this document explains our assessment of each Project's SDR application. Each chapter looks at a single Project and provides our opinion on each of the three elements - even where we have not reduced the reward for a licensee.

2. Capacity to Customers (C2C)

Project Summary

2.1. The C2C Project tested a combination of increased network interconnection and commercial demand side response (DSR) contracts and tried to understand customer acceptance of these approaches. The trial took place on circuits, representing approximately 10% of ENWL's high voltage (HV) system. The Project aimed to provide additional capacity while avoiding (or deferring) the cost and environmental impacts that are associated with traditional network reinforcement.

Did the Project meet its SDRC?

2.2. We consider the evidence submitted by ENWL in its SDR application for C2C demonstrates that the SDRC were delivered to an acceptable quality and nearly all were delivered on time. For some of the deliverables ENWL requested, and was granted, an extension to deadlines. It met these extended deadlines. Change requests are discussed under project management, below. We consider the Project delivered its SDRC to a sufficient standard.

Were the SDRC cost-effectively delivered?

2.3. ENWL overspent on several line items in the C2C budget. The explanation for this over spend was well-justified in some cases, but in others suggested inadequate budget provisioning when planning the Project. However, none of the overspend line items were material. ENWL did not significantly overspend in any category and delivered the Project more than 15% below budget.

2.4. ENWL managed to find efficiencies during the Project across a number of budget lines. Partly this stemmed from an approved change request to transfer some tasks from its employees to external contractors.

2.5. We note that ENWL identified how it could deliver the Project more efficiently resulting in an under spend without affecting the learning outcomes. This has resulted in funds being returned to customers. Taking all aspects of ENWL's budget management into account, we consider its approach was cost-effective.

How well was C2C managed?

2.6. ENWL submitted four formal change requests during the course of the Project, all of which we approved.

2.7. The most material of C2C's change requests related to delays in securing the participation of specific types of industrial and commercial customers in the DSR contract trial. ENWL was able to justify this delay owing to unforeseen changes in levels of overall demand on the network compared with when the Project was originally approved. After some additional questioning from us, ENWL was able to present a convincing case for how the change would be in the interests of customers.

2.8. While ENWL's original extension request was submitted on 28 July 2014, it was not until 15 October 2014 that it submitted a version providing some of the necessary justification for such a request. Given that one of the SDRC to be changed had an original deadline of September 2014, we would have expected this justification to have been submitted in a more timely manner. Another of the change requests, regarding changes to the roles of Project partners, also required a degree of prompting by us in order for ENWL to fully justify the changes and to identify all of the consequential impacts on the Project.

2.9. We consider that ENWL's approach to risk management in this Project could have been better. Overall, ENWL's risks in the six-monthly reports did not appear to have been regularly reviewed with no updates from one six-monthly report to the next for some pertinent risks. In addition, in some cases it provided relatively limited detail on mitigation measures. In its SDR application, ENWL did not address all of the project management criteria in the SDR application guidance note.

Our decision

2.10. We consider the C2C Project demonstrated that the SDRC were delivered to an acceptable quality and on time. We are also satisfied that the Project deliverables were met cost effectively.

2.11. However, we do not consider ENWL should be awarded the full £1,027k requested in its SDR application. This is because of some weaknesses in project management, notably that ENWL was not thorough in its approach to change requests or in its reporting of risk management. As a consequence we award ENWL, £899k. How this has been calculated is set out below:

	Available / £k	**Awarded / £k**
SDRC Delivery	513	513
Cost effectiveness	257	257
Project management	257	129
Total	1,027	899

3. CLASS

Project Summary

3.1. CLASS (Customer Load Active System Services) is an innovative approach which aims to increase the capacity of the electricity network by altering system voltage at distribution substations. It uses voltage control to manage electricity consumption at peak times, without affecting electricity customers' use of electricity.

3.2. The maximum value of the SDR for CLASS is the level of ENWL's compulsory contribution, which was £809,784. As a result of the Project extension,[5] ENWL can only be awarded a proportion of the total compulsory contribution for the 2016 SDR application - £760,000. The remainder can be claimed as part of next year's SDR application after the full Project has been completed.

Did the Project meet its SDRC?

3.3. We consider the evidence submitted by ENWL in its SDR application for CLASS demonstrates that the SDRC were delivered to an acceptable quality and on time.

3.4. Throughout the Project, ENWL published evidence demonstrating delivery of the SDRC and ensured interested parties were able to access sufficient data from its website. We consider the Project met its SDRC.

Were the SDRC cost-effectively delivered?

3.5. ENWL did not overspend in any overall budget category, and overall managed to deliver many budget lines below the original budget, as set out in the Project Direction. Further, no reallocation of budget between cost categories was necessary.

3.6. ENWL overspent on several budget line items within specific budget categories, with some more than 10% over budget. While for some line items the overspend was justified, for other budget lines the explanation given by ENWL in its application did not fully justify the reasons given, ie that they were outside of the Project's control.

3.7. We note that ENWL identified how it could deliver the Project more efficiently. As a result, the total Project cost was well below the Project budget

[5] https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/enwl_class_change_decision_letter_-_nov15_legally_reviewed_0.pdf

meaning that some funds will be returned to customers. Taking all aspects of ENWL's budget management into account, we consider its approach was cost effective.

How well was CLASS managed?

3.8. ENWL has managed the Project risk and uncertainty to a satisfactory level. ENWL demonstrated that the CLASS Project was consistently well managed.

3.9. Risks, as well as potential mitigating actions, were identified at an early stage. These were reviewed and updated throughout the Project. As a result, ENWL successfully managed risks that could have become issues and affected the timely delivery or quality of the Project.

3.10. On 30th September 2015 the close-down report was published. Thereafter, a change proposal was submitted to extend the CLASS Project to gain additional learning. This was approved by us and accommodated within the total budget set out in the original Project Direction, to be clear no additional funding was provided. The follow-on piece of work focussed on the costs and benefits to DNO customers and industry of the wider rollout of CLASS and was completed on 31st May 2016. Six-monthly reports, the close-down report and the extension request were delivered to an acceptable quality and delivered on time.

Our decision

3.11. We consider that ENWL demonstrated that the CLASS SDRC were delivered to an acceptable standard and on time. We are also satisfied that the Project deliverables were all delivered cost-effectively. In recognition of this, we consider the Project warrants the full reward of £760k.

4. FALCON

Project Summary

4.1. FALCON investigated how new 11kV network modelling techniques and the use of technologies, such as wireless communication techniques, work in practice. It simulated the use of various techniques in different scenarios and determined the best ways of managing the network problems it is expected will arise as a result of increased amounts of low carbon technologies on the system.

Did the Project meet its SDRC?

4.2. We consider the evidence WPD submitted in its SDR application for FALCON demonstrates that it delivered the SDRC to an acceptable quality and on time.

4.3. As with the other WPD Projects we have assessed for this year's SDR, we encourage WPD to make its evidence more accessible in future SDR applications. For example, WPD's SDR submission contained a number of broken links to the supporting evidence and it was not also immediately apparent which documents related to each SDRC which added complexity to the assessment process.

Were the SDRC cost-effectively delivered?

4.4. WPD delivered the Project under budget, and in our view was managed cost effectively. Following a change request in July 2015, the expenditure against each budget line was reallocated meaning there were no overspends against individual budget lines at the end of the Project.

4.5. The majority of the Project savings were generated by changes in the design of the equipment used in the trials and the lower than expected costs for the associated design and site works.

How well was FALCON managed?

4.6. The Project submitted two change requests both of which were approved by Ofgem. The first was a change to one of the Project's Academic Partners[6] and was managed well by WPD. The other relating to the reallocation of funds[7] to different budget lines was not submitted in such a timely manner. For this, WPD submitted an incomplete change request in 2013 and did not follow up our initial comments until

[6] https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund-%E2%80%93-amendments-western-power-distribution%E2%80%99s-falcon-project.
[7] https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund-amendments-wpd-s-falcon-project-direction

July 2015, after further prompting by Ofgem. Within our approval of the change request we noted that we would consider this delay as part of our SDR review.

4.7. Once these change requests had been fully submitted, WPD's management of the process was satisfactory. For both we went back to them with questions and feedback on their original submissions. This feedback was incorporated into the subsequent iterations of the documents.

4.8. We consider that the Project risk and uncertainty were managed satisfactorily. WPD included updated risk and issues logs in their six month Project progress reports. However, it should be noted that the need for the reallocation of funds was not flagged as a risk or an issue within these.

Our decision

4.9. WPD has delivered the Falcon Project to a satisfactory standard, on time and under budget. Due to this we consider the Project warrants a reward of £1,236k, this is below the full amount available of £1,413k. How this has been calculated is set out below:

	Available /£k	**Awarded / £k**
SDRC Delivery	705	705
Cost effectiveness	354	354
Project management	354	177
Total	1,413	1,236

4.10. We have not awarded the full amount owing to the weaknesses in the project management and management of change of the Project outlined above.

5. Flexible Networks (FNs)

Project Summary

5.1. SPEN created Flexible Networks in St Andrews, Whitchurch and Wrexham. These flexible networks were created by deploying new analytical methodologies and monitoring tools to improve knowledge of the distribution network, identify critical changes and select an appropriate response. These measures mitigated the need for conventional reinforcement in all three locations. In St Andrews and Whitchurch, an extra 20% of capacity was created, whilst in Wrexham 20% more PV could be connected to the system.

Did the Project meet its SDRC?

5.2. We consider the evidence submitted by SPEN in its SDR application for FNs demonstrates that all six SDRC were delivered to a sufficient standard and all except one were delivered before their scheduled deadline.

5.3. Flexible networks were successfully created in Wrexham, St Andrews and Whitchurch – indicating that method being trialled was successful, without having to resort to conventional reinforcement. The evidence of this success was comprehensive, and consistent with the standards outlined in the Project Direction.

Were the SDRC cost-effectively delivered?

5.4. The Project was delivered below budget and this underspend will be returned to customers. While a number of line items were significantly over budget other line items were significantly below budget, which meant that the Project underspent overall. SPEN provided a reasonable justification for cost over runs, on larger material line items.

How well was FNs managed?

5.5. We consider SPEN to have managed the Project to an adequate standard, however, we had some concerns with the way it managed the change request which was ultimately approved for the Project.

5.6. In February 2014 SPEN submitted a change request, to extend a deadline and change a line item in the IT budget. However, it failed to provide sufficient information or justification, which prompted us to send it clarification questions. In May 2014, it submitted a revised version of the change request, which asked only for the completion date to be extended from December 2014, to September 2015. We approved this request, because it was due to circumstances that were beyond SPEN's control, and it would not affect the level of learning.

5.7. SPEN pre-emptively identified risks in the six-monthly reports, with each risk register being updated between reporting periods. These registers concisely explained each risk's mitigation measures, contingency plan and current status.

Our decision

5.8. We consider the FNs Project demonstrated that the SDRC were delivered on time and were of an acceptable quality – in all but one instance. We are satisfied that the Project deliverables were met cost-effectively. Despite some potential improvements being possible, we consider that the FNs Project was managed to an acceptable standard.

5.9. We consider SPEN should be awarded the full £515k requested in its SDR application.

6. Low Carbon Hub (LCH)

Project Summary

6.1. The LCH Project sought to explore how the existing electricity network could be developed ahead of need and thus deliver low carbon electricity to customers at a significantly reduced cost in comparison to conventional reinforcement. Six complementary techniques were developed and demonstrated on the network.

Did the Project meet its SDRC?

6.2. We consider the evidence submitted by WPD in its SDR application for LCH demonstrates that the SDRC were of an acceptable quality and were delivered on time.

6.3. As with the other WPD Projects we have assessed for this year's SDR review, we encourage WPD to, in some areas, make its evidence more accessible and comprehensive in future SDR applications. It should also use actual evidence, eg confirmation from other parties involved (or other evidence), that something has occurred rather than referencing a statement in a six monthly report as it did for SDRC three.

Were the SDRC cost-effectively delivered?

6.4. The Project was £246k over its budget. WPD was not aware of the ground conditions in some of its substations and a Project supplier installed a faulty fibre optic communications line. WPD did not seek additional funding from customers and covered the resulting cost overruns itself.

6.5. In some areas of it SDR application WPD could have provided better, and more detailed information, about how it managed its costs efficiently. For example:

- It made general statements about using corporate procurement processes to ensure efficient costs across the Project, but provided little specific information on how it managed the cost of larger line items.
- It could have provided a more detailed explanation, either within its submission or within six monthly reports, regarding why the cost increased as a result of its supplier installing a fault communications line.

How well was LCH managed?

6.6. We consider that the Project risk and uncertainty were managed satisfactorily. WPD updated the risk and issues log between six monthly reports and generally flagged risks promptly as they became issues.

6.7. WPD submitted one change request. It was not able to secure the wayleaves to build a new overhead line necessary to deliver a significant element of the Project. The Project needed changes to the budget SDRC and the geographic position of aspects of the Project. WPD only recognised a change request would be necessary after being prompted by us. Once it was submitted, the change request went through a number of iterations. This was necessary while WPD established what it was able to install within its substations and gained a greater understanding of the ground conditions within those substations. We believe these issues should have been addressed before the formal change request was submitted.

Our decision

6.8. WPD has delivered LCH's SDRC on time and the SDRC were of a satisfactory quality. We consider that this warrants a reward under the SDR of £306k. How we have calculated this is set out below:

	Available / £k	**Awarded / £k**
SDRC Delivery	174	174
Cost effectiveness	88	88
Project management	88	44
Total	350	306

6.9. We do not consider that WPD should be awarded the full £350k. This is due to weaknesses noted above in how it managed the change request process and the standard of submissions in the course of this process.

7. My Electric Avenue (MEA)

Project Summary

7.1. SSE's Innovation Squared (My Electric Avenue) project investigated the use of a domestic 'smart socket' to manage network constraints caused by Electric Vehicles (EVs). The project integrated this technology into EV charging points and assessed the implications of controlled EV charging for the network. It also demonstrated delivery of an LCNF project by a non-DNO third party.

Did the Project meet its SDRC?

7.2. We consider SSEPD to have demonstrated through the SDR application for MEA that it delivered against its SDRC to an acceptable quality and on time. This was also confirmed by the independent reviewer, Ricardo – appointed by SSEPD as part of meeting its final SDRC.

Were the SDRC cost-effectively delivered?

7.3. SSEPD delivered the Project within the budget set out in the Project Direction, which was updated in the final year of the Project, following a change request. This underspend will be returned to customers. During the Project partners made significant in-kind contributions which meant that the overall delivery cost of the Project increased. The additional contributions from Project partners helped enable it to deliver its objectives without the need for additional money from customers.

7.4. Against the budget set out in the Project Direction, each budget line item was within or less than 10% in excess. SSEPD did not provide specific explanations of how efficiency was ensured for each specific line item. It explained that the majority of costs were fixed price contracts approved in the Full Submission, where specialist providers were required, or were competitively tendered where possible.

How well was MEA managed?

7.5. The MEA Project's independent assessor, Ricardo, provided a positive overall view of the management of the Project. It noted, however, that some recommendations in their earlier independent review reports were not fully implemented, despite repeated comments. One area of weakness included the Project's document control processes. In their penultimate independent review report, Ricardo recognised improvements in this area, though some issues with submitted documents were still apparent. We note in this report, a dedicated section was introduced on actions taken in response to Ricardo's recommendations –a positive addition.

7.6. The Project had two approved change requests over its duration. In 2015 we approved a change request to transfer budget between categories[8]. In our decision,[9] we noted it may have been possible to provide a comprehensive and coherent explanation with supporting evidence earlier in the Project. Multiple rounds of questions were required to establish a complete justification, following the initial submission.

7.7. In its discussion of change management, the MEA SDR application made little mention of an earlier approved change to the Project Direction to release funding in 2013[10], on short timescales. The lack of reflection of this approved change in the SDR application was not appropriate.

7.8. SSEPD demonstrated that satisfactory risk and issue management was in place and consultation respondents supported its effectiveness. We note that the Project made use of opportunities to extend planned learning, where Project difficulties were experienced, notably in response to technical communications failures.

Our decision

7.9. We consider SSEPD demonstrated that it has delivered against its SDRC to a satisfactory quality and on time. We are satisfied that the SDRC were delivered at an effective cost to consumers. It has shown management of risk, with an ability to adapt recruitment approaches to meet targets. Further, consultation responses supported the value of Project outputs and management of the Project. We consider that this warrants a substantial reward under the SDR of £416k. How this has been calculated is set out below:

	Available / £k	**Awarded / £k**
SDRC Delivery	237	237
Cost effectiveness	120	120
Project management	119	59
Total	475	416

7.10. However, we do not consider that SSEPD should be awarded the full £475k as requested in its SDR application. This is due to some weaknesses in project management. In particular, we consider that SSEPD could have done more to explain, and justify, the need for a change request at an earlier stage of the Project and that some improvements in document quality control could have been possible.

[8] This allowed the Project to address a transcription error made in the bid submission and make changes to alter the Project's recruitment requirements.
[9] https://www.ofgem.gov.uk/publications-and-updates/amendments-southern-electric-power-distribution-limited-s-low-carbon-networks-fund-project-innovation-squared-managing-unconstrained-ev-connections
[10] https://www.ofgem.gov.uk/sites/default/files/docs/2013/10/ofgem_letter_-_i2ev_project_direction_change.pdf

8. SOLA Bristol

Project Summary

8.1. This Project placed batteries in customers' premises and coupled them with a SMART energy tariff and integrated network control, in order to investigate whether it could help mitigate distribution network constraints at specific times of the day – providing benefits to both WPD and the customers. Benefits including the potential for reduced or deferred distribution network reinforcement and reduced energy bills to consumers through shifting of demand.

Did the Project meet its SDRC?

8.2. We consider that the evidence submitted by WPD demonstrates that the SDRC were delivered to an acceptable quality and on time.

8.3. For some of the SDRC, the evidence provided by WPD in its SDR application could have been more comprehensive. For example, some additional evidence such as feedback from stakeholders as suggested in the SDR guidance[11] would have been beneficial. The initial evidence provided in WPD's SDR application was also unclear on the availability, and location, of some Project data and analysis. It has subsequently been made clear that this data will be publically available, with the process for accessing it to be clarified on the Project website.

8.4. Although not reflected in its SDR application, we also wish to highlight SDRC 9.8, completed in January 2016, which related to the final reports of the Project. Following its publication we identified several areas where the expected deliverable was hard to identify or could not be found. As a consequence, the reports were reissued by WPD. The SDRC are a key way of monitoring the Project deliverables and WPD should ensure that all outputs are readily identifiable.

Were the SDRC cost-effectively delivered?

8.5. The Project underspent its LCNF budget by £84k. Against the overall Project budget[12], WPD spent £577k more than anticipated. We considered this issue a few months before the Project ended. In August 2015, we issued a letter to WPD to consent to the Project spending more than 110% of any budget cost category outlined in the Project Direction.[13] One of the main reasons identified as the cause of the overspend, was the extension of the Project timeline, which we approved in December 2014. The extension led to higher than foreseen partner costs.

[11]http://sharepoint2010/sgg/ElecDistrib/Elec_Distrib_Lib/LCN%20Fund/Discretionary%20Funding%20Mechanism/Successful%20Delivery%20Reward%20Assessment/Guidance%20notes%20for%20SDR.pdf
[12] The overall budget includes LCNF funding and contributions from WPD and its Project partners.
[13]https://www.ofgem.gov.uk/sites/default/files/docs/2015/08/150819_-_sola_overspend_letter_aug15.pdf

8.6. In our August 2015 letter, we welcomed the fact that WPD was quick to ring fence money from customers and acknowledge that all excess costs would be fully funded by its shareholders. While we broadly accepted WPD's reasons for the increased costs, we found that it had already substantively overspent in one of its Project costs categories without our prior approval – against the requirements of the Governance Document. Further discussion with WPD identified an error with its internal budget monitoring spreadsheet.

8.7. We consider that WPD must have robust processes in place to highlight overspends against specific cost categories and should take the necessary steps to achieve this across all Projects funded by the LCN Fund or the Network Innovation Competition.

How well was Sola Bristol managed?

8.8. We recognise the complexity of delivering this Project. This includes challenges like managing: sample size reductions; equipment failure; multiple Project partners; and direct consumer engagement. This Project has generated new project management learning, applicable for WPD and for other network companies.

8.9. We have, however, identified some areas of project management weakness. In our opinion, these largely relate to issues that were in WPD's control and could have been improved, particularly with additional time spent on ensuring quality control. This aspect of Project learning also appears to be recognised by WPD in its SDR application (section 4.1). Two specific examples of project management weakness are noted in our analysis above: insufficient checks relating to the SDRC 9.8 deliverables; and project management controls related to the Project budget. Another example relates to the management of change during the Project.

8.10. WPD made two change requests, both of which were approved by us.[14] However, we had some concerns around the quality of the submissions made to us. The first change request required considerable Ofgem input and challenge, eg to calculate of the level of money to be returned to customers.

[14] Ofgem change request decision December 2014: 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
Ofgem change request decision March 2015: https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund-amendments-wpd-s-sola-bristol-project-household-sample

Our decision

8.11. We are satisfied that the Project adequately delivered its SDRC. We consider that this warrants a SDR of £200k. We do not consider that WPD should be awarded the full £229k, because of the project management weaknesses outlined above. How this has been calculated is set out below:

	Available / £k	**Awarded / £k**
SDRC Delivery	114	114
Cost effectiveness	57.5	57.5
Project management	57.5	28.5
Total	229	200

9. Next Steps

9.1. We will implement our decisions on this reward by allowing the three DNOs to recover their respective SDRs through the 2016 Funding Direction[15], in accordance with the LCN Fund Governance Document. The Funding Direction will also take into account any funding to be returned to customers, including Project underspends and revenue from royalties generated by LCN Fund Projects.

9.2. We will issue the Funding Directions in time for the DNOs to prepare their indicative use of system tariffs at the end of December 2016. This will allow DNOs to recover any awarded SDR in the 2017/18 regulatory year.

9.3. There is a potential further award available to these second-tier Projects under the Discretionary Funding Mechanism, the Second Tier Reward. This reward, in contrast to the SDR, is 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.

9.4. Lessons learned from the implementation of this reward will be incorporated in the Innovation Reviews[16] that we expect to conclude by early next year. As a result we may revisit the purpose of the SDR in the governance document. We will look to clarify the arrangements for future SDRs after our Innovation Review has concluded.

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

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

[15] The Funding Direction set out 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.

[16] https://www.ofgem.gov.uk/publications-and-updates/reviewing-benefits-low-carbon-networks-fund-and-governance-network-innovation-competition-and-network-innovation-allowance