



Making a positive difference
for energy consumers

To all network companies and
their representatives

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Date: 05/10/2016

Dear Colleague,

Guidance Note for the Low Carbon Network Fund – First Tier Portfolio Reward

This letter provides further guidance to the Distribution Network Operators (DNOs) for the Low Carbon Network Fund (LCNF) - First Tier Portfolio Reward (FTPR) application. This is in accordance with paragraph 2.3 of the Low Carbon Networks Fund Governance Document¹.

DNOs are reminded that this reward is about the demonstration of **exceptional** benefits for customers. DNOs will need to demonstrate that what has, or may be, delivered is beyond what could have been reasonably expected. The FTPR is not to reward companies for successfully delivering their First Tier 1 projects in line with the governance requirements.

Background

In December 2014 we² published our decisions on the implementation of the Discretionary Funding Mechanism under the Low Carbon Networks Fund (LCN Fund)³. These decisions provide context and should be read in conjunction with this guidance note. The key decisions related to the First Tier Portfolio Reward (FTPR) are summarised as follows:

- There will be one assessment for the FTPR in 2017.
- The money available for the FTPR is £15m.
- First Tier Projects that have spent more than half of their duration under the LCN Fund and have submitted the close down report by September 2016 will be eligible to enter the FTPR assessment
- The Electricity NIC Expert Panel (the 'Expert Panel') will conduct the FTPR assessment and make a recommendation to the Authority. The Authority will make the final decision on the rewards.
- The Authority will provide guidance to applicants and the panel ahead of the FDP assessment. This document constitutes this guidance.

Completion of the First Tier Portfolio Reward Application

Before completing the First Tier Portfolio Reward (FTPR) application, please refer to Section Two of the LCN Fund Governance Document.

¹ [Low Carbon Networks Fund Governance Document v.7](#)

² The terms Ofgem, the Authority, "we", "us" and "our" are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

³ [Decision on implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund](#), December 2014

Only one application per DNO group will be accepted and each application must be submitted as at the portfolio level (i.e. – it must include all eligible LCNF tier 1 projects undertaken by the DNO).

Since First Tier portfolios range in size from one project to 12 projects, there will be a fixed “portfolio level” page limit of up to 24 pages, plus a variable “per project” page limit of 4 pages per project, with a minimum permitted font size of ten. There will be no appendices allowed. The DNOs can include images and tables where appropriate within the body of the application.

The application must be self-contained and should contain succinct evidence that supports the demonstration of the reward criteria. The evidence may be sampled audited and verified by Ofgem.

The submission should be developed in line with the following guidance:

- Executive summary – 1 page
- Description of the portfolio – 5 pages

The following table must be included within this section.

Table 1: Summary of Tier 1 Portfolio

	Tier 1 Project name	Licensee	Project summary (2 sentences)	Tier 1 funding £k*	Licensee compulsory contribution £k*	Other contributions £k*	Link to Close-Down Report
1							
2							
X							
X							
Total							

*Nominal prices

- Per project description and evidence of critical outcomes aligned to the award criteria – 4 pages per project in the portfolio
- Description and evidence of portfolio compliance with reward criteria, based on the detailed guidance below (criterion A, B & C)– 18 pages

A. Reward Criterion A (up to 10 pages)

Criterion A is about demonstrating **exceptional** performance of the portfolio against certain requirements. It considers portfolios of projects that have performed exceptionally against one, or both, of the following criteria:

- i. Accelerated the development of a low carbon energy sector and have delivered net financial benefits to future and/or existing customers, and/or
- ii. Sharing of knowledge amongst all DNOs

In order to ensure that the award criteria are relevant to an ex post assessment it has been determined that criterion A parts i and ii are captured under a single set of requirements per the table below.

For applicants to be eligible for the full amount of reward under this criterion, DNOs are to provide evidence of exceptional performance against the requirements in the table below. For clarity, each sub criteria should form an individual header within this section. If a particular sub criteria is not relevant to the DNO’s case, then please state ‘Not applicable’ and provide a short explain why.

No	Criterion A Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
A1	Aspects of the Carbon Plan that have been facilitated	Applicants must provide an explanation of the network issue(s) that the portfolio has proven to have solved (e.g. connecting a 1MW solar project) with clear reference to the Carbon Plan. For the avoidance of doubt applicants should provide demonstrable evidence of where the portfolio has delivered aspects of the carbon plan and not just predictions.	Where relevant, applicants should provide a robust justification for other network issues that the portfolio could solve that were not actively tested in the portfolio.
A2	Releasing network capacity	Applicants must provide a quantified and well justified assessment of the actual and expected level of network capacity that the portfolio has released (e.g. 1 MW). ⁴ If project(s) within the portfolio did not seek to release capacity then quantification is not necessary, but this should be briefly explained.	
A3	Delivering Financial Benefits	Applicants must provide a quantified and well justified assessment of the actual and expected financial benefits (including a breakdown to show the proportion accruing directly to the electricity network) of delivering the portfolio as business as usual based on actual experiences in the trial, compared to the traditional approach ⁵	Where relevant, the applicant should explain its approach to maximising the value of background and foreground intellectual property assets to customers in the delivery of its portfolio.
A4	Rollout across the DNO's system and across GB	Applicants must provide a quantified and well justified assessment of the current use of the portfolio on the DNO's system and across GB (where	Where relevant, the DNO should explain its approach to knowledge dissemination where the DNO considers it to

⁴ Capacity released should be presented based on the actual and estimated capacity released by the portfolio compared to the most efficient method currently in operation on the National Electricity Transmission System/ on the Distribution System.

⁵ See page 11 'Guidance on quantification of costs and benefits' for further information.

No	Criterion A Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
		<p>possible, the number of units deployed annually between 2010/11 to 2015/16). This should only include situations in which there is clear evidence for the use of the portfolio and provide clear evidence of the applicability of learning to other DNOs.</p> <p>Applicants must also provide a quantified (where possible, the number of units by 2020, 2030, 2040 and 2050) and well justified assessment of the future use of the portfolio on the DNO's system and, across GB. This should be linked to the DNO's and other DNOs' planning processes and provide strong justification of how, when, and where it may be used, with reference to the current use of the portfolio.</p> <p>Applicants should consider whether other innovations developed through the LCN Fund, NIC or elsewhere could be used instead of the innovations developed through their portfolio.</p> <p>Where there are similar innovations, the DNO must demonstrate why their innovations would be used over the similar solutions, emphasising the additional learning and knowledge that has arisen out of their innovations, beyond that of similar solutions.</p> <p>The DNO must also demonstrate how it has ensured there is no double counting of benefits across its portfolio for similar solutions.</p>	be exceptional.
A5	Other Benefits		Wherever relevant, applicants should provide a qualitative explanation of other learning that has been developed through the portfolio and has

No	Criterion A Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
			<p>had a direct impact on the way the DNO operates. This could include learning from failed innovations or learning that was either unexpected or tangential to the portfolio aims. This may include an explanation of how this learning has been used by other DNOs.</p> <p>Where possible, applicants should provide a quantitative estimate of the financial benefits, although we recognise this may be difficult.</p>
A6	Portfolio management	<p>The DNO must demonstrate how it has managed its portfolio to maximise benefits to customers.</p> <p>We expect the DNO to provide evidence of how it has developed project ideas and synergies across a range of projects to maximise the learning benefits from its portfolio. Where relevant, we expect the DNO to provide evidence of how the learning outcomes of its Tier 1 projects facilitated, accelerated and de-risked larger projects within their wider LCNF portfolio or those projects being delivered under the Network Innovation Allowance or Network Innovation Competition .</p>	

B. Reward Criterion B (up to 3 pages)

Criterion B is *“To invest the DNO's own money (over and above any compulsory funding) to enable the portfolio of projects to be successfully delivered”*.

In order to ensure that the award criteria are relevant to an ex post assessment it has been determined that applicants should demonstrate whether any funding above the 10 per cent compulsory contribution has been invested to enable the portfolio to be successfully delivered.

For applicants to be eligible for the full amount of reward under this criterion, DNOs are to provide evidence against the requirements in the table below. For clarity, each sub criteria should form an individual header within this section. If a particular sub criteria is not

relevant to the DNO's case, then please state 'Not applicable' and provide a short explain why.

No	Criterion B Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
B1	Details and significance of DNOs additional contribution	Applicants must provide details of any additional DNO funding above the 10 per cent compulsory contribution that has been invested to enable the portfolio to be successfully delivered.	Where applicable, applicants may also provide details of any additional external funding (from sources such as UK/ Scottish Government or the EU) that has been invested to enable the portfolio to be successfully delivered. Applicants must demonstrate how the additional external funding helped maximise learning.
B2	Issues that justified the additional contribution	Applicants must provide a description of the issues that arose that would have prevented the portfolio from being successfully delivered and that justified the additional contribution Applicants must also justify why the issues that arose had to be addressed through the injection of additional funding, including a description of the other options that the DNO considered.	
B3	Demonstrable benefits to customers	Applicants must demonstrate how the DNO ensured the additional funding was spent in a way that benefits customers.	

C. Reward Criterion C (up to 5 pages)

Criterion C is "To undertake **exceptional** effort to ensure the portfolio of projects exceeds the expected delivery outcomes and the learning from the portfolio is maximised for the good of all DNO customers".

In order to ensure that the reward criteria are relevant to an ex post assessment it has been determined that applicants must provide evidence against all of the requirements in the table below. For clarity, each sub criteria should form an individual header within this section. If a particular sub criteria is not relevant to the DNO's case, then please state 'Not applicable' and provide a short explain why.

No	Criterion C Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
C1	Demonstrate where the portfolio has delivered more learning than was expected	<p>Applicants must provide evidence of where the portfolio has delivered more learning than was expected at the outset.</p> <p>The DNO should link its evidence in this sub criterion to the original internal business cases and project documentation it used to justify the initiation of the projects in its portfolio.</p>	<p>As applicable applicants should provide full details and evidence of:</p> <ul style="list-style-type: none"> I. Instances in the portfolio where a planned solution has delivered more than was expected in the original benefits case (i.e. more financial benefits or more network capacity) II. Instances in the portfolio where a planned solution provides other, unexpected uses than planned (i.e. it addresses other aspects of the Carbon Plan) Also include an explanation what has been done to realise these unexpected uses III. Other unexpected learnings that have arisen that are not directly relevant to the solution (i.e. novel approach to engaging with other parts of the business, working with stakeholders, new approaches to knowledge management)
C2	Additional learning as a result of exceptional effort of the DNO	Applicants must provide evidence of what additional learning there has been, and to what extent this has been as a result of exceptional effort on its part, rather than it being incidental learning that would be expected on an innovative project without exceptional effort.	Evidence should include how a DNO has actively looked for these opportunities. The submission should also refer to how any new benefits relate to any additional expenditure incurred compared to the original budget.
C3	Exceptional capture and dissemination of	Applicants must provide evidence of how it has exceptionally captured and	

No	Criterion C Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
	learning in a way that maximises value for all customers	disseminated the learning in a way that maximises its value for all customers. This should not necessarily be undertaking the same dissemination plans as originally planned for the project, but tailoring to the type of innovation and audience.	

Guidance on quantification of costs and benefits

When presenting costs and benefits and, unless specified otherwise, we would like DNOs to endeavour to do so on a consistent basis in line with the guidance below. We recognise that in some areas this may not be appropriate.

Financial Benefits

- Should be presented on a **cumulative basis**.⁶
- At an appropriate part of the submission, you should provide a clear narrative describing the benefits and how they were calculated and, where relevant, set out the context for the benefits (e.g. compared with the overall value of GB losses).
- The information should be **prepared on a Net Present Value (NPV)** basis. The appropriate discount rate to be applied is 3.5% for the first 30 years and 3.0% thereafter.
- Figures should be presented in **real terms using 2016/17 prices**.
- Benefits (in NPV terms) should, where possible, be presented on a **cumulative basis**:
 - For outturn benefits this should be done **annually** from the start of DPCR5 (10/11 until 15/16).
 - For forecast benefits, these should be presented for the years 2020, 2030, 2040 and 2050.
- Financial benefits must be broken down to show the actual and expected proportion of the benefits that will accrue to the electricity network as opposed to other parts of the energy supply chain.
- Only one scenario about the future network development should be used; the narrative can refer to the sensitivity of the outcome to other scenarios.

Carbon/environmental benefits

- At an appropriate part of the submission, you should provide a description of the assumptions made (for example, the additional capacity to be released).
- Where these are quantified, where possible, they should be presented:
 - **annually** from the start of DPCR5 (10/11 until 15/16).
 - Every ten years for forecast benefits - 2020, 2030, 2040 and 2050.
- Where the carbon benefits are quantified, these should be **expressed in terms of tonnes equivalent of carbon dioxide emitted** on a **cumulative basis**.

⁶ Cumulative is defined as the sum of the benefits (financial or carbon/environmental) that are projected to have accrued by the specified dates e.g. by 2020, 2030, etc. since the start of the Project.

1. Submission Assessment and timetable

Application deadline

DNOs should submit their FTPR applications by email to lcfund@ofgem.gov.uk. The deadline for the applications is 17:00 on the 1 March 2017. Any application submitted after this time will not be assessed.

If the application contains confidential material, separate public and confidential versions should be submitted.

If the data size of the application is above 28 MB, please contact Ofgem prior to submission to find an alternative means of file transfer.

Process timetable

Appendix A provides an indicative timetable for the assessment.

During the Ofgem assessment period we may ask companies supplementary questions to clarify aspects of the submissions. We would not expect this process to result in any changes being made to the submissions. However, within 6 weeks after the submission date, Ofgem will notify all the network companies that they have an opportunity to resubmit their application. Following Ofgem's notification, the company may choose to resubmit its application and will have 5 working days to do so. If a resubmission is made, Ofgem maintains the right to extend the decision process. We would not expect the resubmission to make substantial changes to the original submission, rather we would expect it to be used to change, or correct, any factual errors identified through the supplementary questions process.

Companies will have an opportunity to present their submission and answer questions in a meeting with the Expert Panel at the 'DNO and Expert Panel Bilateral Meeting'. The Expert Panel will review applications against the reward criteria and produce a report recommending and justifying those portfolio applications that they think should qualify for the FTPR and those that do not.

Reward allocation

Based on the report from the Expert Panel, we will determine how much funding is awarded. This will be dependent on the extent to which we consider DNOs are meeting and exceeding the criteria set out above. We expect to publish our decision by 31 July 2017. At this point the DNOs' application will also be published on the Ofgem website.

The percentage weighting that has been assigned to each criterion are as follows:

- Criterion A: 80% (£12m potentially available across all DNOs)
- Criterion B: 5% (£0.75m potentially available across all DNOs)
- Criterion C: 15% (£2.25m potentially available across all DNOs)

DNOs are not required to submit evidence under each of the criterion to be eligible for the FTPR. However, the overall weighting of the FTPR will not change based on the number of criterion that are submitted.

The maximum reward available to each DNO will be limited to the value of the applicant's portfolio.

Appendix A: Indicative Timetable

Dates	Description
14 November 2016	DNO register of intent to submit – Each DNO group should email lcnfund@ofgem.gov.uk to confirm whether they will make a submission to the FTPR.
Stage 1 – Ofgem initial assessment	
17:00 1 March 2017	Deadline for the submissions
Ofgem assessment period (1 March -30 April)	<p>Key stages over this period:</p> <ul style="list-style-type: none"> • initial review by Ofgem (high level Q&A process) • time given for potential resubmission by DNOs. <p>The specific timelines for this period of work will be confirmed by Ofgem at least one month before the submission deadline.</p>
Stage 2 – Expert Panel assessment window	
The specific timelines for this period of work will be confirmed by Ofgem at least one month before the submission deadline.	
1 - 14 May [TBC]	Initial evaluation by the Expert panel
15 - 21 May [TBC]	DNO and Expert Panel Bilateral. Evaluation continues
28 May [TBC]	Expert Panel report
Stage 3- Ofgem final review and decision	
31 July	Ofgem expect to publish decision