



Making a positive difference
for energy consumers

Distribution Network Operators

Direct Dial: 020 7901 7106
Email: Geoffrey.Randall@ofgem.gov.uk

Date: 7 December 2016

Dear Company Secretary

Low Carbon Networks (LCN) Fund - Funding Direction

We issue a direction (the Funding Direction) every year pursuant to the provisions of Section Three of the LCN Fund Governance document and Charge Restriction Condition (CRC) 2J of the electricity distribution licence.¹ This Funding Direction details the amount (if any) each Distribution Services Provider (DSP) can recover from (or return to) customers through Use of System Charges in relation to Eligible LCN Fund Projects.

In 2016/17 DSPs were awarded £4.3 million under the LCN Fund's Successful Delivery Reward (SDR), but DSPs are also returning £1.2 million to customers due to underspent LCN Fund budgets. The net effect is that DSPs will be able to collect an additional £3.1 million through their 2017/18 charges. This is set out below.

Background

As the potential learning from the LCN Fund Projects provides benefits to all DSPs, the projects were funded by all DSPs through Distribution Use of System Charges. Therefore, we are amending the allowed revenues of all DSPs for the Regulatory Year 2017/18 and set out the amount each needs to transfer to the other DSPs. This is listed in Tables 1 and 2 of the schedule to this direction.

There are three broad categories of changes affecting funding that may be applicable each year: the SDR; underspent budgets; and other changes (such as for LCN Fund Royalties, Halted Project Revenue and Disallowed Expenditure).

Successful Delivery Reward

In 2016, we conducted our second assessment of the SDR for seven completed LCN Fund projects.² For the SDR we assessed whether the projects had been sufficiently well managed and whether they met their expected outputs based on quality, cost and time. The maximum available reward for each project is equal to the network company's 10% compulsory contribution to the LCN Fund project. The awards to be returned to each DSP are set out below:

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/lcnf_gov_doc_v7_-_final_clean_0.pdf.

² Our SDR decision contains the reasons for our assessment:

https://www.ofgem.gov.uk/system/files/docs/2016/07/decision_on_2016_low_carbon_network_fund_successful_delivery_reward_applications.pdf

DSP	Project	SDR (£k)
Electricity North West Limited (ENWL)	Capacity to Customers (C2C)	899
ENWL	Customer Load Active System Services (CLASS)	760
Scottish Power Distribution Ltd (SPD)	Flexible Networks for a Low Carbon Future (FNs)	515
Southern Electric Power Distribution plc (SSES)	My Electric Avenue (MEA)	416
Western Power Distribution (Midlands East) plc (WPD EMID)	FALCON	1,236
WPD EMID	Low Carbon Hub (LCH)	306
Western Power Distribution (South West) plc (WPD SWEST)	SOLA BRISTOL	200

Underspent budgets

A number of the completed LCN Fund projects underspent on their budgets. The unspent funds are to be returned to customers and the amount to be returned is set out below:

DSP	Project	Underspent LCN Fund budget (£k)
ENWL	CLASS	419
SSES	MEA	0.6
WPD SWEST	SOLA BRISTOL	84
WPD EMID	FALCON	700

Other changes

This year, there are no monies (such as Royalties from Intellectual Property) that need to be returned to customers.

Net effects

We are amending the allowed revenues of all DSPs for the Regulatory Year 2017/18. Where a DSP has been affected by more than one change, we have calculated the net effect on its revenue. As a consequence, some DSPs will need to transfer back funds to other DSPs in this Funding Direction.

To implement these amendments to DSPs' allowed revenues, in accordance with the LCN Fund Governance Document, the Schedule to this Funding Direction includes the following information for the Regulatory Year 2017/18:

1. It sets the value LCN₂ for each DSP. This is the amount to be recovered by each DSP through Use of System Charges in order to contribute to its own or another DSP's Second Tier Funding;
2. It identifies the net amounts to be transferred between DSPs in order to ensure that each DSP receives an amount (if any) equal to the proportion of the Second Tier Funding that is attributable to the DSP's Eligible LCN Fund Projects (taking into account any funds returned to customers by existing projects, Halted Project Revenue and Disallowed Expenditure); and
3. It directs the manner and timescale over which the net amounts are to be transferred.

In accordance with CRC 2J of the electricity Distribution Licence and the LCN Governance Document, the Authority hereby requires all DSPs to comply with the conditions in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.



Geoffrey Randall

Head of RIIO, Electricity Transmission

Signed on behalf of the Authority and authorised for that purpose

Schedule to Funding Direction

1. The value that each DSP can recover from customers to cover Second Tier and Discretionary Funding in 2017/18

Table 1 contains the amount that the DSPs must recover in the Regulatory Year commencing 1 April 2017. The amount that the DSPs must recover is based on the total Approved Amounts for Regulatory Year 2017/18 shared according to each DSP's customer numbers in 2015/16.³ This also takes account of the funding returned by existing projects. The amount each DSP must recover constitutes the value for $LCN2_t$ in the LCN_t Formula for the purposes of Part B of CRC 2J.

2. The net amounts that must be transferred between DSPs

Table 2 contains the net amounts that must be transferred between DSPs over the Regulatory Year commencing 1 April 2017. The DSPs named in column 1 of Table 2 must transfer the amounts contained in each of the columns 2 to 15 to the DSPs named at the top of each column.

3. The manner and timescale over which the net amounts will be transferred

The transfers must be made on an equal monthly basis, for the entirety of the Regulatory Year commencing 1 April 2017 such that the total amount transferred over the Regulatory Year commencing 1 April 2017 equals the net amount set out in Table 2.

The DSPs that will be receiving funding from other DSPs must provide their bank account details to the DSPs that will be transferring funding by 1 March 2017. DSPs will make transfers to the specified bank accounts on the day of the month agreed by the DSP making the transfer.

Table 1: Amounts to be recovered through the LCN2 term in Regulatory Year 2017/18

DSP	Number of customers	LCN2 _t £
Electricity North West Limited (ENWL)	2,381,080	252,135.38
Northern Powergrid (Northeast) Ltd (NPgN)	1,596,374	169,041.93
Northern Powergrid (Yorkshire) plc (NPgY)	2,291,522	242,651.98
Southern Electric Power Distribution plc (SSES)	3,016,250	319,394.29
Scottish Hydro Electric Power Distribution plc (SSEH)	758,000	80,265.52
Scottish Power Distribution Ltd (SPD)	2,002,257	212,021.37
Scottish Power Manweb plc (SPMW)	1,503,914	159,251.24
Eastern Power Networks plc (UKPN EPN)	3,599,594	381,165.27
London Power Networks plc (UKPN LPN)	2,311,906	244,810.47
South Eastern Power Networks plc (UKPN SPN)	2,281,009	241,538.75
Western Power Distribution (Midlands East) plc (WPD EMID)	2,622,449	277,694.23
Western Power Distribution (South Wales) plc (WPD SWALES)	1,122,920	118,907.33
Western Power Distribution (South West) plc (WPD SWEST)	1,590,050	168,372.28
Western Power Distribution (Midlands West) plc (WPD WMID)	2,463,217	260,832.97
Total	29,540,542	3,128,083.00

³ Approved Amount has the meaning given in CRC 2J Part F.

Table 2: Amounts to be transferred between DSPs (£)

DSPs transfer-ring:	DSPs receiving:													
	ENWL	NPgN	NPgY	SSES	SSEH	SPD	SPMW	UKPN EPN	UKPN LPN	UKPN SPN	WPD EMID	WPD SWALES	WPD SWEST	WPD WMID
ENWL	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NPgN	67,009.73	-	-	22,450.04	-	27,830.65	-	-	-	-	45,501.77	-	6,249.74	-
NPgY	96,189.41	-	-	32,226.01	-	39,949.63	-	-	-	-	65,315.71	-	8,971.21	-
SSES	93,125.26	-	-	-	-	24,426.27	-	-	-	-	49,092.89	-	-	-
SSEH	31,817.97	-	-	10,659.87	-	13,214.72	-	-	-	-	21,605.43	-	2,967.54	-
SPD	42,536.20	-	-	-	-	-	-	-	-	-	11,351.83	-	-	-
SPMW	63,128.61	-	-	21,149.76	-	26,218.74	-	-	-	-	42,866.36	-	5,887.76	-
UKPN EPN	151,097.31	-	-	50,621.62	-	62,754.13	-	-	-	-	102,599.95	-	14,092.26	-
UKPN LPN	97,045.05	-	-	32,512.68	-	40,305.00	-	-	-	-	65,896.72	-	9,051.02	-
UKPN SPN	95,748.11	-	-	32,078.17	-	39,766.35	-	-	-	-	65,016.06	-	8,930.06	-
WPD EMID	42,212.07	-	-	-	-	-	-	-	-	-	-	-	-	-
WPD SWALES	47,135.93	-	-	15,791.79	-	19,576.61	-	-	-	-	32,006.81	-	4,396.19	-
WPD SWEST	57,422.44	-	-	10,552.61	-	19,881.65	-	-	-	-	35,054.74	-	-	-
WPD WMID	103,396.51	-	-	34,640.58	-	42,942.91	-	-	-	-	70,209.57	-	9,643.39	-
Total received	987,864.62	-	-	262,683.14	-	356,866.66	-	-	-	-	606,517.84	-	70,189.16	-