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Distribution Network Operators

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Dear Company Secretary

Low Carbon Networks (LCN) Fund - Funding Direction¹

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.² 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 2017/18 DSPs were awarded £4.9 million under the LCN Fund's Successful Delivery Reward (SDR), but DSPs are also returning £1.9 million to customers due to underspent LCN Fund budgets. In addition to this, DSPs were also awarded £5.5 million through the First Tier Portfolio Reward. The net effect is that DSPs will be able to collect an additional £8.5 million through their 2018/19 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 2018/19 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 2017, we conducted our third assessment of the SDR for four completed LCN Fund projects.³ 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 All figures referred to in this letter are nominal.

² https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/lcnf_gov_doc_v7_-_final_clean_0.pdf.

³ https://www.ofgem.gov.uk/system/files/docs/2017/08/2017_decision_rep.pdf

DSP	Project	SDR (£k)
Electricity North West Limited (ENWL)	Capacity to Customers (C2C)	50
Southern Electric Power Distribution plc (SSES)	New Thames Valley Vision (NTTV)	2,363
UK Power Networks (UKPN)	Flexible Urban Networks – Low Voltage	776
UK Power Networks (UKPN)	Smarter Network Storage (SNS)	1,667

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)
Electricity North West Limited (ENWL)	Capacity to Customers (C2C)	0
Southern Electric Power Distribution plc (SSES)	New Thames Valley Vision (NTTV)	208
UK Power Networks (UKPN)	Flexible Urban Networks – Low Voltage	73
UK Power Networks (UKPN)	Smarter Network Storage (SNS)	1,511
Western Power Distribution – West Midlands	Flex D Grid	81

First Tier Portfolio Reward

In 2017, we ran the First Tier Portfolio Reward (FTPR) for the LCN Fund. The FTPR sought to imitate the commercial and financial benefits of innovation by rewarding successful Innovation. The participating DSPs made submissions to Ofgem for the reward which were assessed both by Ofgem and an independent Expert Panel. The total amount available through this discretionary funding was £15 million. We made a decision⁴ earlier this year on the amount of money to be issued to each DSP, this is outlined below:

DSP	Reward (£k)
Electricity North West Limited (ENWL)	1,750
WPD West Midlands plc (WMID)	438
WPD East Midlands plc (EMID)	438
WPD South Wales plc (SWALES)	438
WPD South West plc (SWEAST)	438
SSE Scottish Hydro (SSEH)	1,000
SSE Southern Electric (SSES)	1,000

Other changes

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

⁴ <https://www.ofgem.gov.uk/publications-and-updates/decision-low-carbon-networks-fund-s-first-tier-portfolio-reward>

Net effects

We are amending the allowed revenues of all DSPs for the Regulatory Year 2018/19. 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 certain other DSPs listed 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 2018/19:

1. It sets the value LCN2_t 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 DSPs' 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 in accordance with 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

Associate Partner, RIIO Networks

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 2018/19

Table 1 contains the amount that the DSPs must recover in the Regulatory Year commencing 1 April 2018. The amount that the DSPs must recover is based on the total Approved Amounts for Regulatory Year 2018/19 shared according to each DSP's customer numbers in 2016/17.⁵ 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 2018. 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 2018 such that the total amount transferred over the Regulatory Year commencing 1 April 2018 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 2018. 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 2018/19

DSP	Number of customers	LCN2
Electricity North West Limited (ENWL)	2,383,214	682,534.17
Northern Powergrid (Northeast) Ltd (NPgN)	1,600,885	458,481.16
Northern Powergrid (Yorkshire) plc (NPgY)	2,298,672	658,321.99
Southern Electric Power Distribution plc (SSES)	3,032,766	868,560.87
Scottish Hydro Electric Power Distribution plc (SSEH)	767,082	219,686.39
Scottish Power Distribution Ltd (SPD)	2,004,462	574,062.51
Scottish Power Manweb plc (SPMW)	1,508,672	432,072.06
Eastern Power Networks plc (UKPN EPN)	3,614,431	1,035,145.25
London Power Networks plc (UKPN LPN)	2,330,356	667,396.04
South Eastern Power Networks plc (UKPN SPN)	2,288,599	655,437.16
Western Power Distribution (Midlands East) plc (WPD EMID)	2,631,017	753,503.04
Western Power Distribution (South Wales) plc (WPD SWALES)	1,128,284	323,131.86
Western Power Distribution (South West) plc (WPD SWEST)	1,600,520	458,376.62
Western Power Distribution (Midlands West) plc (WPD WMID)	2,470,151	707,432.26
Total	29,659,111	8,494,141.40

⁵ 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	-	-	-	69,538.82	33,805.20	-	-	-	-	-	-	-	-	-
NPgN	97,145.43	-	-	170,334.27	53,976.16	-	-	8,999.99	37,939.09	-	23,614.57	23,614.57	23,614.57	19,242.50
NPgY	139,488.78	-	-	244,578.86	77,503.06	-	-	12,922.86	54,475.82	-	33,907.59	33,907.59	33,907.59	27,629.84
SSES	-	-	-	-	20,636.53	-	-	0.00	0.00	-	-	-	-	-
SSEH	-	-	-	-	-	-	-	0.00	0.00	-	-	-	-	-
SPD	121,635.43	-	-	213,274.89	67,583.35	-	-	11,268.85	47,503.39	-	29,567.71	29,567.71	29,567.71	24,093.46
SPMW	91,549.73	-	-	160,522.80	50,867.07	-	-	8,481.57	35,753.75	-	22,254.34	22,254.34	22,254.34	18,134.11
UKPN EPN	205,933.95	-	-	367,525.85	117,553.35	-	-	0.00	72,556.77	-	38,525.02	46,973.20	44,318.35	29,558.26
UKPN LPN	84,932.07	-	-	176,077.05	60,392.40	-	-	-	-	-	-	7,635.96	-	-
UKPN SPN	138,877.52	-	-	243,507.09	77,163.44	-	-	12,866.23	54,237.10	-	33,759.00	33,759.00	33,759.00	27,508.77
WPD EMID	124,501.58	-	-	235,204.21	77,393.37	-	-	-	27,977.04	-	-	22,166.74	15,200.81	-
WPD SWALES	33,312.24	-	-	75,313.32	26,726.55	-	-	-	-	-	-	-	-	-
WPD SWEST	61,968.62	-	-	125,559.26	42,648.67	-	-	-	3,555.48	-	-	6,965.93	-	-
WPD WMID	121,248.49	-	-	226,370.64	74,064.47	-	-	-	30,528.99	-	4,812.47	22,875.19	17,198.95	-
Total received	1,220,593.85	-	-	2,307,807.06	780,313.61	-	-	54,539.50	364,527.43	-	186,440.71	249,720.24	219,821.33	146,166.94