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Dear Company Secretary

Date: 22 January 2018

Low Carbon Networks (LCN) Fund - Funding Direction¹ 2018

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 2018/19 DSPs were awarded £2.51 million under the LCN Fund's Successful Delivery Reward (SDR), but DSPs are also returning £1.65 million to customers due to underspent LCN Fund budgets. In addition to this, one DSP was awarded £0.3 million through the Second Tier Reward³. The net effect is that DSPs will be able to collect an additional £1.16 million through their 2019/20 charges. This is set out in Table 1 of the Schedule to Funding Direction 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 (DUoS). Therefore, we are amending the allowed revenues of all DSPs for the Regulatory Year 2019/20 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 four broad categories of changes affecting funding that may be applicable each year: the SDR; underspent budgets; Discretionary Funding (such as the Second Tier Reward); and other changes (such as for LCN Fund Royalties, Halted Project Revenue and Disallowed Expenditure).

Successful Delivery Reward

In 2018, we conducted our fourth assessment of the SDR for three completed LCN Fund projects.⁴ 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:

DSP	Project	SDR (£)
Scottish Power Distribution (SPD)	Accelerating Renewable Connections (ARC)	846,230
South Eastern Power Networks (SPN)	Kent Active System Management (KASM)	378,065
Western Power Distribution (West Midlands) (WMID)	FlexDGrid	1,285,000
Total		2,509,295

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 [Decision on the LCNF-Second Tier Reward](#)

⁴ https://www.ofgem.gov.uk/system/files/docs/2018/07/2018_sdr_decision_0.pdf

Underspent budgets

A number of LCN Fund projects completed this year. Some of them underspent on their budgets. The amount of any unspent funds to be returned to customers by these projects is set out below:

DSP	Project	Underspent LCN Fund budget (£)
Scottish Power Distribution (SPD)	Accelerating Renewable Connections (ARC)	657,650
South Eastern Power Networks (SPN)	Kent Active System Management (KASM)	616,003
London Power Networks (LPN)	Vulnerable Customers and Energy Efficiency (VCEE)	371,156
Total		1,644,809

Second Tier Reward

In 2018, we ran the first instance of Second Tier Reward (STR) for the LCN Fund. For regulated electricity distribution network companies, the STR seeks to imitate the commercial and financial benefits of 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 £30.5 million. We made a decision⁵ earlier this year on the amount of money to be issued under this reward, this is outlined below:

DSP	Reward (£)
SSE Southern Electric (SSE)	300,000

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 2019/20. Where a DSP has been affected by more than one change, we have calculated the net effect on its revenue.

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 2019/20:

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.

⁵ https://www.ofgem.gov.uk/system/files/docs/2018/09/lcnf_second_tier_reward_decision_letter.pdf

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



Steven McMahon

Deputy Director, Electricity Distribution & Cross Sector Policy, Systems & 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 2019/20

Table 1 contains the amount that the DSPs must recover in the Regulatory Year commencing 1 April 2019. The amount that the DSPs must recover is based on the total Approved Amounts⁶ for Regulatory Year 2019/20 shared according to each DSP's customer numbers in 2017/18. 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 2019. 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 that 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 2019 such that the total amount transferred over the Regulatory Year commencing 1 April 2019 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 2019. 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 2019/20

DSP	Number of customers	LCN2 (£)
Electricity North West Limited (ENWL)	2,383,887	93,236.24
Northern Powergrid (Northeast) Ltd (NPgN)	1,602,128	62,660.85
Northern Powergrid (Yorkshire) plc (NPgY)	2,298,786	89,907.86
Southern Electric Power Distribution plc (SSES)	3,049,924	119,285.63
Scottish Hydro Electric Power Distribution plc (SSEH)	772,984	30,232.19
Scottish Power Distribution Ltd (SPD)	2,007,341	78,509.15
Scottish Power Manweb plc (SPMW)	1,512,961	59,173.44
Eastern Power Networks plc (UKPN EPN)	3,627,858	141,889.21
London Power Networks plc (UKPN LPN)	2,345,807	91,746.90
South Eastern Power Networks plc (UKPN SPN)	2,296,864	89,832.69
Western Power Distribution (Midlands East) plc (WPD EMID)	2,647,059	103,529.17
Western Power Distribution (South Wales) plc (WPD SWALES)	1,133,101	44,316.73
Western Power Distribution (South West) plc (WPD SWEST)	1,613,218	63,094.60
Western Power Distribution (Midlands West) plc (WPD WMID)	2,481,944	97,071.35
Total	29,773,862	1,164,486.00

⁶ Approved Amount has the meaning given in CRC 2J Part F.

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

DSP transferring :	DSPs receiving:														Total transferred
	ENWL	NPgN	NPgY	SSES	SSEH	SPD	SPMW	UKPN EPN	UKPN LPN	UKPN SPN	WPD EMID	WPD SWALES	WPD SWEST	WPD WMID	
ENWL	0.00	0.00	0.00	24,019.93	0.00	15,098.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00	102,885.37	142,004.23
NPgN	0.00	0.00	0.00	16,142.96	0.00	10,147.47	0.00	0.00	0.00	0.00	0.00	0.00	0.00	69,145.70	95,436.13
NPgY	0.00	0.00	0.00	23,162.46	0.00	14,559.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00	99,212.52	136,934.90
SSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	106,622.69	106,622.69
SSEH	0.00	0.00	0.00	7,788.55	0.00	4,895.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	33,360.95	46,045.39
SPD	0.00	0.00	0.00	908.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	70,914.15	71,822.59
SPMW	0.00	0.00	0.00	15,244.52	0.00	9,582.71	0.00	0.00	0.00	0.00	0.00	0.00	0.00	65,297.37	90,124.60
UKPN EPN	0.00	0.00	0.00	36,554.12	0.00	22,977.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00	156,573.49	216,105.54
UKPN LPN	29,717.14	19,971.86	28,656.28	61,656.08	9,635.89	39,880.92	18,860.32	45,224.27	0.00	9,885.79	32,997.80	14,125.05	20,110.11	132,181.39	462,902.90
UKPN SPN	19,050.85	12,803.42	18,370.76	47,516.58	6,177.31	30,589.42	12,090.84	28,992.05	0.00	0.00	21,153.99	9,055.18	12,892.04	118,964.04	337,656.48
WPD EMID	0.00	0.00	0.00	26,671.64	0.00	16,765.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	114,243.52	157,680.95
WPD SWALES	0.00	0.00	0.00	11,417.07	0.00	7,176.77	0.00	0.00	0.00	0.00	0.00	0.00	0.00	48,903.12	67,496.96
WPD SWEST	0.00	0.00	0.00	16,254.71	0.00	10,217.71	0.00	0.00	0.00	0.00	0.00	0.00	0.00	69,624.33	96,096.74
WPD WMID	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total received	48,767.99	32,775.28	47,027.05	287,337.06	15,813.20	181,893.44	30,951.16	74,216.32	0.00	9,885.79	54,151.78	23,180.23	33,002.15	1,187,928.65	2,026,930.09