



Making a positive difference
for energy consumers

To all network companies and
their representatives

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Dear network companies,

The Low Carbon Network Fund Second Tier Reward

This letter sets out our¹ assessment process and determination of the financial reward for the Second Tier Reward (STR) of the Low Carbon Network Fund (LCNF).

In December 2014 we published our decisions on the implementation of the Discretionary Funding Mechanism under the Low Carbon Networks Fund (LCN Fund)². These decisions provide context and should be read in conjunction with this guidance note. The key decisions related to the Second Tier Reward (STR) are summarised as follows:

- There will be two assessments for the STR, one in 2018 and another two years after the final Second Tier project has closed down.
- The total money available for the STR is £61m. This money will be shared equally between the two assessments (£30.5m per assessment period). Funds will not roll over between assessments.
- Projects may only be put forward to one assessment window.
- The 'Expert Panel' will evaluate the Second Tier Reward Reports against the Discretionary Reward Criteria³ 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 STR assessment. This document constitutes this guidance.

Completion of the Second Tier Reward Application

Before completing the Second Tier Reward application, please refer to Section Three of the LCN Fund Governance Document⁴ regarding Funding Directions and Intellectual Property Rights.

¹ 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.

² [Decision on implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund](#), December 2014

³ Paragraph 1.2 of Section two – Discretionary Funding Mechanism of the [Low Carbon Networks Fund Governance Document v.7](#)

⁴ [Low Carbon Networks Fund Governance Document v.7](#)

It is not a mandatory requirement for network companies to submit an application for the STR. Where a network company wishes to apply for the STR, only one application per Second Tier Project will be accepted and each application must be submitted at the project level (i.e. each Second Tier Project with a published Close-Down Report which has not previously been submitted for a Second Tier Reward can submit a Second Tier Reward Report for that specific project)⁵. Where a network company has completed multiple projects that are eligible for the first assessment window of the STR, a separate application must be completed for each project.

There will be a fixed "project level" page limit of up to 32 pages, 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 should be self-contained, where reasonably possible, and should contain succinct evidence that supports the demonstration of the reward criteria. Where possible the evidence should not be new (i.e. evidence that has been presented in their close-down report, in project update reports or evidence that has been previously presented to Ofgem) and may be audited and verified by Ofgem.

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

- Executive summary – 1 page
- Description of project and a summary of how the evidence put forward in the STR application align with each Reward Criterion– 3 pages
- Description and evidence of project compliance with reward criteria, based on the detailed guidance below – 28 pages

The following table must be included within this section

Table 1: Summary of Tier 2 Project

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

*Nominal prices

Section 4.1 of the LCNF Governance Document, relating to the Successful Delivery Reward (SDR) requires network projects to be "*well managed and completed to at least the standard that could be expected*", therefore as a guiding principle for the STR, network companies should explicitly state, where possible, the level assessed for the SDR and how their project outcomes were exceeded, when demonstrating exceptional performance for the STR assessment.

A. Reward Criterion A (up to 20 pages)

Criterion A is about exceptional performance of a project against one or more of the following Detailed Criteria:

- i. Accelerated the development of a low carbon energy sector and has delivered net financial benefits to future and/or existing customers, and/or

⁵ Paragraph 3.4 of Section two – Discretionary Funding Mechanism of the [Low Carbon Networks Fund Governance Document v.7](#)

- ii. Value for money provided to distribution customers in the delivery of the Project, and/or
- iii. Sharing of knowledge amongst all DNOs, and/or
- iv. Relevance and timing of the project, and/or
- v. Demonstration of a robust methodology and that the Project is ready to implement.

In order to ensure that the award criteria are relevant to an ex post assessment it has been determined that that detailed criterion A parts i - v are captured under a single set of requirements as per the tables below. Where there are synergies between the Detailed Criteria we have sought to capture them under a single requirement (therefore the Sub Criteria below may not exactly match the Detailed Criteria shown in the LCNF Governance Document).

When presenting costs and benefits and, unless specified otherwise, network companies should endeavour to present costs and benefits in the **Guidance on quantification of costs and benefits** section 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 criterion is not relevant to the DNO's case, then please state 'Not applicable' and provide a short explain why.

For each sub criteria, where applicable, the application should provide clear page and paragraph references to the relevant Close-Out report.

No	Criterion A Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
A1	Aspects of the Carbon Plan and/or Clean Growth Strategy that have been facilitated	<p>Applicants must provide an explanation of the network issue(s) that the project has proven to have solved (e.g. connecting a 1MW solar project) with clear reference to the Carbon Plan and/or Clean Growth Strategy.</p> <p>For the avoidance of doubt applicants should provide demonstrable evidence of where the project has delivered aspects of the Carbon Plan and/or Clean Growth</p>	Where possible, applicants are encouraged to provide sustained evidence of effectiveness. For example by providing the example of not just "connecting a 1MW solar project" but " connecting a 1 MW solar project with evidence of MWhr output directly attributable to the project."

No	Criterion A Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
		Strategy and not just predictions.	
A2	Releasing network capacity	Applicants must provide a quantified and well justified assessment of the level of network capacity that the project has released. Applicants are required to set out the actual and projected benefits in terms of MW released.	Where relevant, applicants should provide a robust justification for other network issues that the project could solve that were not actively tested in the project.
A3	Delivering Financial Benefits	Applicants must provide a quantified and well justified assessment of the costs and financial benefits with evidence of delivering the solutions as business as usual based on actual experiences in the trial, compared to the traditional approach.	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 project. Please include benefits that may accrue to non-DNO parties; that is, some LCNF projects have beneficiaries beyond the DNO and DNO connected customers.
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 project on the DNO's system and across GB. This should only include situations in which there is clear evidence for the use of the project and provide clear evidence of the applicability of learning to other DNOs. Applicants must also provide a quantified and well justified assessment of the future use of the project 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	Where relevant, the DNO should explain its approach to knowledge dissemination where the DNO considers it to be exceptional.

No	Criterion A Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
		<p>be used, with reference to the current use of the project.</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 project.</p> <p>Where there are similar innovations, the DNO must demonstrate why their innovations would be used over the similar solutions. The DNO must also demonstrate how it has ensured there is no double counting of benefits across its projects for similar solutions.</p>	
A5	Value for money to customers	Applicants must also provide a quantified and well justified assessment of how project funding was used to achieve the greatest outcome for present and future customers.	Where relevant, the applicant should demonstrate value for money by i) demonstrating its approach to minimising the cost of resources used or required, for example competitive processes such as contract/ supplier management ii) demonstrating the efficient use of funding, that is the relationship between the stated project outputs and the funding to achieve them iii) demonstrating the effective use of funding, that is the relationship between the intended and actual results of funding, i.e. how wisely was the funding spent.
A6	Relevance and timing of project	Applicants must provide quantitative or qualitative evidence of exceptional efforts undertaken to achieve the outcomes of the project and how those outcomes are being used in future business planning in order to	Where possible/ relevant, describe and provide evidence of what exceptional efforts were undertaken to achieve those outcomes of the project, and how those outcomes are being used in the DNO's day to day activities.

No	Criterion A Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
		resolve issues identified in project scope.	
A7	Methodology robustness and project readiness	<p>Applicants must demonstrate what exceptional efforts were undertaken that resulted in the project's methodology exceeding those specified in the Full Submission and the reasoning why this was appropriate.</p> <p>Applicants must also demonstrate what exceptional efforts were taken so that the Project's readiness exceeded the Full Submission (eg Project was delivered in timely manner and delivered in ahead of Project Plan).</p>	<p>Where possible/ relevant, describe and provide evidence of how and why the final methodology adopted for the project had evolved to exceed the specifications in the Full Submission.</p> <p>Where possible/ relevant, describe and provide evidence of how the project was delivered ahead of the Project Plan. Where a project was not delivered ahead of the Project Plan, please describe what circumstance led to delayed delivery and what exceptional efforts were taken to ensure that delays were minimised.</p>
A8	Other Benefits		<p>Wherever relevant, applicants should provide a qualitative explanation of other learning that has been developed through the project and has 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 project's aims. This should include an explanation of how this learning has been used by other DNOs, customers and third parties.</p> <p>Where possible, applicants should provide a quantitative estimate of the financial benefits of this other learning, although we recognise this may be difficult.</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 project 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 project 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 criterion is not relevant to the DNO's case, then please state 'Not applicable' and provide a short explain why.

For each sub criteria, the application must provide clear page and paragraph references to the relevant Close-Out report.

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 project 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 project to be successfully delivered. Where possible applicants may also provide details of any additional 'funding in kind' items that are difficult to financially quantify, e.g. discounted goods and services, free use of facilities etc. 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 project 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.	
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C. Reward Criterion C (up to 5 pages)

Criterion C is “To undertake **exceptional** effort to ensure the projects exceeds the expected delivery outcomes and the learning from the project 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.

For each sub criteria, the application must provide clear page and paragraph references to the relevant Close-Out report.

No	Criterion C Sub Criteria	Minimum Mandatory evidence to be supplied	Additional information required where relevant
C1	Demonstrate where the project has delivered more learning than was expected	<p>Applicants must provide evidence of where the project has delivered more learning than was expected at the outset. Applicants must also provide evidence that demonstrates how the additional learning has been utilised.</p> <p>The DNO should link its evidence in this sub criterion to the original expected learning within its LCNF submission document which was used to justify the initiation of the project.</p>	<p>As applicable, applicants should provide full details and evidence of:</p> <p>I. Instances in the project where a planned solution has delivered learning that may accrue to non-DNO parties; that is, some LCNF projects have beneficiaries beyond the DNO and DNO connected customers.</p> <p>II. Instances in the project where a planned solution provides other, unexpected uses than planned (i.e. it addresses other aspects of the Carbon Plan). Also include an explanation of what has been done to realise these unexpected uses.</p> <p>III. Other unexpected learning that has arisen that is 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).</p>

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 learning in a way that maximises value for all customers	Applicants must provide substantiated evidence of how it has exceptionally captured and disseminated the learning in a way that maximises its value for all customers; as well as substantiated evidence of the impact. 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.	Where applicable, applicants should provide evidence of effective dissemination of the learning gained by those organisations who were involved in the successful completion of the project, to allow that role to be completed by the DNO or another third party during and in the event of rollout.

Guidance on quantification of costs and benefits

When presenting costs and benefits and, unless specified otherwise, network companies should endeavour to present costs and benefits on a consistent basis in line with the guidance below. We recognise that in some cases 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 2017/18 prices**.

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.

- 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 (2010/11 until 2015/16).
 - 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 (2010/11 until 2015/16).
 - 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**.

Submission Assessment and timetable

Application deadline

DNOs should submit their STR applications by email to lcfund@ofgem.gov.uk. Please also notify Dinker.Bhardwaj@ofgem.gov.uk and kelvin.hui@ofgem.gov.uk. The deadline for the applications is 17:00 on 4 May 2018. Any application submitted after this time will not be assessed.

We will publish the STR applications on our website⁷. Therefore if the application contains confidential material, separate public (for publishing) and confidential (the version we will assess) 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

⁷ Subject to redactions

recommending and justifying whether an application should qualify for the STR 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 10th September 2018. 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% (£24.4m potentially available across all DNOs for each assessment window)
- Criterion B: 5% (£1.53m potentially available across all DNOs for each assessment window)
- Criterion C: 15% (£4.58m potentially available across all DNOs for each assessment window)

The overall weighting of the STR 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 project.

Appendix A: Indicative Timetable

Dates	Description
Stage 1- Ofgem initial assessment	
4 th May 2018 @ 17:00	Deadline for the submission of Second Tier Reward Reports
Ofgem assessment period (7 th May 2018- 25 th June 2018)	Key stages over this period: <ul style="list-style-type: none"> • initial review by Ofgem (high level Q&A process) • time given for potential resubmission by DNOs Ofgem will confirm the specific timelines for this period of work at least one month before the submission deadline.
Stage 2- Expert Panel assessment window	
Ofgem will confirm the specific timelines of this period of work at least one month before the submission deadline.	
2 nd -13 th July 2018	Initial evaluation by the Expert Panel
16 th -17 th July 2018	<ul style="list-style-type: none"> • DNO and Expert Panel Bilateral • Evaluation continues

30th July 2018	Expert Panel Report (Second Tier Reward Recommendation Report)
Stage 3- Ofgem final review and decision	
10th September 2018	Ofgem expect to publish decision