

LOW CARBON NETWORK FUND (LCNF)
SECOND TIER REWARD

REPORT AND RECOMMENDATIONS

Prepared for
THE GAS & ELECTRICITY MARKETS AUTHORITY

By
THE LCNF SECOND TIER REWARD EXPERT PANEL

August 2018

INTRODUCTION

1. This report prepared by the independent Expert Panel (the Panel) sets out the Panel's recommendations to the Gas and Electricity Markets Authority (the Authority) on the allocation of Second Tier Reward (STR) payments to the Low Carbon Networks Fund (LCNF) projects.
2. Members of the LCNF STR Panel are:
 - Jo Armstrong (Chair)
 - David MacLeman
 - Julian Wayne
3. There were nine submissions made to the LCNF STR bidding round, as follows:
 - Scottish Power Energy Networks (SPEN): Flexible Networks
 - Western Power Distribution (WPD):
 - LV Network Templates (LVNT)
 - Buildings, Renewables and Integrated Storage, with Tariffs to Overcome network Limitations (BRISTOL)
 - Flexible Approaches for Low Carbon Optimised Networks (FALCON)
 - Low Carbon Hub (LCH)
 - Scottish and Southern Electricity Networks (SSEN): Innovation Squared/My Electric Avenue (I2EV/MEA)
 - Northern Powergrid (NPg): Customer Led Network Revolution (CLNR)
 - UK Power Networks (UKPN): Flexible Plug and Play (FPP)
 - Electricity North West (ENWL): Capacity to Customers (C2C)
4. These STR submissions will be available on the Ofgem website.
5. In conducting this review the Panel wishes to acknowledge and reaffirm the wide and significant benefits the LCNF supported innovation projects have delivered and will continue to deliver for GB network customers. The Panel is also impressed by the efforts, enthusiasm and determination of the DNOs and project partners interviewed in delivering project outcomes.

Evaluation methodology

6. The role of the Panel is to make a recommendation to the Authority as to which, if any, of the nine LCNF STR submissions the Panel considers is eligible for a STR reward. To make this recommendation, the Panel followed the evaluation process as set out in Ofgem's LCNF Governance Document (v7) and Ofgem's LCNF STR Guidance Note, dated 27th February 2018.
7. To form our opinions for each project, the Panel considered the evidence from STR submissions, the original project Full Submission documents, information presented in-person by DNOs during their STR bilateral meetings with the Panel, and relevant information contained in further correspondence.
8. To be eligible for the STR, the DNOs had to provide compelling evidence of exceptionality. The responsibility for providing robust evidence to make this case lay with the DNO; the default position is that no STR reward recommendation would be made unless the panel were convinced by the evidence submitted by the DNO that the threshold for exceptionality had been met.
9. The Panel considered the discretionary reward criteria contained in the Guidance Note, and used these to formulate three factors to assess whether or not a project was deemed eligible to be classed as exceptional:
 - i. Has the project delivered above and beyond what was originally expected as stated in the original Project Direction?
 - ii. Is this 'additionality' due to the efforts of the DNO (and/or its project partners), rather than simply because wider macro-factors over which the project has no influence went in the project's favour?
 - iii. Has this 'additionality' brought significant benefits for GB network customers?
10. Our counterfactual for assessing exceptionality was the projected outputs and GB-wide benefits in the project's Full Submission document – these were what the project was funded to deliver. Therefore, simply achieving these outputs is not in itself evidence of exceptionality.
11. Adopting this approach meant that burden of proof was on the DNOs to provide the Panel with evidence of going the extra mile to deliver more than was originally proposed in the project's Full

Submission. The Panel were clear to all DNOs that this was a challenging set of criteria to meet but, if met, recognises that a project has delivered above and beyond the expected outcomes.

12. It was clear in many cases that the STR was not viewed by the DNOs as a critical factor in the inception phase of the project, delivering the project outcomes or in the delivery of exceptional additional benefits for GB customers. This was an additional factor taken into consideration in the Panels' deliberation on the quantum of any reward recommended.

13. This report sets out the results of the Panel's deliberations and its recommendations for the Authority. This report should be read together with the DNOs' STR and original LCNF Full Submissions and other relevant information published concurrently with these documents on the Ofgem website.

EVALUATION OF SUBMISSIONS

14. The Panel considered that one of the nine submissions met the threshold for exceptionality. This is SSEN – I2EV. The reasons for this are set out below.

I2EV – SSEN

Total original LCNF award	£4.2 million
Compulsory DNO contribution	£0.47 million
Additional DNO contribution	Nil
Non-DNO contribution ¹	£5.62 million
Successful Delivery Reward Awarded to DNO	£0.42 million

15. SSEN’s I2EV project was awarded LCNF funding in 2012. EA Technology was the primary project partner and was responsible for project delivery. The aims of the project were to:

- Assess the impact of electric vehicles (EVs) and EV clustering on the distribution network.
- Assess the extent to which Demand Side Response (DSR) solutions can facilitate the connection of EVs and minimise their impact on the network.
- Demonstrate a new project delivery framework by using a non-DNO third party to lead the innovation project.

16. SSEN claimed exceptionality for I2EV based on three points:

- Becoming the ‘go to’ evidence base for parties assessing the impact of EVs in GB.
- Influencing and informing UK legislation.
- Being the first project to demonstrate additional value from being non-DNO led.

17. In considering the first two points, the Panel noted:

- The inclusion in primary legislation of a clause mandating that all EV chargers in GB are ‘smart’. The evidence presented has convinced the Panel that the I2EV project outputs have been instrumental in achieving this, and this is as a result of significant engagement efforts by the project team. We consider that this is a notable achievement, beyond what could have reasonably been expected at the time of Full Submission, and will result in benefits to GB consumers in reducing the adverse network impacts of widescale EV rollout.

¹ This includes in-kind contributions

- We have been convinced by the evidence that the learning from this project has helped give Government the confidence to push ahead with the widescale electrification of cars and vans, and has been a significant factor in support of industry to deliver the rollout.

18. We did not consider that the third claim met the threshold for exceptionality.

19. In summary, whilst producing learning and achieving effective knowledge dissemination should be key parts of every innovation project, we consider that the impact of the learning from this project has gone beyond what could have been reasonably expected at the time of the submission. We have been convinced that this increased impact has been due to the project team's sustained efforts to engage with a wide range of relevant stakeholders to disseminate and assist these third parties in making use of the knowledge. We consider that this increased impact is to the benefit of GB consumers.

20. Based on this, we conclude that SSEN's project has met the threshold for exceptionality.

21. The Panel unanimously agreed that none of the other eight projects met the exceptionality criteria. Some claimed they had delivered increased benefits for GB customers through financial savings; or had accelerated the GB carbon plan by accelerating connections or reducing demand; or had managed unexpected risks that ensured full delivery of the original projected benefits. The Full Submissions for each project provided the Panel with the counterfactual evidence against which all STR exceptionality claims were tested. Although the DNO assertions made were, in the main, factually accurate, the Panel was not persuaded that their STR claims met the threshold for exceptionality. This was usually because, on inspection, the Panel were not convinced that these benefits were significantly above and beyond what was stated in the Full Submission or what would be expected from an LCNF project.

22. As has already been stated above, the default position is that no STR recommendation would be made unless the panel were convinced by the DNOs' evidence that the threshold for exceptionality had been met. It has not been sufficient for DNOs simply to establish the claim on successful delivery of outcomes; they had to deliver significant benefits to GB customers; they had to be clearly more than stated in the Full Submission; and, they had to be achieved by the efforts of the project teams. It is for this reason the Panel did not believe the remaining eight projects merited any STR reward.

RECOMMENDATIONS

23. Our assessment provides the rationale for the Panel's recommendation of a STR reward to be made to SSEN for its I2EV project.

24. In determining the quantum of such a reward, the Panel considered the following issues:

- What was the financial contribution actually made by the DNO which was therefore at risk and might have been lost in the event the project failed;
- What was the quantum of any Successful Delivery Reward payments received by the DNO;
- What might a competitive business hope to receive if it successfully went the extra mile to deliver exceptional outcomes, something the STR incentive mechanism was established, in part, to emulate; and,
- To what extent the DNOs themselves actually believed the STR mechanism had influenced their behaviours and so led to the delivery of the exceptional outcomes.

25. The Panel clearly views the I2EV project as having GB-wide benefits that are, in its view, exceptional and, given the factors assessed above, it recommends an STR award of £300,000.

OTHER PANEL CONSIDERATIONS

26. The purpose of this section is to provide feedback to Ofgem on particular points arising from this Panel assessment and to draw attention to issues that Ofgem may wish to communicate to the DNOs.

The role of the original Project Directions:

27. The review process for this STR incentive mechanism has relied on the context and outcomes that were funded in the original Project Directions. The original LCNF project funding decision was based on the projected benefits and outcomes made by the DNO – these outcomes are what the project was funded to try to deliver. These projected outcomes are therefore the correct benchmark against which to assess whether a project has delivered ‘above and beyond’, and so might be termed ‘exceptional’.

28. The Panel believes reference to this counterfactual has not played a key role in the DNOs’ own STR assessments. It is likely that had each DNO used this as their benchmark for STR, much less time on their part would have been expended in the review process. Critically, therefore, for any future awards (and NIC competitions), the achievement of potential benefits must refer to a clearly articulated counterfactual as an essential first step in making the case for securing additional customers’ money.

Seeking to provide the relevant evidence:

29. The Panel were frustrated by the amount of effort and evidence presented that was not relevant in its assessment of exceptionality. In most cases, each DNO provided evidence of the final project outcomes with limited evidence on what was truly over and above what was committed to in the Full Submission. This inevitably resulted in additional data requests from the Panel and so added to the DNOs’ submission costs. Seeking to identify the correct evidence and make a clear case for exceptionality may actually have reduced the time and costs incurred by all parties involved in this process.

Acknowledgements

30. The Panel is particularly grateful to the Ofgem team that provided excellent support to the Panel, and to the DNOs who engaged positively with the process throughout.