

All interested stakeholders

System & Networks- Electricity Distribution
Policy

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Dear Colleagues,

Decision on Second Tier Reward for the Low Carbon Networks Fund

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

The intent of the LCNF is to enable DNOs to explore and implement innovative and cost effective methods of facilitating the networks' low carbon transition. The STR seeks to imitate the commercial benefits of innovation by rewarding DNOs for exceptional performance in delivering innovation projects.

In May 2018, we received nine applications for the STR. Ofgem and an Expert Panel reviewed the applications against the reward criteria set out in the LCNF Governance Document² and the Guidance Note³. The Expert Panel produced a report (Second Tier Reward Recommendation Report, STRRR⁴) recommending those projects that, in its opinion, qualify for a financial reward under the STR. The STRRR is published alongside this letter on our website. All the Second Tier Reward Reports submitted (STR submissions) by the DNOs are also available on our website⁵.

The total amount of money available for the STR, in this assessment window, is £30.5 million. Based on the Expert Panel's recommendations, which we considered and approved, **we have decided on a total reward of £0.3 million for one out of the nine projects.**

The Discretionary Reward is designed to reward DNOs that provide evidence of exceptional performance against relevant criteria and effort or outcomes for consumers (over and above what might be expected of projects at the time of original funding).

The assessment process

The format of the submissions and the approach used in assessing the STR submissions is set out in the LCNF Governance Document and the Guidance Note.

It requires the Expert Panel to evaluate the STR submissions against the Discretionary Reward Criteria.

Following the Expert Panel's assessment of the STR reports, each project team was invited to a bilateral meeting (July 16-17th 2018) with the Expert Panel to present on their Tier-2 project as well as answer any questions from the Expert Panel.

¹ References to "Ofgem", "the Authority", "we", "us" and "our" are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

² [Low Carbon Networks Fund Governance Document v.7](#)

³ [Guidance Note for the Low Carbon Networks Fund- Second Tier Reward](#)

⁴ Expert Panel Second Tier Reward Recommendation Report

⁵ Decision on Low Carbon Networks Fund- Second Tier Reward, Ofgem website page

Ofgem also raised an information request with all DNOs to understand the GB-wide impact of these projects. In this request for information, we asked the DNOs to provide evidence of the value created by the Tier-2 projects for other electricity networks. This information is relevant to our being able to say with any confidence if and how the Tier-2 projects have created enduring change in the way the networks operate and whether they have added sustainable value for all GB consumers.

The Expert Panel then reviewed each project submission, taking into account the additional information from the bilateral meeting, any further correspondence, and the responses to our request for information. The Expert Panel produced the STRRR, which outlines the recommendation regarding which project it considers eligible to receive a STR. It also explains the reasons for this view and the monetary value of any such reward.

We have considered the STRRR and other relevant information⁶ and have decided to accept the recommendations of the Expert Panel in full, including the recommended monetary value of the reward.

The Expert Panel

The Expert Panel comprised of experts from a range of backgrounds, chosen for their skills and expertise in economics, finance, innovation and engineering. The panel members were:

- Jo Armstrong (Chair) – Chair of Ofgem’s Electricity NIC Panel.
- David MacLeman - Director at MacLeman Associates. Previously, Innovation Strategy Manager at Scottish & Southern Electricity Networks and non-executive director of Smarter Grid Solutions limited.
- Julian Wayne – Director at Culan Strategy. Independent consultant providing support in GB and internationally to stakeholders in the transition to future energy systems.

Summary of Expert Panel’s assessment of the STR submissions

Based on its evaluation, the Expert Panel produced the STRRR.

In this report, it explains the methodology that it used to determine whether the projects are eligible for a STR. It recommends that one project should be rewarded with a STR. This is the My Electric Avenue (also known as I2EV) project. This project was managed by Scottish & Southern Electricity Networks (SEN) along with its delivery partner- EA Technology. The Expert Panel recommend an amount of £0.3 million as STR for this project.

Importantly, the Expert Panel note in its recommendation report that all the nine projects that came forward in this assessment have delivered valuable outcomes and learnings that will ultimately benefit energy consumers. It notes that their recommendation should not be viewed as a judgement on the nature or utility of these projects. Its recommendation is based on review of the evidence provided by the project teams and its analysis within the framework of the Discretionary Reward Criteria as defined in the LCNF Governance Document.

The STRRR focusses on the reasons why the Expert Panel has recommended the ‘My Electric Avenue’ project for a STR and provides general feedback on the other projects that did not meet the threshold in their view.

⁶ The Expert Panel and Ofgem also considered the information in relevant Project Directions, Full Submissions, Close Down Reports and Successful Delivery Reward Decisions as part of this assessment.

Ofgem determination on the STR

Having consulted with the Expert Panel and reviewed the STRRR, we have decided to accept the Expert Panel's recommendation and have determined a total financial reward of £0.3 million for the LCNF Tier-2 project titled, "My Electric Avenue" (also known as I2EV).

Next steps

As outlined in the Electricity Distribution Licence (CRC 2J), Ofgem will issue a direction (the Funding Direction) in December 2018, that will set the recoverable value for the licensee.

If you have any queries about this letter please contact the Electricity Distribution Policy team at RIIO-ED1@ofgem.gov.uk

Yours faithfully,

Grant McEachran

**Head of Electricity Distribution Policy
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