



Promoting choice and value
for all gas and electricity customers

Low Carbon Networks Fund Stakeholder Workshop

30 March 2010

Agenda

9:30	Welcome	Rachel Fletcher, Ofgem
9:40	LCN Fund - Overview	Anna Rossington, Ofgem
9:55	LCN Fund – DNO perspective	Roger Hey, representing ENA
10:10	Q&A	Chaired by Rachel Fletcher
10:20	Introduction to breakout	Anna Rossington, Ofgem
10:35	Breakout sessions	Discussion groups
11:55	Break/reconvene	
12:05	Summary of discussion groups	Group facilitators
12:50	Closing remarks	Sarah Harrison, Ofgem
13:00	Close – opportunity for refreshments / networking	

DPCR5 & Environment

Encouraging DNOs to play a responsible and innovative role in tackling climate change

Incentivise the DNOs to facilitate the move to a low carbon economy

- LCN Fund to stimulate DNO innovation
- Retention of the IFI for early stage research and development
- Strengthened/improved the losses incentive to encourage the reduction of electrical losses on the networks
- Required the DNOs to report their own “carbon footprints”

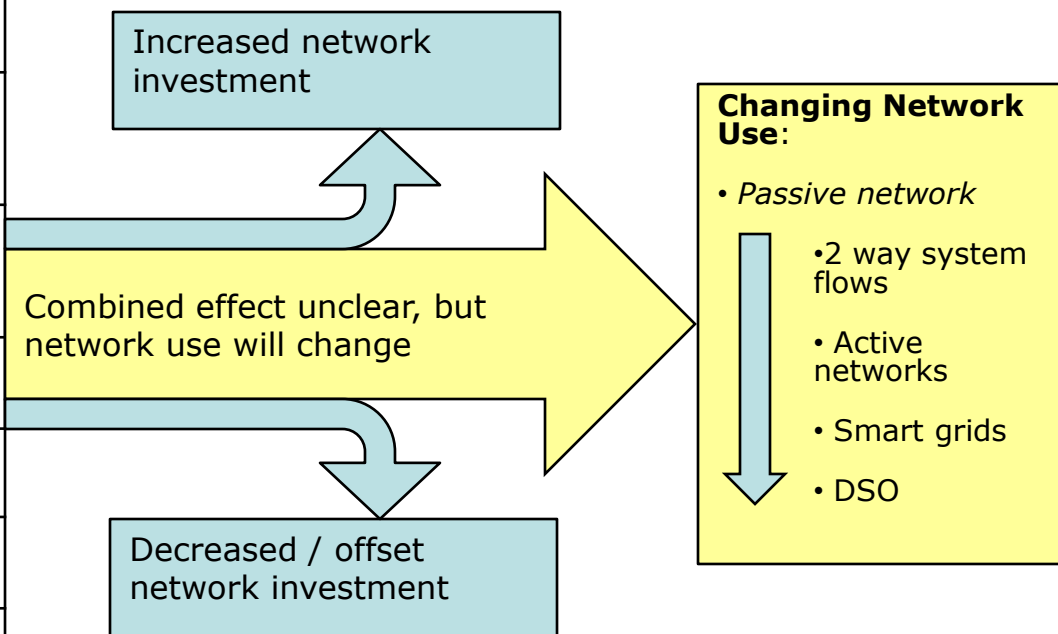
Measures which will help to support DG

- Retained DG incentive to encourage efficient connection of DG
- Equalised incentives on opex and capex, and incentivised the cost of connecting to the transmission network – both should encourage DNOs to consider DSM and DG to address capacity constraints
- Introduced cost reflective charging – benefits DG that reduces need for network reinforcement
- Obligations to provide DG developers with useful and appropriate information, and good connection service

Issues being considered more fundamentally in RPI-X@20 project

Drivers for change in network use

Issue	Consequence
2020 targets	Lower energy use, increased renewables, heat pumps
Planning targets & ZCH	Partial local self sufficiency; more urban DG
Renewable heat incentive	Lower electricity use, more urban DG, district heating
Feed-in tariffs	Partial local self sufficiency
Domestic smart meters	Opportunity for DSM and ANM
Electric cars	Increase in demand but storage potential
Electric storage	Enable more renewable DG connection



There is uncertainty around timing and scale of these changes

LCN Fund requirement

In DPCR5 we concluded that a significant innovation incentive was required

Rationale	Value
<ul style="list-style-type: none"> • Historic regulation focussed on efficiency and service (business as usual) • Low risk companies – failure not funded • No competition to gain market advantage or reap rewards from innovation • Regulatory environment – expectation that catch up will be funded 	<ul style="list-style-type: none"> • Funding sufficient to enable number of “flagship” scale trials • Leverage of funds – one trial drives learning across network • Potential derived value likely to considerably exceed the cost • Reward to mimic innovation earning potential in commercial environment

To encourage the DNOs to facilitate the low carbon initiatives and make the most of opportunities presented

LCN Fund objective

OBJECTIVE:

To encourage the DNOS to use the DPCR5 period to prepare for the role they will have to play as GB moves to a low carbon economy

Respond:

Trial innovative commercial and technical network solutions to:

- Connect increasing renewables
- Managing network impact of increased renewables, demand side management, electric vehicles etc
- Explore active network management, smart grids and other commercial services

Facilitate:

Explore how climate change initiatives impact the networks and the role the DNOs can play, e.g. district heating, ground source heat pumps, energy efficiency measures etc

DNOs trial being a partner and facilitator to energy schemes, providing information, or developing new commercial arrangements

Examples:

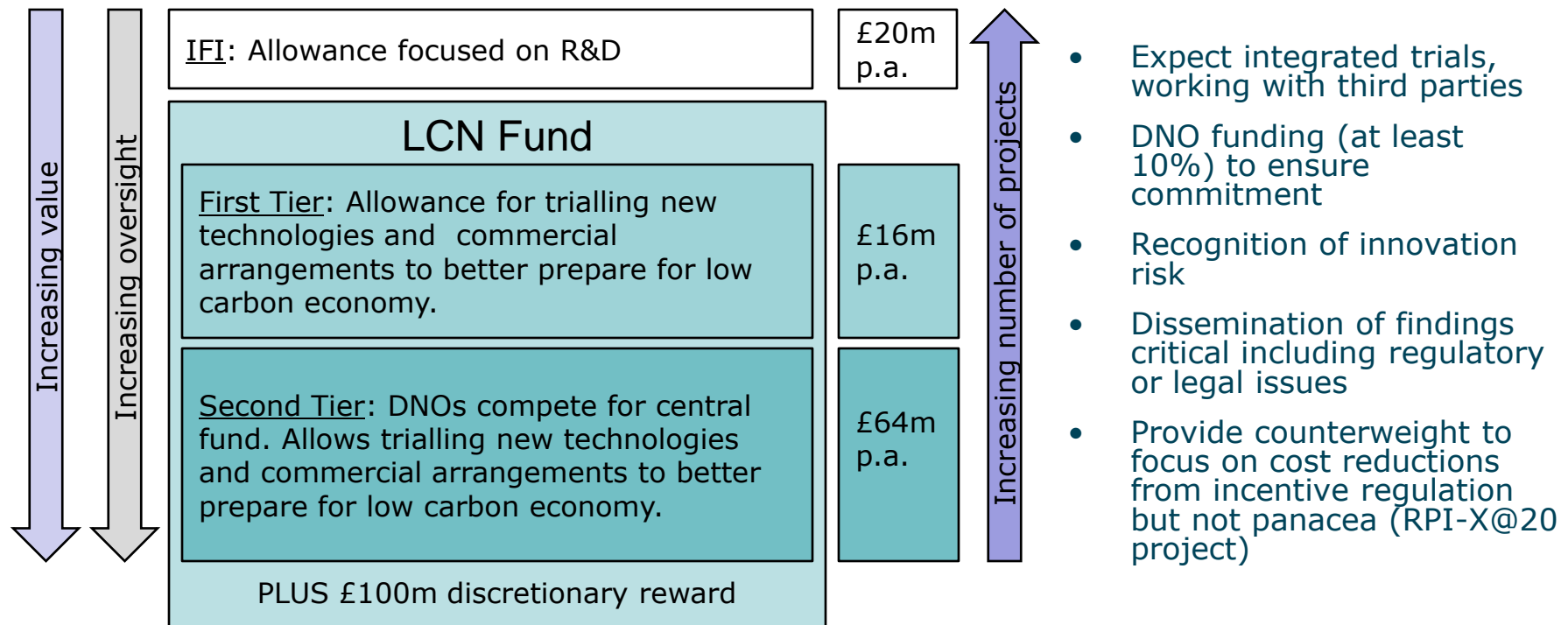
People: recruit hub of new skills, increased training

Investment: novel equipment or enhanced capability

Commercial: revised contractual approach or amended charges

LCN Fund structure

The LCN Fund comprises £500m over the five year price control period



- Expect integrated trials, working with third parties
- DNO funding (at least 10%) to ensure commitment
- Recognition of innovation risk
- Dissemination of findings critical including regulatory or legal issues
- Provide counterweight to focus on cost reductions from incentive regulation but not panacea (RPI-X@20 project)

LCN Fund will develop key learning to inform radical shift in network use. RPI-X@20 developing this thinking further

LCN Fund key elements

Policy set out in DPCR5 Final Proposals

Learning shared across industry as a whole

First Tier

Allocated directly to each DNO

Proportion for DNO "set up" costs

Expect number of small, local projects

Second Tier

Competitive bidding

Annual call to DNOs for proposals

Part funding for a small number of large projects

Expect many projects to involve partnerships. Possible also to leverage other funds and to piggy back on other initiatives

DNOs creating website / portal to encourage third party involvement

Discretionary Reward:

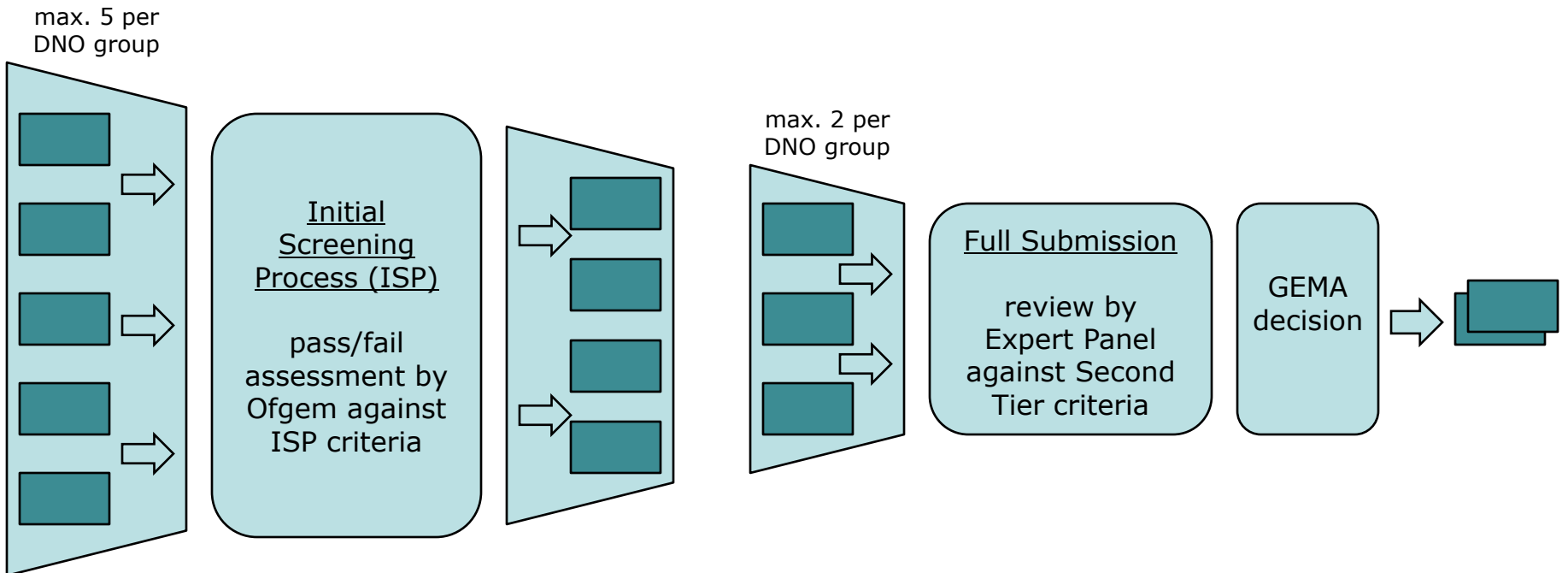
Awarded to projects that are of particular benefit or interest

Governance for First Tier developed – Second Tier & discretionary reward ongoing

LCN Fund criteria

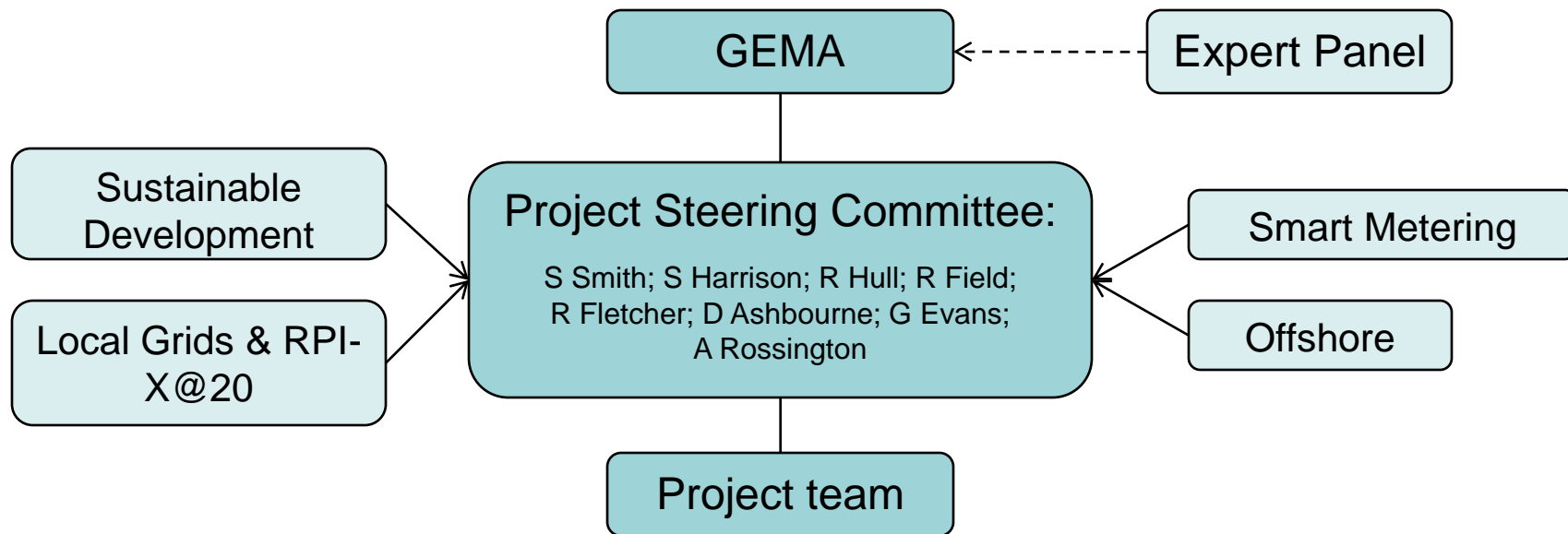
First Tier has rigid criteria in order that DNOs can self-certify compliance in most circumstances - since Second Tier has approval process, criteria can be more flexible

Second tier process:



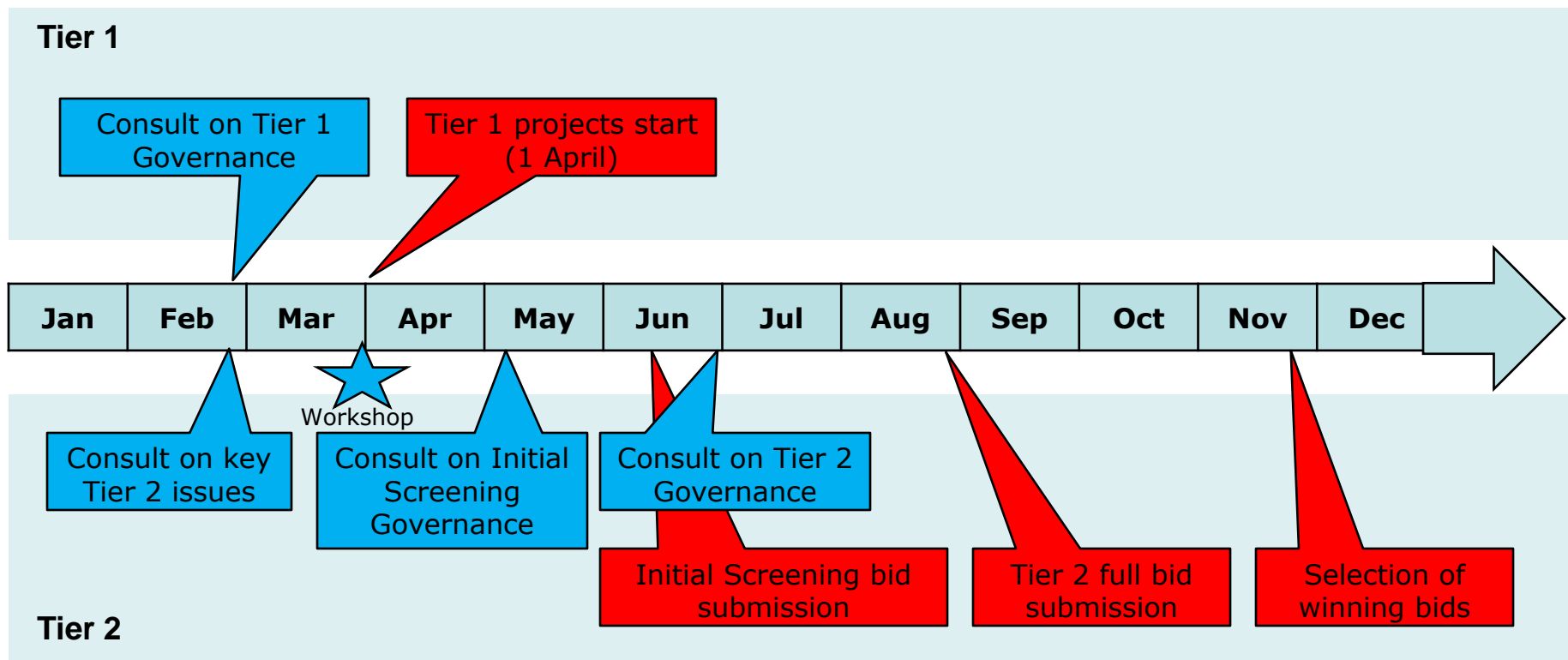
LCN Fund project structure

Development of governance and administration has been set up as an internal project



Project overseen by internal Steering Committee from Ofgem and Ofgem E-Serve

LCN Fund indicative timetable (2010)



Currently consulting on key issues for Second Tier (closes 12 April); call for initial screening submissions in June

Low Carbon Networks Fund

DNO Perspective

Low Carbon Networks Fund

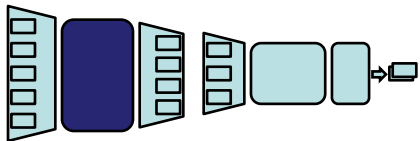
Q & A

Consultation

We invited views on the following issues in the consultation:

- The criteria we might use in screening projects for inclusion in the annual competition for Second Tier funding;
- The evaluation criteria we might use in assessing which project proposals receive Second Tier Funding;
- The arrangements we should put in place regarding the treatment of Intellectual Property Rights (IPRs);
- The criteria we might use to allocate the Discretionary Reward

We have developed these further – and have specific questions – to follow



Initial Screening Process Criteria

We propose that the ISP uses broad criteria based on those used for the First Tier:

ISP criteria

The solution being trialled must:

- accelerate the development of a low carbon energy sector;
- have a direct impact on the operation of the distribution network;
- generate new knowledge that can be shared amongst all network operators; and
- deliver net benefits to existing and/or future customers.

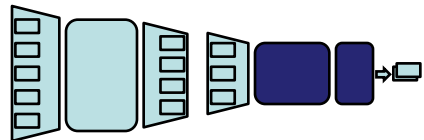
Objectives:

- prevent DNO incurring costs developing “non qualifying” projects
- allow DNOs to “test” more projects than will be eventually submitted
- provide early visibility of types and (approx) amounts of projects

Projects pass or fail:

- don’t want to anticipate Expert Panel recommendation/GEMA decision
- only projects that pass ISP can be submitted in next stage

Are these appropriate?



Second Tier Evaluation Criteria

We propose high level principles based on those used in the First Tier plus additional criteria to look at the quality of the project

Second Tier evaluation criteria

Degree to which the solution being trialled:

- accelerates the development of a low carbon energy sector;
- has a direct impact on the operation of the distribution network;
- has potential to deliver net benefits to existing and/or future customers; and
- generates new knowledge that can be shared amongst all network operators.

Degree to which the project:

- demonstrates a robust methodology and readiness of the project;
- involves other partners and external funding; and
- is relevant and timely

Are these appropriate? Are there any others? Are any more important than others?

Intellectual Property Rights

Key requirement of First and Second Tier projects is that they generate new knowledge that can be shared amongst all DNOs

- How do we ensure that IPR doesn't hinder dissemination of learning?
- Do not want to prevent third parties from collaborating on projects
- Consumer has paid for part of project, so should benefit accordingly
- Since projects are trialling will much foreground IPR be generated?

LCN Fund Governance Document v.1

Where there is *foreground* IPR:

- royalty free licences for IPRs provided to other DNOs;
- royalties earned by DNOs shared with consumers in proportion to contribution
- create Standard Agreement
- Ofgem can allow other arrangements where justified

We welcome your views

Discretionary Reward

Overview

Up to £100m available on a discretionary basis to reward LCN Fund projects:

- Second Tier projects that deliver against a set of criteria determined at time of project approval will be eligible to receive a reward up to the value of the DNO cost contribution
- First Tier and Second Tier projects that best meet a set of criteria set out in Governance Document will also be eligible to receive discretionary rewards

Objectives

Mimic the potential for outperformance from innovation available in competitive markets:

- Encourage DNOs to bring forward the best projects
- Ensure Board-level engagement in participation
- Incentivise good project management and dissemination of learning

Discretionary Reward - Questions

- 1 What should the trade-off be between the size of reward and the number of rewards (e.g. a smaller number of big rewards vs. a larger number of small rewards)?
- 2 How many categories of reward should there be? Should there be separate categories for First Tier and Second Tier projects?
- 3 Degree of learning will be an important criteria for the reward – what other criteria should be taken into account?
- 4 Are there any other issues that we should take into account when designing the discretionary reward arrangements?

Housekeeping

- The breakout sessions are to listen and discuss your views;
- Ofgem facilitator can clarify and explain as and when required;
- Each group will discuss all the questions;
- Facilitators will note key issues, for presentation in the summary session;
- We have a note taker in each group, but sessions will not be minuted;
- Coffee, tea etc available in each room
- Reconvene here at 12:05 for summary of discussions

Group	Facilitator	Room
1	Rachel Fletcher	2
2	Anna Rossington	8
3	Gareth Evans	1
4	Sarah Deasley	1
5	Nicola Cocks	9

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

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