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Dear Keith,

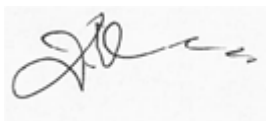
Low Carbon Network (LCN) Fund royalties - Low Carbon London

We established the LCN Fund as part of the last electricity distribution price control, DPCR5. It provides up to £500m of funding over five years to encourage Distribution Network Operators (DNOs) to undertake trials to help address the challenges they face in facilitating the transition to a low carbon economy. The trials are financed by customers through network use of system charges and will generate learning for all network operators. As the projects are funded by all customers, DNOs are required to share any learning developed by the projects. The learning brings potential benefits and cost savings for current and future consumers.

We were very pleased to receive your letter of 11 December 2013 notifying us that you expect to earn royalties from one of your LCN Fund project's, Low Carbon London, in the regulatory year 2013/14. We note that this revenue is from an access fee which will allow Shell International Petroleum Company Limited (Shell) to use the Active Network Management (ANM) system and the Operational Data Store (ODS) developed by the project. As the majority of the project was funded by electricity distribution customers, it is appropriate that all of the access fee that will be paid by Shell, £420,000, will be returned to these customers. We are pleased to note that you will not claim a proportion of the fee or deduct any directly attributable costs.

We are keen that this money is returned to customers as soon as practicable. Therefore, we have included it in the LCN Fund Funding Direction¹ for the regulatory year 2014/2015. We are keen that you keep the figure under review subject to further opportunities to provide value to customers. We encourage you to write to us following any review to allow any further royalties to be returned to customers in future Funding Directions.

If you wish to discuss the contents of this letter, please contact Arun Pontin on 020 7901 3869 or arun.pontin@ofgem.gov.uk in the first instance.



Dora Guzeleva
Head of Networks Policy, Local Grids

¹ The Funding Direction amends each DNOs' allowed revenues to allow the funding for LCN Fund projects to be raised through use of system charges.