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Making a positive difference
for energy consumers

Gwneud gwahaniaeth gwirioneddol
i ddefnyddwyr ynni

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13 May 2022

Dear Yiango,

Decision to halt the DC Share Network Innovation Competition Project

We¹ write further to your letter dated 19 November 2021 seeking permission to halt the DC Share Network Innovation Competition (NIC) Project.

Background

The NIC funds a number of large-scale innovation Projects. It was set up to encourage network licensees to innovate in the design, development, and operation of their networks to address issues associated with the move to a low carbon economy and deliver wider environmental benefits to customers. The NIC Governance Document sets out the regulation, governance and administration of the NIC.²

Western Power Distribution (WPD) was awarded NIC funding for the DC Share Project in November 2019.³ On 18 December 2019, we issued a Project Direction⁴ which outlined the terms to be followed in relation to the DC Share NIC Project as a condition of it being funded under the NIC.⁵ DC Share's Project Budget was £5,287,310, of which £4,715,790 was the Approved Amount to recover from NIC funding.

The purpose of the DC Share Project was to trial a new network topology of a solidly interconnected Low Voltage Direct Current (LVDC) mesh network. The trial was intended to investigate whether such a mesh could economically release spare capacity for groups of rapid chargers for electric vehicles, and if successful, could be replicable across the network.

This letter is our decision on your request to halt the DC Share NIC Project and return unspent NIC funds to consumers.

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority. The terms 'you' and 'your' are used to refer to Western Power Distribution (East Midlands) Plc

² <https://www.ofgem.gov.uk/publications/version-30-network-innovation-competition-governance-documents>

³ <https://www.ofgem.gov.uk/publications/network-innovation-competition-2019-funding-decisions>

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/2020/01/project_direction_-_dc_share_-_signed.pdf

⁵ The Authority issued a Project Direction to WPD pursuant to the Electricity NIC Governance Document issued pursuant to Part E of Charge Restriction Condition 5A (The Network Innovation Competition) of the Electricity Distribution Licence. A copy of this licence can be found on Ofgem's Electronic Public Register: <https://epr.ofgem.gov.uk/Document>

WPD's request to halt the DC Share NIC Project

Within your request, you noted you have carried out an updated cost benefit assessment (CBA) to ascertain the adjusted level of likely benefits prior to beginning the construction phase. You stated that the updated CBA concluded that the Project's method would not be viable or cost effective for business as usual roll-out, and therefore opted to request to halt the Project.

As part of your request to halt the DC Share NIC Project, you stated that out of the original NIC funding of £4,715,790, the sum of £2,010,000 has been spent to date. Additionally, you believe a further £222,870 should be committed to suspension costs. Ultimately, you stated that this means that £2,482,920⁶ of NIC funding is unspent and should be returned to consumers as Halted Project Revenues.

Decision

We have considered your request to halt the DC Share NIC Project and we are of the view that it would be appropriate in the circumstances, and in the best interests of consumers, to halt the Project.

This is because we agree with the conclusion from your updated CBA that the Project would no longer be viable or cost effective for business as usual roll-out. We particularly note the following reasons you put forward in your request to halt the Project:

- the rapid evolution and downward cost pressures across the rapid electric vehicle (EV) charging sector in general, providing a faster, more cost-effective, and more agile solution for customers;
- the additional costs uncovered, such as for modification of substations, additional back office systems required for at scale replication, and establishing LV connection points;
- the number of commercial customers connected at high voltage reducing the likelihood of successful LVDC meshes as the load profiles across substations are not dissimilar enough;
- the practical lessons learned around the timing of capacity delivery, which being mainly overnight is of less benefit in urban centres; and
- that the capacity created is not as resilient as that created via other approaches.

After considering your request, we are satisfied that you have justified that the Project does not have the potential to be rolled out to business as usual activities, and halting the Project is in the best interest of customers. To maximise the value gained from the DC Share Project, we noted from your change request that you have committed to using the learning obtained from engagement with Electric Vehicle Charge Point (EVCP) customers and invest your own money to deliver a project that will create new EVCP connection products that meet customers' requirements and expectations.

As per the Electricity Network Innovation Competition Governance Document V3.0, you must provide a Close Down Report within three calendar months from the date of this decision, documenting these learnings and share a copy of this report on the Smarter Networks Portal.⁷ Further guidance on the requirements and contents of Close Down Reports is provided in Paragraphs 8.34 – 8.42 and in Appendix 2 to the Governance Document.

⁶ Original NIC Funding (£4,715,790) minus spend to date from NIC Funding (£2,010,000) minus suspension costs (£222,870) = £2,482,920 to be returned to consumers as Halted Project Revenues

⁷ <https://smarter.energynetworks.org/>

We recognise there is a disagreement among Project Partners regarding Project suspension costs, including what costs are due between Project Partners and ultimately what Project suspension costs should be recovered from NIC funding. However, disputes regarding what costs may or may not be due between Project Partners is a commercial matter outside Ofgem's remit.

We have asked you to set out and explain the Project suspension costs that you were seeking to recover from NIC funding. And in response to our questions, you explained and provided evidence that £222,870 of Project suspension costs were due to cover payments for committed work and costs project partners' incurred to close down activities within the project. We have relied on your response, evidence provided and our assessment of the circumstances in arriving at this decision.

In line with your request and the evidence provided, you can recover £222,870 from NIC funding to cover Project suspension costs. As provided in Paragraph 8.43 of the NIC Governance Document, such costs can be recovered from the Project Budget as they were committed to the project prior to the request to halt the Project.

We therefore determine that £2,482,920 of the unspent NIC funding is deemed to be Halted Project Revenues and should be returned by WPD to the System Operator. These Halted Project Revenues will be returned through the next Funding Direction which is likely to be issued in early 2023, as detailed in chapter 7 of the Electricity Network Innovation Competition Governance Document V3.0.⁸

We confirm that the effect of this decision is to halt the DC Share NIC Project and that the conditions in DC Share's Project Direction issued on 18 December 2019⁹ will no longer apply after the Project has provided its close down report to the Authority.

If you would like to discuss any of the issues raised in this letter, please contact Graeme Barton at Graeme.Barton@ofgem.gov.uk.

Yours sincerely,

Graeme Barton
Head of Price Control Operations: Small & Medium Sized Projects
For and behalf of the Authority

⁸ <https://www.ofgem.gov.uk/publications/version-30-network-innovation-competition-governance-documents>

⁹ https://www.ofgem.gov.uk/sites/default/files/docs/2020/01/project_direction_-_dc_share_-_signed.pdf