

Company Secretary
Northern Powergrid
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Date: 24th February 2023

Dear Company Secretary,

Project Direction ref: NPg/ Community DSO / 24th February 2023¹

Northern Powergrid (Northeast) plc (NPg) submitted the project Community DSO (the Project) in July 2022 to be considered for funding through the Electricity Network Innovation Competition (NIC).² In the 2022 NIC decision³, we⁴ selected the Project⁵ for conditional funding.

As a condition of its licence, NPg must comply with the terms contained in this Project Direction as a condition of the Project receiving funding through the Electricity NIC. These terms can be found in the Schedule to this Project Direction.

Project Direction

Chapter 5 of the Electricity NIC Governance Document⁶ states that a Project Direction will:

¹ This Project Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989

² [To be updated when publication goes live](#)

³ [NIC Decision 2022 \(ofgem.gov.uk\)](#)

⁴ The terms the "Authority", "Ofgem", "we", "our" and "us" are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority

⁵ Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

- set out the Project-specific conditions that the Network Licensee is committing to in accepting funding;
- require the Network Licensee to undertake the Project in accordance with the commitments it has made in the Full Submission⁷;
- set out the Approved Amount for the Project, that will form part of the calculation contained in the Funding Direction issued by the Authority under Chapter 7 of the Governance Document;
- set out the Project budget that the Network Licensee must report against and how variances against the Project budget will be reported and approved/rejected; and
- set out the mechanism for the Network Licensee receiving the Approved Amount as set out in the Funding Direction.

The above requirements are described for the Project in the Schedule to this Project Direction.

Decision

Provided NPg complies with the Electricity NIC Governance Document and with the Schedule to this Project Direction, the Project is deemed to be an Eligible NIC Project.⁸

This Project Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Graeme Barton

**Head of Price Control Operations – Small & Medium Sized Projects
For and on behalf of the Authority**

⁷ Where appropriate, the Project Direction may therefore include extracts from the Full Submission or refer to specific sections of the Full Submission.

⁸ Eligible NIC Project has the meaning given in definitions of the Electricity Distribution licence.

Schedule to Project Direction

1. TITLE

Project Direction ref: NPg / Community DSO / 24th February 2023

2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to Northern Powergrid (Northeast) plc (the "Funding Licensee") 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 (the "Licence"). It sets out the terms to be complied with in relation to Community DSO (the "Project") as a condition of it being funded under the NIC and the Funding Return Mechanism.⁹

Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

References to specific sections of the Funding Licensee's Full Submission in this Project Direction are, for ease of reference, made by referring to the section number in the Funding Licensee's Full Submission pro-forma.

3. CONDITION PRECEDENT

In accepting funding for the Project, the Funding Licensee is subject to the following Project-specific conditions:

Condition 1

The Funding Licensee will not access any funds from the Project Bank Account until contracts are signed with the Project Partners named in Table 1 for the purpose of completing the Project.

⁹ The Funding Return Mechanism is defined in Part C of Charge Restriction Condition 5A.

Table 1. Project Partners

Delta EE
TNEI

4. COMPLIANCE

The Funding Licensee must comply with Charge Restriction Condition 5A, the Electricity NIC Governance Document (as may be modified from time to time in accordance with Part E of Charge Restriction Condition 5A) together with this Project Direction and upcoming Funding Direction.

Any part of the Approved Amounts that the Authority determines not to have been spent in accordance with this Project Direction (or in accordance with the Electricity NIC Governance Document) is deemed to be Disallowed Expenditure.

Pursuant to Charge Restriction Condition 5A, Disallowed Expenditure is any revenue received (whether by the Funding Licensee or by another Licensee) from the System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the Electricity NIC Governance Document or the terms of the relevant Project Direction.

Pursuant to Chapter 8 of the Electricity NIC Governance Document, Disallowed Expenditure includes any funds that must be returned if the Project is halted without the Authority's permission, any funds that have not been spent in line with the approved Project Budget contained within this Project Direction, any unspent funds on the completion of the Project and any Directly Attributable Costs that the Authority deems to have been misreported following a Project audit. In particular, it includes the proportion of funds associated with a Project Deliverable (as proposed by the Funding Licensee), where the Funding Licensee is deemed by the Authority to be at fault for the non-delivery of that Project Deliverable.

5. APPROVED AMOUNT FOR THE PROJECT

The Approved Amount is **£12,450,000.00**

The Approved Amount will be recovered by the System Operator from GB customers and transferred to the Funding Licensee in the Regulatory Year following the issue of this Project Direction. The Regulatory Year is a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next calendar year. Transfer of revenue between the System Operator and the Funding Licensee must be made monthly on an equal basis, for the entirety of the Regulatory Year, on the day of the month agreed by the Funding Licensee making the transfer. The Funding Licensee is responsible for notifying the System Operator of the bank account details to which transfers must be made. If a Funding Licensee is required to return funding to the System Operator, the reverse applies.

6. PROJECT BUDGET

The Project Budget is set out in Annex 1 of this Project Direction.

The Funding Licensee will report on expenditure against each line under the category total in the Project Budget, and explain any projected variance against each line total in excess of 5% as part of its detailed report which will be provided, in accordance with Chapter 8 of the Electricity NIC Governance Document. Ofgem will use the reported expenditure and the explanation to assess whether the funding has been spent in accordance with the Electricity NIC Governance Document and with this Project Direction.

7. PROJECT IMPLEMENTATION

The Funding Licensee must undertake the Project in accordance with the commitments it has made in the Full Submission approved by the Authority pursuant to the Electricity NIC Governance Document and with the terms of this Project Direction. These include (but are not limited to) the following:

- (i) undertake the Project in accordance with the description set out in Section 2 (Project Description) of the Full Submission;
- (ii) provide a Network Licensee Compulsory Contribution of £1,457,000;
- (iii) complete the Project on or before the Project completion date of 23 December 2027; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination) of the Full Submission.

8. REPORTING

Ofgem may issue guidance (and amend it from time to time) about the structure and content of the Project Progress Report required by Chapter 8 of the Electricity NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports.

As required by Chapter 8 of the Electricity NIC Governance Document, the Funding Licensee must inform the Authority promptly in writing of any material event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

9. INTELLECTUAL PROPERTY RIGHTS (“IPR”)

In Section 5 of its Full Submission (Knowledge Dissemination) the Funding Licensee has stated that the Project conforms to the default IPR arrangements set out in Chapter 9 of the Electricity NIC Governance Document. The Funding Licensee must therefore undertake the Project in accordance with the default IPR arrangements.

10. PROJECT DELIVERABLES

At the end of a Project, the Funding Licensee must commission a report from an independent third party that verifies whether the Project Deliverables set out in Table 2 below (which comply with Chapter 5 of the Electricity NIC Governance Document) have been achieved.

After it has received the report, the Funding Licensee must send it to the Authority. Where a Project Deliverable has not been achieved we will consider whether funding should be returned to customers using the Funding Return Mechanism. If the Funding Licensee is deemed by the Authority to be at fault for the non-delivery of the Project Deliverable, it is the proportion of funding assigned to it within Table 2 below, which may be returned to customers.

Table 2. Project Deliverables

Ref	Project Deliverable	Deadline	Evidence	NIC funding request
Research and analysis deliverables				
1	Design phase, initial report	Feb 2024	<ul style="list-style-type: none"> • Network analysis methodology to support trial identification and selection • Initial findings on control algorithm options • Review of comms/control options and needs • Business model options 	5%
2	Design phase, interim report	Jul 2024	<ul style="list-style-type: none"> • Outputs of network analysis • Development and evaluation of options for DNO and Community DSO technical solutions • Community DSO legal/governance structures 	3%
3	Design phase, final report	Oct 2024	<ul style="list-style-type: none"> • Technical and commercial trial specifications and defined roles and responsibilities • Designs for Trial 1. 	6%
4	Iterate phase, report 1	Dec 2025	<ul style="list-style-type: none"> • Iterated designs/specifications for Trials 2 & 3. • Interim reporting of findings from Trial 1 	4%
5	Iterate phase, report 2	Oct 2026	<ul style="list-style-type: none"> • Iterated designs and specifications for Trial 4 • Further reporting of findings from Trial 1 • Reporting of findings from Trials 2 and 3 	7%
6	Evaluate phase, interim report	Oct 2027	<ul style="list-style-type: none"> • Findings from simulated network trials • Comprehensive technical and commercial analysis of all four physical trials 	4%
7	Evaluate phase, final report	Mar 2027	<ul style="list-style-type: none"> • Project Closedown Report • Detailed enduring specifications and designs • Methods and processes for future adoption • Community DSO Toolkit integrating learnings from trials • Recommendations and future roadmaps 	9%
Network trial deliverables (sequential nature of trials allows for an iterative process with learnings being fed into later trials).				
A	Trial 1 Go-Live	Dec 2024	<ul style="list-style-type: none"> • Site identification and site selection 	12%

			<ul style="list-style-type: none"> • Trial provider procurement • Trial set-up • Detailed trial plan 	
B	Trials 1 Completion	Oct 2025	<ul style="list-style-type: none"> • Trial progress report • Trial outputs • Trial decommissioning 	12%
C	Trials 2 & 3 Go-Live	Dec 2025	<ul style="list-style-type: none"> • Site identification and site selection • Trial provider procurement • Trial set-up • Detailed trial plan 	12%
D	Trial 2 & 3 Completion	Oct 2026	<ul style="list-style-type: none"> • Trial progress report • Trial outputs • Trial decommissioning 	12%
E	Trial 4 Go-Live	Dec 2026	<ul style="list-style-type: none"> • Site identification and site selection • Trial provider procurement • Trial set-up • Detailed trial plan 	7%
F	Trial 4 Completion	Oct 2027	<ul style="list-style-type: none"> • Trial progress report • Trial outputs • Trial decommissioning 	7%

11. USE OF LOGO

The Funding Licensee and the Project Partners, External Funders and Project Supporters¹⁰ may use the NIC logo for purposes associated with the Project but must not use the Ofgem logo in any circumstances. They are also permitted to use their own logo for such purposes.

12. AMENDMENT OR REVOCATION

As set out in Chapter 8 of the Electricity NIC Governance Document and this Project Direction, this Project Direction may be amended or revoked under the following circumstances:

- (i) if the Funding Licensee considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees; or
- (ii) to reflect amendments made to the Licence.

¹⁰ As listed in Box 1.6 in Section 1 of the Full Submission pro-forma.

13. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in Chapter 8 of the Electricity NIC Governance Document relating to the halting of projects. By extension, this Project Direction is subject to any decision by the Authority to halt the Project to which this Project Direction relates and to any subsequent relevant Funding Direction issued by the Authority pursuant to Charge Restriction Condition 5A.

In the event of the Authority deciding to halt the Project to which this Project Direction relates, the Authority may issue a statement to the Funding Licensee clarifying the effect of that halting decision as regards the status and legal force of the conditions contained in this Project Direction.

NOW THEREFORE:

In accordance with the powers contained in the Electricity NIC Governance Document issued pursuant to Part E of Charge Restriction Condition 5A of the Licence, the Authority hereby issues this Project Direction to the Funding Licensee in relation to the Project (Community DSO).

This constitutes notice of reasons for the Authority's decision pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

ANNEX 1: PROJECT BUDGET

Cost Category	Cost
Labour	
WP1 - Project coordination	1,165.57
WP2 - Community engagement	486.37
WP3 - Networks and analysis	-
WP4 - Controls and systems	351.21
WP5 - Commercial and regulatory	-
WP6 - Network trials	191.87
Equipment	
WP1 - Project coordination	-
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
Contractors	
WP1 - Project coordination	-
WP2 - Community engagement	-
WP3 - Networks and analysis	1,587.12
WP4 - Controls and systems	352.22
WP5 - Commercial and regulatory	2,067.38
WP6 - Network trials	8,188.47
IT	
WP1 - Project coordination	61.58
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
IPR Costs	
WP1 - Project coordination	-
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
Travel & Expenses	
WP1 - Project coordination	119.03
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
Payments to users	
WP1 - Project coordination	-
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
Contingency	
WP1 - Project coordination	-
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
Decommissioning	
WP1 - Project coordination	-
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
Other	
WP1 - Project coordination	-
WP2 - Community engagement	-
WP3 - Networks and analysis	-
WP4 - Controls and systems	-
WP5 - Commercial and regulatory	-
WP6 - Network trials	-
Total	14,570.82

