



Company Secretary  
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*Promoting choice and value for all gas  
and electricity customers*

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Date: 19 July 2010

Dear Colleague,

### **Decision on Electricity North West Limited (ENW) Low Carbon Networks (LCN) Fund Second Tier Screening Submission**

In the Final Proposals of the electricity Distribution Price Control Review (DPCR5), we proposed a £500m Low Carbon Networks (LCN) Fund to encourage the DNOs to use the DPCR5 period to try out new technology, operating and commercial arrangements. The objective of these trials and demonstration projects is to help DNOs understand how they provide security of supply at value for money as Great Britain (GB) moves to a low carbon economy, and what role they could play in facilitating the low carbon and energy saving initiatives that are underway to tackle climate change.

The regulation, governance, and administration of the LCN Fund are set out in the LCN Fund Governance Document<sup>1</sup> issued pursuant to Charge Restriction Condition 13 of the Electricity Distribution Licence. The LCN Fund Governance Document states that under the Second Tier Funding Mechanism, DNOs can submit project proposals which compete annually for funding. In order to compete for this funding, a project must first pass the Initial Screening Process (ISP). Under the ISP, DNOs must submit a summary proposal of their project (Screening Submission) which the Authority will use to assess the project against the Eligibility Requirements set out in the LCN Fund Governance Document.

### **ENWT2001 – Manchester Northern Gateway Smart Grid Project**

On 21 June 2010, ENW submitted a Screening Submission summarising their Second Tier LCN Project entitled 'Manchester Northern Gateway Smart Grid Project'<sup>2</sup> (the Project). The Authority has now assessed the Project against the Eligibility Requirements using the information provided in the Screening Submission. The Authority considers the Project has **met the Eligibility Requirements and has therefore passed the ISP**. The Authority's reasons are set out below.

#### *Authority's reasons*

In order to pass the ISP a Second Tier LCN Project must meet at least one of the four specific requirements set out in Chapter 2 of the LCN Fund Governance Document.

<sup>1</sup> Version 2 of the Governance document can be found at:  
<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Pages/lcnf.aspx> alongside the Authority's Notice of its intention to publish version 3 of the Governance document.

<sup>2</sup>The first page of ENW's Screening Submission for their Project 'Manchester Northern Gateway Smart Grid Project' can be found at:  
<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/Documents1/ENWT2001summary.pdf>

A Second Tier LCN Project must involve the trialling on the Distribution System of at least one of the following:

- A specific piece of new (i.e. unproven in GB) equipment (including control and communications systems and software) that has a Direct Impact on the Distribution System,
- A novel arrangement or application of existing Distribution System equipment (including control and communications systems software),
- A novel operational practice directly related to the operation of the Distribution System, or
- A novel commercial arrangement.

The project meets three of the four specific requirements through the deployment of new equipment that will automate, monitor and control connected Distributed Generation ("DG"). The equipment will be integrated in novel ways that will allow localised demand management and enable DNOs to engage with customers through new commercial arrangements.

In addition to meeting at least one of the Specific requirements, a Second Tier LCN Project must also meet all of the criteria set out in Chapter 2 of the LCN Fund Governance Document. The Authority has considered ENW's Project against all these criteria.

**(a) Accelerates the development of a low carbon energy sector**

The Authority notes [REDACTED] of connected DG to balance generation with demand which will seek to facilitate the local production and use of low carbon electricity. Facilitating the connection of low carbon DG is cited in the Department of Energy & Climate Change's (DECC) Low Carbon Transition Plan<sup>3</sup> as part of the UK's strategy to reduce carbon emissions. Therefore, the Authority considers that the Project meets this criterion.

**(b) Has a Direct Impact on the operation of the distribution network**

The Authority notes that the Project [REDACTED] on the distribution network in a measurable way so as to reduce the need for reinforcement. We are therefore satisfied the Project meets this criterion.

**(c) Creates new knowledge that can be shared amongst DNOs**

The Authority notes the Project seeks to test security systems and commercial arrangements alongside the operation and connection of DG to help design and construct a largely new distribution network. The Authority considers that this will produce new learning which is relevant to DNOs. Furthermore, the Authority notes that the Project will engage with a number of academic institutions to help capture and present the new learning [REDACTED]. The Authority is satisfied the Project meets this criterion.

**(d) Has the potential to deliver net benefits to existing and/or future customers**

This Project seeks to assist a major investor in integrating renewable technologies onto local distribution networks and accelerate the adoption of low carbon technologies alongside consumer engagement. The Project seeks to balance local generation with demand which may lead to reductions in distribution use of system (DUoS) charges to customers through reducing the need for network reinforcement. We are therefore satisfied the Project meets this criterion.

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<sup>3</sup> [http://www.decc.gov.uk/en/content/cms/publications/lc\\_trans\\_plan/lc\\_trans\\_plan.aspx](http://www.decc.gov.uk/en/content/cms/publications/lc_trans_plan/lc_trans_plan.aspx)

**(e) Focuses on network Solutions which are at the trialling stage and require Second Tier funding**

The Authority notes that a number of the technologies intended for trial have been tested within a limited environment using other funding initiatives. However, the Authority notes this Project allows the integration of these technologies at a wider scale, which would not be possible under business as usual. The Authority is therefore satisfied the Project meets this criterion.

This decision constitutes notice under section 49A of the Electricity Act 1989.

If you have any questions in relation to this letter please contact Mark Askew at [mark.askew@ofgem.gov.uk](mailto:mark.askew@ofgem.gov.uk) or on 0207 901 7022.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is positioned above the printed name.

**Rachel Fletcher**

Partner, Distribution

**Signed on behalf of the Authority and authorised for that purpose by the Authority**