



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

Our Ref: SPT2002
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Date: 19 July 2010

Dear Colleague,

Decision on SP Manweb plc (SP Manweb) 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 Document¹ 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 Chapter 2 of the LCN Fund Governance Document.

SPT2002 – South Liverpool Smart Grid

On 21 June 2010, SP Manweb submitted a Screening Submission summarising their Second Tier LCN Project entitled 'South Liverpool Smart Grids'² (the Project). The Authority has now assessed the Project against the Eligibility Requirements. 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 the LCN Fund Governance Document.

¹ 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.

²The first page of SP Manweb's Screening Submission for their Project 'South Liverpool Smart Grid' can be found at:
<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/Documents1/SPMTier2LCNF4001summary.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 Authority notes the Project meets the first and third specific requirements through its use of storage alongside new monitoring and communications infrastructure to allow the network to be managed in novel ways for the benefit of a number of parties.

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 SP Manweb's Project against all these criteria.

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

The Authority notes that the Project will seek to optimise the integration of low carbon distributed generation (DG), energy storage and monitoring of energy usage. The facilitation of DG in conjunction with demand side management³ (DSM) to optimise the use of the distribution system is cited in the Department of Energy and climate Change's (DECC)⁴ Low Carbon Transition plan⁵. We are therefore satisfied that the Project meets this criterion.

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

The Authority notes that the Project seeks to install network monitoring in order to obtain dynamic information to control the loading of the distribution network in a measurable way in order to facilitate the lower cost connection of DG onto the distribution network. The Authority is therefore satisfied that the Project meets this criterion.

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

The Authority notes the Project will capture data of customers' behaviour alongside the use of storage to improve understanding of network loadings. This may provide an alternative to network reinforcement to facilitate DG connection and enable more effective future network designs. The Authority considers this information will be beneficial to DNOs. Furthermore, we note that the Project includes capturing quantitative data which will be analysed by academics and the learning will be shared with all distributors. Therefore, the Authority is satisfied the Project meets this criterion.

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

Network monitoring will facilitate the lower cost connection of DG, electric vehicle charging points and heat pumps enabling a reduction in carbon emissions. The Authority is therefore satisfied the project meets this criterion.

³ Demand side management entails actions that influence the quantity or patterns of use of energy consumed by end users, such as actions targeting reduction of peak demand during periods when energy-supply systems are constrained

⁴ 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 the Project involves the use of a number of technologies (storage, DG, network monitoring) which have not previously been integrated and deployed together on the network at such a scale, therefore the Authority is satisfied the Project meets this criterion

This decision constitutes notice pursuant to 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 or on 0207 901 7022.

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

Rachel Fletcher

Partner, Distribution

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