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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 Scottish Hydro Electric Power's ("SSE Hydro") 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.

#### **SEET2001 – Northern Isles New Energy Solutions (NINES)**

On 21 June 2010, SSE Hydro submitted a Screening Submission summarising their Second Tier LCN Project entitled 'Northern Isles New Energy Solutions (NINES)'<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 Chapter 2 of the LCN Fund Governance document.

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<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 SSE Hydro's Screening Submission for their Project 'Northern Isles New Energy Solutions' can be found at: [http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/Documents1/SSET2001\[1\]summary.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/Documents1/SSET2001[1]summary.pdf)

A Second Tier 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 involves the deployment of new equipment, in particular large scale storage, alongside the novel operation of demand control and storage to assist the operation of the network. The Project also employs new commercial arrangements. Therefore, the Authority considers that the Project meets three of the four specific requirements.

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 SSE Hydro's Project against all these criteria.

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

The Authority notes that the Project seeks to combine network management (including the control of electric heating), storage and active load control in order to enable a greater penetration of renewable generation. The Authority notes that facilitating renewable generation (and in particular low carbon distributed generation (DG)) is a crucial part of the Department of Energy and Climate Change's (DECC) Low Carbon Transition Plan<sup>3</sup> to reduce carbon emissions in the UK. The Authority therefore 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 will use active management of heating demand with both thermal and chemical energy storage to control the constraints on the distribution network in a measurable way in order to facilitate the connection of DG to the distribution network. Therefore, the Authority is satisfied that the Project meets this criterion.

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

The Authority notes that the Project will gather new knowledge on the relationship between variable generation and actively managed demand to establish optimum operating techniques for low carbon systems. Also, a better understanding will be gained of the way that suppliers and end users respond to actively managed networks. The Authority considers that, given the scale of the Project, this is new knowledge which will be useful to DNOs. We note that the Project involves analysis of customer behaviour and dissemination of the lessons learnt via both an online portal and visitors centre. The Authority is therefore satisfied that the Project meets this criterion.

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

The Authority notes that the Project's active network management will provide more flexible commercial arrangements for new renewable generators and commercial users and easier connections for low carbon devices with the potential to reduce overall energy costs. Therefore, the Authority considers that 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 the integration of active network management including large scale storage on the network does not represent business as usual for a distribution business and should clearly be trialled prior to widespread deployment. The Authority therefore considers that 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](mailto:mark.askew@ofgem.gov.uk) or on 0207 901 7022.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is written over a light grey rectangular background.

**Rachel Fletcher**

Partner, Distribution

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