



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

Our Ref: SSET2002
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Date: 19 July 2010

Dear Colleague,

Decision on Southern Electric Power Distribution's (SSE Southern) 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 the LCN Fund Governance Document.

SEET2002 – Thames Valley Vision

On 21 June 2010, SSE Southern submitted a Screening Submission summarising their Second Tier LCN Project entitled 'Thames Valley Vision'² (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.

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

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 SSE Southern's Screening Submission for their Project 'Thames Valley Vision' can be found at: <http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/Documents1/SSET2002summary.pdf>

- 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 will deploy new equipment on the network, including storage and network monitoring equipment, to allow active network constraint management. New commercial opportunities will be developed to allow storage and demand response to be traded. Consequently, 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 Southern'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 actively manage network constraints in order to enable the connection of micro generation and distributed generation (DG) while mitigating network impacts. This will better facilitate the connection of low carbon DG, which is a crucial part of the Department of Energy and Climate Change's (DECC) Low Carbon Transition Plan³ to reduce the UK's 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 will deploy active network management which will seek to control the loading condition of the distribution network in a measurable way. The Authority is therefore satisfied that the Project meets this criterion.

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

The Authority notes that the Project will trial a number of solutions to inform future investment in new network technologies/solutions. Since such solutions are not yet commonly deployed the trials are expected to produce learning which will be beneficial to DNOs. We note that the learning from the Project will be captured and disseminated via local universities, councils and communities. 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 through the active management of constraints on the network, the Project will enable domestic customers to connect low carbon devices more cheaply and quickly than otherwise. Customers will also benefit from the reduced need for network reinforcement in the form of cheaper distribution use of system (DUoS) charges. Therefore the Authority is content that the Project meets this criterion.

³ http://www.decc.gov.uk/en/content/cms/publications/lc_trans_plan/lc_trans_plan.aspx

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

The Authority notes the Project involves the deployment and integration of equipment which is untested at the scale planned and is not in widespread use on the distribution system. Therefore, the Authority is satisfied that the Project is at the trialling stage and thus meets this criterion.

This decision constitutes notice pursuant to section 49A 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