



Company Secretary
Northern Electric Distribution Limited
Company number: 2906593
Lloyds Court
78 Grey Street
Newcastle upon Tyne
NE1 6AF

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

Direct Dial: 020 7901 7194
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Date: 17 December 2010

Dear Company Secretary,

Project Direction ref: NEDL/Customer-led Network Revolution/17-12-10

Project Direction issued to Northern Electric Distribution Limited ("NEDL") pursuant to the LCN Fund Governance Document¹ issued pursuant to Part E of Charge Restriction Condition 13 (Low Carbon Networks Fund) ("CRC13") of the Electricity Distribution Licence setting out the terms to be followed in relation to the Customer-led Network Revolution project (the "Project") as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism².

CRC13 establishes the arrangements, known as the Low Carbon Networks Fund ("LCN Fund"), for the purposes of incentivising the development of low carbon networks.

Part E of CRC13 requires the Gas and Electricity Markets Authority (the "Authority") to issue the LCN Fund Governance Document for the purposes of regulating, governing and administering the LCN Fund.

Part G of CRC13 defines a Project Direction as a direction issued by the Authority pursuant to the LCN Fund Governance Document setting out the terms to be followed in relation to the Eligible LCN Fund Project³ as a condition of its being funded pursuant to the Second Tier and Discretionary Funding Mechanism. A Project Direction must, by virtue of paragraph 3.64 of Section Two of the LCN Fund Governance Document:

- set out the Project-specific conditions that a distribution network operator ("DNO") is committing to in accepting Second Tier Funding⁴;
- require the DNO to undertake the Project in accordance with the commitments it has made in the Full Submission⁵. Where appropriate the Project Direction may therefore include extracts from the Full Submission; and
- set out the Approved Amount for the Project, as defined in CRC13.28, that will form part of the calculation contained in the direction issued by the Authority under CRC13.16 (the Funding Direction).

¹ http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Documents1/LCN_Fund_Governance_doc_v.3_Final_published.pdf

² Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

³ Eligible LCN Fund Project has the meaning given in Part G of CRC 13.

⁴ Second Tier Funding has the meaning given in CRC13.11.

⁵ Unless otherwise specified, defined terms (terms in capitals) in this Project Direction are defined in Section seven of the LCN Fund Governance Document.

NEDL submitted the Project for funding under the LCN Fund on 3 September 2010 and the Authority decided to award the funding to NEDL in a decision dated 29 November 2010 (the "Decision Document")⁶ subject to NEDL complying with CRC 13, the LCN Fund Governance Document (as may be modified from time to time in accordance with CRC 13 and as modified and/or augmented in respect of this Project by this Project Direction) and this Project Direction. In accordance with the LCN Governance Document the Authority hereby requires NEDL to comply with the conditions set out in the Schedule to this Project Direction.

The Approved Amount set out in section 5 of the Schedule is different to the amount set out in the Decision Document. This is because, following the decision, it was discovered that the spreadsheet included as part of the submission pro-forma overstated the DNOs' earnings from bank interest on the amount requested from the LCN Fund. This resulted in the funding request amounts for all projects being understated. The revised amounts do not affect the Authority's decision on who should be awarded funding.

This Project Direction is issued by the Authority, and provided NEDL complies with the LCN Fund Governance Document and this Project Direction, the Project is deemed to be an Eligible LCN Fund Project, as defined in CRC13.

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



Rachel Fletcher
Partner, Distribution

Signed on behalf of the Authority and authorised for that purpose by the Authority
17 December 2010

⁶ http://www.ofgem.gov.uk/networks/elecdist/lcnf/Documents1/LCNFunddecision_Final.pdf

Schedule to Project Direction

1. TITLE

Project Direction ref: NEDL/Customer-led Network Revolution/17-12-10

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Northern Electric Distribution Limited (the "Implementing DNO") pursuant to the LCN Fund Governance Document issued pursuant to Part E of Charge Restriction Condition 13 (Low Carbon Networks Fund) ("CRC 13") of the Electricity Distribution Licence (the "Licence") sets out the terms to be followed in relation to the Customer-led Network Revolution (the "Project") as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism⁷.

Unless otherwise specified, defined terms in this Project Direction are defined in section 7 of the LCN Fund Governance Document.

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

3. CONDITION PRECEDENT

The Implementing DNO will not access any funds from the Project Bank Account until it has signed contracts with the External Collaborators named in Table 1.

Table 1. Condition Precedent

British Gas
Durham Energy Institute (Durham University)

4. COMPLIANCE

The Implementing DNO must comply with CRC13 and the LCN Fund Governance Document (as may be modified from time to time in accordance with CRC13 and as modified and/or augmented in respect of the Project by this Project Direction) and the Project Direction.

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

Pursuant to CRC 13.14 Disallowed Expenditure is revenue received (whether by the Implementing DNO or another DSP) under the Second Tier and Discretionary Funding Mechanism that the Authority determines not to have been spent in accordance with the provisions of the LCN Fund Governance Document or those of the relevant Project Direction.

Pursuant to paragraph 3.93 of Section Two of the LCN Fund Governance Document, Disallowed Expenditure includes any funds that must be returned if the Project is halted without Ofgem's⁸ permission, any funds that have not been spent in line with the approved Project Budget contained within the Project Direction, and any unspent funds on the completion of the Project.

⁷ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

⁸ Ofgem is the offices of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'Authority' are used interchangeably in this Project Direction.

5. APPROVED AMOUNT FOR THE PROJECT

The Approved Amount is £27,587k.

6. PROJECT BUDGET

The Project Budget is set out in Table 2. The Implementing DNO must not spend more than 110% of any category total (e.g. Box 6 Employment costs) without the Authority's prior consent (such consent is not to be unreasonably withheld).

The Implementing DNO will report on expenditure against each line 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 at least every six months, in accordance with paragraph 3.68 of Section Two of the LCN Fund Governance Document. Ofgem will use the reported expenditure and explanation to assess whether the funding has been spent in accordance with the LCN Fund Governance Document or with this Project Direction.

For the avoidance of doubt this reporting requirement does not change or remove any obligations on the Implementing DNO with respect to reporting that are set out in the LCN Fund Governance Document.

Table 2. Project Budget

Box 6 (Employment costs)	
Project Manager	£1,013k
Technical Engineer	£1,514k
Project Accountant / Procurement	£244k
Administrator	£216k
Commercial Analyst/Manager	£493k
Box 7 (Equipment costs)	
2.5MW/5MWh storage	£4,599k
600 systems for direct management of pv export	£859k
450 'smart energy' systems	£299k
1,670 detailed energy profiling systems	£417k
600 Load controllable white goods	£149k
100kW/200kWh storage	£476k
50kW/100kWh storage	£354k
Network Monitoring	£333k
Voltage control	£452k
Real time thermal rating	£653k
Control interfaces	£2,044k
Domestic CHP	£197k
Direct control other	£193k
Box 8 (Contractor costs)	
British Gas	£3,206k
EA Technology Limited	£5,036k
Durham Energy Institute (Durham University)	£2,790k
Expert challenge function	£51k
DUoS tariff design	£50k
Dissemination	£264k
Box 9 (Customer and user payments)	
Domestic customers	£531k
Small commercial customers	£237k
Box 10 (Other costs)	
IT costs	£140k
Contingency	£3,346k

Decommissioning	£828k
Other	£50k

7. PROJECT IMPLEMENTATION

The Implementing DNO must undertake the Project in accordance with the commitments it has made in the Full Submission approved by the Authority pursuant to the LCN Fund Governance Document and 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 Box 1 (Project, Method and Solution) and Box 2 (Project description);
- (ii) provide a DNO Compulsory Contribution of £3,103k;
- (iii) complete the Project on or before the Project completion date of 31 December 2013; and
- (iv) disseminate the learning from the Project at least to the level described in Box 18 (Arrangements for disseminating learning).

8. REPORTING

The Implementing DNO must submit to the Authority, within two months of the date of this Project Direction, how it proposes to comply with paragraph 3.68 of Section Two of the LCN Fund Governance Document, including how it will assure us that the information in the report is accurate.

Ofgem may produce further guidance about the structure and content of the reports required by paragraph 3.68 of Section Two of the LCN Fund Governance Document.

9. COST OVERRUNS

The maximum amount of Discretionary Funding that the Implementing DNO can request as additional funding for cost overruns on the Project is 0%⁹.

10. INTELLECTUAL PROPERTY RIGHTS (IPR)

In Box 19 (Arrangements for Intellectual Property Rights) the Implementing DNO has stated that the Project does conform to the default IPR arrangements set out in Chapter 2 of Section Five of the LCN Fund Governance Document and must therefore undertake the Project in accordance with the default IPR arrangements.

11. SUCCESSFUL DELIVERY REWARD CRITERIA

The Project will be judged by the Authority for the purposes of the Second Tier Successful Delivery Reward against the Successful Delivery Reward Criteria set out in Table 3¹⁰ below (that comply with paragraphs 3.17 and 3.18 of Section Two of the LCN Fund Governance Document).

⁹ This is the amount requested by the Implementing DNO in its Full Submission.

¹⁰ These are the Successful Delivery Reward Criteria set out in the Implementing DNOs Full Submission

Table 3. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
<p>The following project milestones will be achieved to the timescales below:</p> <ul style="list-style-type: none"> • Commence installation and commissioning of network equipment relating to learning outcome 3 – September 2011; • Complete installation and commissioning of network equipment relating to learning outcome 3 – December 2012; and • Project close down report produced – December 2013. 	<ul style="list-style-type: none"> • Installation & commissioning plan and details of expenditure relating to network equipment installation activities provided to Ofgem/auditors. • Equipment on site and operational, available for site audit. • Project close down report issued to Ofgem, fellow distributors and website.
<p>Delivery of the following arrangements relating specifically to the dissemination of learning:</p> <ul style="list-style-type: none"> • Project website up and running by end May 2011 and updated in line with project developments; • Industry stakeholder forum held on an annual basis, by end May 2011, May 2012 and December 2013; • Distributor project review meetings held by end July 2012 and December 2013; and • Regional stakeholder panel meeting held on an annual basis by end March 2011, March 2012 and December 2013. 	<ul style="list-style-type: none"> • Website content and breakdown of composition of updates. • Meeting minutes in relation to distributor project review meetings, regional stakeholder panel meetings and industry stakeholder forum. • Materials presented in support of the above meetings.
<p>Provision of the following data sets for availability and use by other distributors and researchers:</p> <ul style="list-style-type: none"> • Demand profiles grouped by customer type by end 2012; • Demand profiles grouped by low-carbon technology type by end 2012; • Output profiles of existing generation types by end 2012; • Output/ demand profiles before and after a range of interventions by end April 2013; and • Network data showing performance of selected network technologies by end September 2013. 	<ul style="list-style-type: none"> • Data sets in an open and useable format issued to distributors and other interested parties.
<p>Publish analysis of load profile data by end 2013</p>	<ul style="list-style-type: none"> • Proposals for changes to standard load profiles for network planning, issued to: <ul style="list-style-type: none"> ○ fellow distributors and website; and ○ ENA Engineering Committee, with any recommendations to update/replace ACE 49.
<p>Publish analysis of generation profile data by end 2013</p>	<ul style="list-style-type: none"> • Proposals for changes to standard generation profiles for network planning, issued to: <ul style="list-style-type: none"> ○ fellow distributors and website; and ○ ENA Engineering Committee, with any recommendations to update ETR 130.

	<ul style="list-style-type: none"> • Generic GB distribution policy guidance on generator interface protection to secure contribution to system security, issued to: <ul style="list-style-type: none"> ○ fellow distributors and website; and ○ ENA Engineering Committee, with any recommendation to update ER G59.
Provide an understanding of, and disseminate by end September 2013 to other distributors, how advanced voltage control, thermal ratings and storage may be integrated to enable more low-carbon technologies to be accepted on the network. Provide a view of the costs associated with these arrangements.	<ul style="list-style-type: none"> • Quantified, evidence-based cost/benefit analysis of novel network technologies issued to fellow distributors and website • Generic GB distribution policy guidance on the application of novel network technologies, issued to: <ul style="list-style-type: none"> ○ fellow distributors; and ○ ENA Engineering Committee, with any recommendations to create new engineering recommendations.
Undertake, and disseminate by end 2013 to other distributors, a critical review of how commercial models and arrangements between distributor and supplier may evolve to facilitate customer-side response.	<ul style="list-style-type: none"> • Recommendations for changes to industry codes (for example, this could include DCUSA, CDCM and related industry codes) as relevant to industry bodies such as DCUSA Ltd, BSC Review Panel, Ofgem, ENA.

The maximum amount of the Second Tier Successful Delivery Reward (which will not exceed the DNO Compulsory Contribution) that the Project will be eligible for is £3,103k.

12. BANK ACCOUNTS

The Implementing DNO has requested an exemption from the requirement in paragraph 3.66 of Section Two of the LCN Fund Governance Document to keep the funds from the Second Tier Funding for this Project in a separate bank account. The Authority has decided to grant this exemption subject to the conditions set out in this section.

The Implementing DNO must provide a financial tracking and reporting system which is functionally equivalent to a separate bank account for this Project. This means they must hold any Approved Amounts, the DNO Compulsory Contribution and all other funding from the Implementing DNO, External Collaborators and External Funders, that the Implementing DNO has identified within its Full Submission as being used to fund the Project, unless otherwise agreed by Ofgem in a memorandum account¹¹ which is capable of providing all the information that would be available from a separate bank account. This memorandum account must:

- (i) show all transactions relating to (and only to) the Project;
- (ii) be capable of supplying a real time statement (of transactions and current balance) at any time;
- (iii) accrue expenditures when a payment is authorised (and subsequently reconciled with the actual bank account);
- (iv) accrue payments from the moment the receipt is advised to the bank (and then subsequently reconciled with the actual bank account);
- (v) calculate a daily total; and

¹¹ Or equivalent unique code within their financial system, if approved as functionally equivalent by the Implementing DNO's auditors. For this direction, the term memorandum account will also refer to the equivalent unique code if the auditors approval has been obtained.

- (vi) calculate interest on the daily total according to the rules applicable to the account within which the funds are actually held.

The Implementing DNO's auditors must review the systems and processes that the Implementing DNO is proposing to use to conform to the requirements set out in this section and provide a signed statement to Ofgem that the systems and processes are fit for purpose, before the Project is initiated and any funds are spent.

The Implementing DNO's auditors must provide an annual report to Ofgem to confirm that the Implementing DNO is conforming to the requirements set out in this section.

The Implementing DNO must provide an audited schedule of all the memorandum account transactions, including interest (calculated according to subpoint (vi) above), as part of its detailed progress reports¹² to Ofgem.

The Implementing DNO is still required to comply with the remainder of paragraph 3.66 (in relation to the date on which the funds will be deposited and the requirements of use) and the rest of the LCN Fund Governance Document, and for the purposes of such compliance the requirements set out in this section are considered to comprise the Project Bank Account.

The Implementing DNO has also requested an exemption from the requirement in paragraph 3.66 of Section Two of the LCN Fund Governance Document to keep all funding from External Collaborators and External Funders, that the Implementing DNO has identified within its Full Submission as being used to fund the Project, in the Project Bank Account. The Authority has decided to grant this exemption and therefore the Implementing DNO is no longer required to keep the funding from External Collaborators and External Funders as listed in Table 4 below in the Project Bank Account. This exemption does not exempt the Implementing DNO from any reporting requirements.

Table 4. Exempted external funding

External Collaborator/External Funder	Line item
Customers	heat pump installations
Customers	solar PV installations
British Gas	smart meter installations
British Gas	BG proportion of contractor costs
British Gas	BG proportion of contingency
Customers/Plugged-in Places	electric vehicle charging points
Customers	Customer proportion of load-controllable white goods
Customers	Customer proportion of domestic CHP

13. CUSTOMER PROTECTION

The Implementing DNO must comply with additional project-specific conditions in relation to customer protection. These conditions require the Implementing DNO to:

- (i) submit to Ofgem, at least two months prior to initiating any form of Customer engagement, a plan of how it, or any of its External Collaborators or partners¹³, will engage with, or impact upon, Customers as part of the Project. The Implementing DNO and its External Collaborators or partners cannot initiate any form of Customer engagement until the plan has been approved by the Authority, and must comply with the approved plan at all times. The plan must include:
 - a. a communications strategy which sets out inter alia:

¹² The detailed report is described in Section Two, paragraph 3.68 of the LCN Fund Governance Document.

¹³ As listed in Box 23 of the Full Submission pro-forma.

- i. any proposed interaction with a Customer or premises of a Customer or proposed interruption to the supply of a Customer for the purposes of the Project, and how the Customer will be notified in advance;
 - ii. ongoing communications with the Customers involved in the Project; and
 - iii. arrangements for responding to Customer queries or complaints relating to the Project; and
 - b. information on the Priority Services Register Customers¹⁴ who will be involved in the Project and how they will be appropriately treated (including providing information to any person acting on behalf of a Priority Services Register Customer in accordance with condition 26 of the Electricity Supply Licence, where applicable);
 - c. details of any safety information that may be relevant to the Project; and
 - d. details of how any consents that may be required as part of the Project will be obtained; and
- (ii) publish the plan by making it readily available on its website.

The Implementing DNO and its External Collaborators or partners must also comply with the following conditions:

- (i) not visit a premises of a Customer for sales or marketing activities¹⁵ in connection with, in the context of or otherwise under the guise of the Project; and
- (ii) have regard to the implementation of the smart meter roll-out in its Distribution Services Area¹⁶ to ensure that the Project does not impede the implementation in any way.

In addition, if the Implementing DNO or any of its External Collaborators or partners is installing any equipment at the Customer's premises as part of the Project, the Implementing DNO and the External Collaborators or partners must comply with the following conditions:

- (i) not enter the premises of a Customer¹⁷, other than for the purposes contained in the Licence or for communication purposes (set out above), unless it first obtains the prior consent of the Customer, such consent to be formally recorded;
- (ii) where the equipment is any form of smart meter, the Implementing DNO, its External Collaborators or partners must first notify the Customer's Electricity Supplier¹⁸; and
- (iii) provide the Customer with information (which should be identified as part of the communications strategy) on how the equipment will be installed, how long it will be installed for, and how it will be decommissioned.

¹⁴ Priority Services Register Customers has the meaning given to it in SLC 10 of the Licence.

¹⁵ For the purposes of this condition, recruiting or engaging Customers to participate in the Project does not constitute a sales or marketing activity.

¹⁶ Distribution Services Area has the meaning given to it in SLC 1 of the Licence.

¹⁷ Customer has the meaning given to it in SLC 1 of the Licence.

¹⁸ Electricity Supplier has the meaning given to it in SLC 1 of the Licence.

14. DATA PROTECTION

The Implementing DNO must submit a strategy for dealing with personal data (as defined in the Data Protection Act 1988) to Ofgem at least two months prior to collecting or using any personal data. The Implementing DNO and its External Collaborators or partners cannot collect or use any personal data until the strategy has been approved by the Authority. The strategy must set out the following:

- (i) what personal data will be collected for the purposes of the Project;
- (ii) how this personal data will be used;
- (iii) how consent for use of the personal data will be obtained;
- (iv) what information will be provided to the Customer prior to consent being sought;
- (v) if Priority Services Register Customers are included in the Project, how their personal data will be obtained;
- (vi) who owns the personal data;
- (vii) how long the personal data will be retained; and
- (viii) how this personal data will be managed (which should be based on a 'privacy by design' approach, as advocated by the Information Commissioner's Office¹⁹).

15. USE OF LOGO

The Implementing DNO and External Collaborators and partners may use the LCN Fund logo for purposes associated with the Project but not use the Ofgem or Ofgem E-Serve logos in any circumstances.

16. AMENDMENT OR REVOCATION

As set out in the LCN Fund Governance Document and this Project Direction, this Project Direction may be amended or revoked under the following circumstances:

- (i) if the Implementing DNO considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees (paragraph 3.70 of Section Two of the LCN Fund Governance Document); or
- (ii) if Ofgem agrees to provide Discretionary Funding, which requires the re-issue of the Project Direction (paragraph 3.78 of Section Two of the LCN Fund Governance Document); or
- (iii) if the Implementing DNO applies for Discretionary Funding to cover a decrease in Direct Benefits and the Authority decides it would be in the best interest of customers to make changes to the Project Direction before the Discretionary Funding would be awarded (paragraph 3.77 of Section Two of the LCN Fund Governance Document).

17. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 3.79 to 3.83 of Section Two of the LCN Fund 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

¹⁹ See http://www.ico.gov.uk/news/current_topics/privacy_by_design_conference.aspx

by the Authority pursuant to CRC13.16.

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 Implementing DNO clarifying the effect of that halting decision as regards the status and legal force of the conditions contained in this Direction.

NOW THEREFORE:

In accordance with the powers contained in the LCN Fund Governance Document issued pursuant to Part E of CRC13 (Low Carbon Networks Fund) of the Licence the Authority hereby issues this Project Direction to the Implementing DNO in relation to the Project.

This constitutes notice of reasons for the Authority's decision pursuant to section 49A of the Act.

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
17 December 2010