



Company Secretary
Electricity North West Limited
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

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

Direct Dial: 020 7901 7194
Email: rachel.fletcher@ofgem.gov.uk

Date: 19 December 2011

Dear Company Secretary,

Project Direction ref: ENWL/ Capacity to Customers/ 19-12-11

Project Direction issued to Electricity North West Limited ("ENWL") 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 Capacity to Customers 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 3.74 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;
- 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); and

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=77&refer=Networks/ElecDist/lcnf>

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.

- set out the Project Budget that the DNO must report against and how variances against the Project Budget will be reported and approved.

ENWL submitted the Project for funding under the LCN Fund on 18 August 2011 and the Authority decided to award the funding to ENWL in a decision dated 27 November 2011 (the "Decision Document"⁶) subject to ENWL 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 ENWL to comply with the conditions set out in the Schedule to this Project Direction.

This Project Direction is issued by the Authority, and provided ENWL 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
Acting Senior Partner, Distribution and Governance

Signed on behalf of the Authority and authorised for that purpose by the Authority
19 December 2011

⁶ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=92&refer=Networks/ElecDist/lcnf>

Schedule to Project Direction

1. TITLE

Project Direction ref: Electricity North West Limited / Capacity to Customers / 19-12-11

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Electricity North West 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 Capacity to Customers project (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 Seven 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 section 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 Project Partners named in Table 1.

Table 1 Condition Precedent

Parsons Brinckerhoff
GE Energy

4. COMPLIANCE

The Implementing DNO must comply with CRC 13 and 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 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 DSP⁸) 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 3.117 of Section Two of the LCN Fund Governance Document, Disallowed Expenditure includes any funds that must be returned if the Project is halted

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

⁸ As defined in the Licence.

without Ofgem's⁹ 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.

5. APPROVED AMOUNT FOR THE PROJECT

The Approved Amount is £9,109k.

6. PROJECT BUDGET

The Project Budget is set out in Annex 1. The Implementing DNO must not spend more than 110% of any category total (e.g. "Labour") in Annex 1 without the Authority's prior consent (such consent is not to be unreasonably withheld).

The Implementing DNO will report on expenditure against each line under the category total 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 3.92 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.

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 Section 2 (Project Description);
- (ii) provide a DNO Compulsory Contribution of £1,027k;
- (iii) complete the Project on or before the Project completion date of 31 December 2014; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

8. REPORTING

Ofgem will issue guidance (as amended from time to time) about the structure and content of the reports required by paragraph 3.92 of Section Two of the LCN Fund Governance Document. The Implementing DNO must follow this guidance in preparing the reports required by paragraph 3.92 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%¹⁰.

⁹ Ofgem is the offices of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'Authority' are used interchangeably in this Project Direction.

¹⁰ This is the amount requested by the Implementing DNO in its Full Submission.

10. INTELLECTUAL PROPERTY RIGHTS (IPR)

In Section 5 (Knowledge Dissemination) the Implementing DNO has stated that the Project does conform to the default IPR arrangements set out in 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 2¹¹ below (that comply with paragraphs 3.27 and 3.28 of Section Two of the LCN Fund Governance Document).

Table 2. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
<p>HV Circuit Selection</p> <ol style="list-style-type: none"> 1. Finalise HV circuit selection to identify HV circuits for the Trial. 2. Develop HV circuit variation methodology (recognising HV circuits may need to be varied in the Trial and to mitigate the perceived risk of anti-competitive behaviour). 3. Publicise HV circuits selected to be included in the C₂C Trial and publish methodologies for HV circuit selection and variation. <p>Engineering Recommendation P2/6 Derogation Application</p> <ol style="list-style-type: none"> 1. Revise derogation from LC 21 (ie Engineering Recommendation P2/6), taking into consideration comments from Ofgem consultation, and include selected HV circuits in derogation application's Appendix. 2. Apply for derogation LC 21 (ie Engineering Recommendation P2/6) for the C₂C Project from Ofgem. 	<p>HV Circuit Selection</p> <ol style="list-style-type: none"> 1. In June 2012, publish the HV circuits included within the C₂C Trial, the HV Circuit Selection Methodology and the HV Circuit Variation Methodology on the C₂C Project's website. 2. In October 2012, publish information pamphlet on the HV circuits selected for Trial. <p>Engineering Recommendation P2/6 Derogation Application</p> <ol style="list-style-type: none"> 1. In June 2012, submit derogation application to Ofgem.
<p>Demand response customer segmentation methodology</p> <ol style="list-style-type: none"> 1. Update and enrich customer data for I&C customers on selected HV circuits. 2. Undertake customer survey of I&C customers on selected HV circuits. 3. Create customer segmentation model. 	<p>Demand response customer segmentation methodology</p> <ol style="list-style-type: none"> 1. Customer data updated in April 2012. 2. Customer survey completed in June 2012. 3. Demand response customer segmentation model completed and published on C₂C Project's website in July 2012.
<p>Customer Engagement</p> <ol style="list-style-type: none"> 1. Finalise Customer Engagement Plan to Ofgem. 2. Develop C₂C Project's website. 3. Finalise and publicise the C₂C Connection Offer process. 	<p>Customer Engagement</p> <ol style="list-style-type: none"> 1. Customer Engagement Plan approved by Ofgem in June 2012 and C₂C Project's website live in June 2012. 2. Trial HV circuits published in June 2012. 3. C₂C Connection Offer process published

¹¹ These are the Successful Delivery Reward Criteria set out in the Implementing DNOs Full Submission

<p>4. Develop new C₂C commercial templates for new connections and existing customers.</p> <p>5. Produce customer marketing/ campaign materials and magazine advertisements.</p> <p>6. Generate customer e-mail database and e-mail customers directly.</p> <p>7. Deliver customer seminars and workshops.</p>	<p>in September 2012.</p> <p>4. First trade magazine article published in September 2012.</p> <p>5. First pamphlets distributed in October 2012, with subsequent pamphlets delivered as per Project Plan.</p> <p>6. New C₂C commercial templates for new connections and existing customers available for issue to customers by December 2012.</p> <p>7. First customer seminar/ workshop delivered in December 2012, with subsequent seminars/ workshop delivered as per Project Plan.</p> <p>8. Various engagement programs continued through until Dec 2014, using various channels including website and e-mail.</p>
<p>Technology Implementation and Project `go live'</p> <p>1. All software designed, tested, built and implemented.</p> <p>2. All hardware including remotely controlled actuators, network monitoring equipment and communications infrastructure installed on the network.</p> <p>3. Testing to prove capability of network management system to monitor and manage network events (thereby releasing network capacity and allowing customers to engage in managed contracts for new connections and new demand response contracts).</p>	<p>Technology Implementation</p> <p>1. Software design completed by April 2012.</p> <p>2. Software and IT hardware installation, testing and commissioning completed by March 2013.</p> <p>3. Actuators, communication and monitoring equipment installed, tested and commissioned by March 2013.</p> <p>Project 'go-live'</p> <p>1. Live trials commence April 2013.</p> <p>2. Demand response capability test completed for all contracted C₂C customers by December 2014.</p>
<p>Development, consultation and submission of ER P2/6 change proposals</p> <p>1. Develop a set of recommendations for potential changes to Engineering Recommendation P2/6 and associated ETR documents.</p>	<p>Development, consultation and submission of ER P2/6 change proposals</p> <p>1. Complete simulation exercises to inform discussions by April 2013.</p> <p>2. Hold workshops between April 2013 and July 2013 to inform proposals.</p> <p>3. Issue industry consultation between September 2013 and December 2013.</p> <p>4. Issue recommendations report in September 2014.</p>
<p>Dissemination of knowledge</p> <p>1. Database established for collection and dissemination of network data to academic institutions.</p> <p>2. Dissemination milestones met throughout the course of the C₂C Project including quarterly publications, periodic reports to Ofgem and regular Project website updates.</p> <p>3. Identification of suitable industry conferences to attend.</p> <p>4. Drafting of white papers for industry journals and magazines.</p>	<p>Dissemination of knowledge</p> <p>1. Network data made available to stakeholders throughout C₂C Project and available for at least 18 months after Project close down.</p> <p>2. Six-monthly progress reports submitted to Ofgem/ industry throughout C₂C Project.</p> <p>3. Five industry conferences attended and presented at by December 2014.</p> <p>4. LCN Fund Annual Conference attended and presented at by December 2014.</p> <p>5. Published (or had accepted for publication) six white papers for magazines</p>

<p>5. Production of final C₂C Project close down report.</p>	<p>or journals for industry or academic audiences, as per Project Plan, throughout C₂C Project. 6. Close down report submitted to Ofgem in December 2014.</p>
<p>Demand Response Contracts 1. Enter into a number of new commercial arrangements for the provision of a demand and/ or generation response, including both: i) New C₂C managed connection agreements; and ii) New C₂C managed demand and/ or generation response contracts.</p>	<p>Demand Response Contracts 1. New managed contracts entered into with demand and/ or generation customers or their agents, including: i) At least ten C₂C managed connection agreements by September 2014; and ii) At least ten C₂C managed contracts for demand and/ or generation response with existing customers, either directly and/ or via an agent by September 2014.</p>
<p>Successful Delivery Reward criterion</p>	<p>Evidence</p>
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<p>Technology Implementation and Project `go live'</p> <p>1. All software designed, tested, built and implemented.</p> <p>2. All hardware including remotely controlled actuators, network monitoring equipment and communications infrastructure installed on the network.</p> <p>3. Testing to prove capability of network management system to monitor and manage network events (thereby releasing network capacity and allowing customers to engage in managed contracts for new connections and new demand response contracts).</p>	<p>Technology Implementation</p> <p>1. Software design completed by April 2012.</p> <p>2. Software and IT hardware installation, testing and commissioning completed by March 2013.</p> <p>3. Actuators, communication and monitoring equipment installed, tested and commissioned by March 2013.</p> <p>Project 'go-live'</p> <p>1. Live trials commence April 2013.</p> <p>2. Demand response capability test completed for all contracted C₂C customers by December 2014.</p>
<p>Development, consultation and submission of ER P2/6 change proposals</p> <p>1. Develop a set of recommendations for potential changes to Engineering Recommendation P2/6 and associated ETR documents.</p>	<p>Development, consultation and submission of ER P2/6 change proposals</p> <p>1. Complete simulation exercises to inform discussions by April 2013.</p> <p>2. Hold workshops between April 2013 and July 2013 to inform proposals.</p> <p>3. Issue industry consultation between September 2013 and December 2013.</p> <p>4. Issue recommendations report in September 2014.</p>
<p>Dissemination of knowledge</p> <p>1. Database established for collection and dissemination of network data to academic institutions.</p> <p>2. Dissemination milestones met throughout the course of the C₂C Project including quarterly publications, periodic reports to Ofgem and regular Project website updates.</p> <p>3. Identification of suitable industry conferences to attend.</p> <p>4. Drafting of white papers for industry journals and magazines.</p> <p>5. Production of final C₂C Project close down report.</p>	<p>Dissemination of knowledge</p> <p>1. Network data made available to stakeholders throughout C₂C Project and available for at least 18 months after Project close down.</p> <p>2. Six-monthly progress reports submitted to Ofgem/ industry throughout C₂C Project.</p> <p>3. Five industry conferences attended and presented at by December 2014.</p> <p>4. LCN Fund Annual Conference attended and presented at by December 2014.</p> <p>5. Published (or had accepted for publication) six white papers for magazines or journals for industry or academic audiences, as per Project Plan, throughout C₂C Project.</p>

	6. Close down report submitted to Ofgem in December 2014.
Demand Response Contracts 1. Enter into a number of new commercial arrangements for the provision of a demand and/ or generation response, including both: i) New C ₂ C managed connection agreements; and ii) New C ₂ C managed demand and/ or generation response contracts.	Demand Response Contracts 1. New managed contracts entered into with demand and/ or generation customers or their agents, including: i) At least ten C ₂ C managed connection agreements by September 2014; and ii) At least ten C ₂ C managed contracts for demand and/ or generation response with existing customers, either directly and/ or via an agent by September 2014.

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 £1,027k.

12. USE OF LOGO

The Implementing DNO and Project Partners, External Funders and Project Supporters¹² 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.

13. 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 3.94 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 3.102 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 3.101 of Section Two of the LCN Fund Governance Document).

14. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 3.103 to 3.107 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 by the Authority pursuant to CRC 13.16.

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.

¹² As listed in Box 1.5 in Section 1 of the Full Submission pro-forma.

NOW THEREFORE:

In accordance with the powers contained in the LCN Fund Governance Document issued pursuant to Part E of CRC 13 (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 faint, light-colored rectangular stamp or watermark.

Rachel Fletcher

Acting Senior Partner, Distribution and Governance

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

19 December 2011