



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

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Date: 21 December 2012

Dear Company Secretary,

Project Direction ref: SPD / Accelerating Renewable Connections / 21 December 2012

Scottish Power Distribution Limited (SPD) submitted the project Accelerating Renewable Connections on 17 August 2012 to be considered for funding through the Low Carbon Networks (LCN) Fund. In this year's decision¹, we selected the project for funding.

We have issued this Project Direction to SPD. It contains the terms to be followed by SPD as a condition of Accelerating Renewable Connections receiving funding through the LCN Fund. It must comply with these terms, which can be found in the schedule to this direction.

Project direction

Paragraph 3.77 of Section Two of the LCN Fund Governance Document states that a Project Direction must:

- set out the Project-specific conditions that a distribution network operator (DNO) is committing to in accepting Second Tier Funding²;
- require the DNO to undertake the Project in accordance with the commitments it has made in the Full Submission³. 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
- set out the Project Budget that the DNO must report against and how variances against the Project Budget will be reported and approved.

These are described for Accelerating Renewable Connections in the schedule to this condition.

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=55&refer=Networks/ElecDist/lcnf/stlcnf/year3>

² Second Tier Funding has the meaning given in CRC13.11.

³ Unless otherwise specified, defined terms (terms in capitals) in this Project Direction are defined in Section seven of the LCN Fund Governance Document.

Decision

Provided SPD complies with the LCN Fund Governance Document and the schedule to this Project Direction, Accelerating Renewable Connections is deemed to be an Eligible LCN Fund Project⁴.

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

A handwritten signature in blue ink that reads "Andy Burgess".

Andrew Burgess

Associate Partner, Transmission and Distribution Policy

For and on behalf of the Authority

⁴ Eligible LCN Fund Project has the meaning given in part G of Charge Restriction Condition (CRC) 13.

Schedule to Project Direction

1. TITLE

Project Direction ref: SPD / Accelerating Renewable Connections / 21 December 2012

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Scottish Power Distribution Limited (the "Funding 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 Accelerating Renewable Connections project (the "Project") as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism⁵.

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

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

3. Condition Precedent

The Funding 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

Community Energy Scotland
Smarter Grid Solutions
University of Strathclyde

4. COMPLIANCE

The Funding 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 Funding DNO or another DSP⁶) 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 3.121 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's⁷ permission, any funds that have not been spent in line with the approved

⁵ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

⁶ As defined in the Licence.

⁷ Ofgem is the offices of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'Authority' are used interchangeably in this Project Direction.

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 £7,421k.

6. PROJECT BUDGET

The Project Budget is set out in Annex 1. The Funding 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 Funding 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 3.95 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 Funding DNO with respect to reporting that are set out in the LCN Fund Governance Document.

7. PROJECT IMPLEMENTATION

The Funding 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 £846.23k.
- (iii) complete the Project on or before the Project completion date of 31 December 2016; 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 3.95 of Section Two of the LCN Fund Governance Document. The Funding DNO must follow this guidance in preparing the reports required by paragraph 3.95 of Section Two of the LCN Fund Governance Document.

As required by paragraph of 3.97 of Section Two of the LCN Fund Governance Document, the Funding DNO must inform the Authority promptly in writing of any event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

9. COST OVERRUNS

The maximum amount of Discretionary Funding that the Funding DNO can request as additional funding for cost overruns on the Project is 0%⁸.

⁸ This is the amount requested by the Funding DNO in its Full Submission.

10. INTELLECTUAL PROPERTY RIGHTS (IPR)

In Section 5 (Knowledge Dissemination) the Funding 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 2⁹ below (that comply with paragraphs 3.27 of Section Two of the LCN Fund Governance Document).

Table 2. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
<p>Project Budget</p> <p>The project will be delivered to budget in accordance with the Tier 2 full submission. A 5% variance will be acceptable between work packages but the overall project will be delivered in line with this submission in order to demonstrate effective cost control.</p>	<p>Ongoing cost reporting to monitor progress and publication of a final report to Ofgem will identify costs incurred per work package to assess compliance with the Tier 2 submission. Project completion date of December 2016.</p>
<p>Project Timeline Delivery</p> <p>The project will be delivered in accordance with the timelines outlined in the Tier 2 submission to ensure timely learning can be disseminated and adopted in advance of RIIO-ED1 commencing. Delivery in accordance with these timelines, and in line with budget as per criterion 1 will demonstrate effective project management.</p>	<p>Ongoing project reporting and formal reports to Ofgem will identify the how well the project is being delivered in accordance with the time lines set out within this submission. Should individual work package time lines deviate from plan, a lower reward weighting may be appropriate as long as the overall project is delivered on time. Completion date December 2016.</p>
<p>Demonstration of alternative solutions as detailed in case study 1</p> <p>Implementation of the Active Network management system and interface with National Grid as outlined in Case Study1 of the appendices for the exporting GSP site.</p>	<p>Implementation of the ANM system at a GSP, demonstrating one of the alternative solutions highlighted in Case Study 1. Evidence will be the publication of a revised case study evaluating the traditional solution versus the alternative solution which has been deployed detailing cost, time and operational benefits. Learning and details of the processes and technology involved to achieve an interface with NGET and the impact of this on the statement of works process will be included within this publication. Completion date December 2016.</p>
<p>Demonstration of alternative solutions as detailed in case studies 2,3 and 4</p> <p>Implementation of the Active Network management system and alternative arrangements as detailed in either case studies 2, 3 or 4. Each of these case studies are based on real examples within the trial area which provides us with a high degree of</p>	<p>Delivery of at least two connections which utilise the alternative solutions detailed in case studies 2, 3 or 4 of the appendices. Evidence will be the publication of a revised case studies evaluating the traditional solution versus the alternative solution which has been deployed detailing cost, time and operational benefits. Learning and details of the processes and technology</p>

⁹ These are the Successful Delivery Reward Criteria set out in the Funding DNOs Full Submission

confidence that it will be possible to demonstrate and document the learning from at least one of these examples.	involved to achieve such a connection will be detailed. Completion date December 2016.
<p>Creation of community energy generation scheme & model for community level generation</p> <p>Delivery of a minimum of one community level generation scheme to facilitate a new generation connection onto the network and thereafter production of achievements and learning developed through identification of options for community scale active energy management (matching generation with green demand at a local level). In addition ARC will delivery at least one community level generation demonstration project facilitated through the PNDC that will be used to disseminate knowledge to industry stakeholders.</p> <p>Based upon the pipeline of community projects identified by CES in the trial area, it is believed that this will be achievable as 14 projects have already been identified.</p>	<p>Publication of a report detailing the available options for community scale active energy management to facilitate the matching of available generation to local green demand. This will include a review by Community Energy Scotland and a selection of community groups. This will be enhanced through the delivery of a PNDC demonstration event that showcases at least one community energy solution.</p> <p>Furthermore ARC will deliver at least one community energy generation model that facilitates a new generation connection and publish an account of experiences and processes as a follow-up report Criterion 9.5 to be used and adopted by other communities throughout GB. The delivery of this SDRC will involve a presentation to a interested and relevant stakeholders where an opportunity for questions, information gathering and challenge will be provided.</p>
<p>Demonstration of top-down Active Network Management</p> <p>Delivery of and deployment of Active Network Management top-down enabling technology at a minimum of two substations within the trial area as well as associated communication and control system platforms in order to evaluate the benefits of the adoption of this innovation vs. incremental investment plan.</p>	<p>Delivery of Report on ANM</p> <p>Publication of report detailing the learning and experience of the deployment of ANM and delivery of a Cost Benefit Analysis (CBA) of the top-down strategy vs. traditional business as usual solutions, based upon project objectives - Delivery December 2016.</p>
<p>Detailed publication and dissemination of learning from project</p> <p>Effective dissemination of project learning and business processes to ensure that other DNOs and stakeholders can benefit from the delivery of this project.</p>	<p>Publication and dissemination of project learning including:</p> <ul style="list-style-type: none"> - detailed business process maps for the alternative approaches adopted in the project; - proposals for structure of future generation facilitation incentives framework; - evaluation of triggers for smart investments; and - investment decision based analysis when DNOs invest in network to maximise existing generation; - Learning and technical documentation to support the technology demonstrated and how this is reflected in design policies. <p>Completion December 2016</p>
<p>Improved generation connections experience</p>	<p>Stakeholder survey will be undertaken within the first year of the project to</p>

<p>Improved overall experience for customers connecting within the trial area through:</p> <ul style="list-style-type: none"> - empowering customers through the facilitation of more information, - alternative options for connections, and - improvements to the time and cost to connect through these alternative options. 	<p>determine the baseline of perception of the connections process, time to connect and overall experience - completion date of August 2013.</p> <p>Stakeholder survey will be repeated in 2016 to determine the improvement that has been experienced by customers within the trial area. All surveys will be undertaken by an external agency and a summary of the results made available - completion date of December 2016.</p>
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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 £846.23k.

12. USE OF LOGO

The Funding DNO and Project Partners, External Funders and Project Supporters¹⁰ 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 Funding DNO considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees (paragraph 3.98 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 Funding 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 3.105 of Section Two of the LCN Fund Governance Document).

14. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 3.107 to 3.111 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 Funding DNO clarifying the effect of that halting decision as regards the status and legal force of the conditions contained in this Direction.

NOW THEREFORE:

¹⁰ As listed in Box 1.5 in Section 1 of the Full Submission pro-forma.

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 Funding DNO in relation to the Project.

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