



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 7159
Email: andy.burgess@ofgem.gov.uk

Date: 21 December 2012

Dear Company Secretary,

**Project Direction ref: ENWL/ Customer Load Active System Services / 21
December 2012**

Electricity North West Limited (ENWL) submitted the project Customer Load Active System Services 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 ENWL. It contains the terms to be followed by ENWL as a condition of Customer Load Active System Services 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 Customer Load Active System Services 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 ENWL complies with the LCN Fund Governance Document and the schedule to this Project Direction, Customer Load Active System Services 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, reading "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: ENWL / Customer Load Active System Services / 21 December 2012

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Electricity North West 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 Customer Load Active System Services (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

GE
National Grid
Parsons Brinckerhoff
Siemens

The Funding DNO will not access any funds from the Project Bank Account for customer engagement activities or the Trials, as described in Section Two (Project Description) of the Full Submission pro-forma, until it has signed contracts with the Project Partners named in Table 2.

Table 2 Condition Precedent

Chiltern Power
Impact Research
University Of Manchester

If the Funding DNO does not sign contracts with Project Partners named in Tables 1 and 2 then the Funding DNO will not be considered to have undertaken the Project in accordance with this Project Direction.

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.

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

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 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 £7,174k.

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 £809.78k.
- (iii) complete the Project on or before the Project completion date of 31 September 2015; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

8. REPORTING

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.

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 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 OVERUNS

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

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 3⁹ below (that comply with paragraphs 3.27 of Section Two of the LCN Fund Governance Document).

Table 3. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
Technology Build Workstream 1. Design regulation scheme for substation Voltage Controllers by December 2013; 2. Selected the sites for installing Voltage Controllers and monitoring equipment by June 2013; 3. All hardware including substation controllers, and monitoring equipment communications infrastructure installed and commissioned by March 2014; 4. Design, build, test and commission ICCP Link between Electricity North West's and National Grid's Control Centres by March 2014.	Technology Build Workstream 1. Publish the design of the regulation scheme for substation Voltage Controllers by February 2014; 2. Publish the site selection report including the methodology by August 2013 3a. Network monitoring equipment installed and commissioned by March 2014; 3c. Publish the commissioning reports by April 2014; 3d. Technology go-live by April 2014; 4a. ICCP installed and commissioned by March 2014; 4b. Publish the ICCP commissioning reports by April 2014.
Trials Workstream 1. Trial area selected by June 2013; 2. Trials and test regime design completed by December 2013; 3. Live Trials commence in April 2014; 4. Tested the capability of the voltage control system for all Trial scenarios by May 2015; 5. Transfer Trials data every quarter with all Trials data transferred to The University of	Trials Workstream 1. Publish on CLASS website map of Trial area by September 2013; 2. Publish on CLASS website Trials and test regime report in January 2014; 3. Baseline customer survey initiated in April 2014; 4. Publish on CLASS website an initial capability report for all the Trial scenarios by September 2014;

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

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

Manchester by June 2015.	5. Evidence of test Trial data transferred by July 2014.
Customer Engagement 1. Create the Customer Engagement Plan and Data Privacy Statement by July 2013; 2. Produce customer marketing/ campaign materials by January 2014; 3. Deliver the Customer Survey Pilot workshop by March 2014; 4. Control Group and Trial area customers identified and first communication pamphlets distributed in February 2014, subsequent forms of communication will be delivered by May 2014, August 2014, November 2014, February 2015 and May 2015; 5. Customer surveys completed by June 2015.	Customer Engagement 1. Send for approval the Customer Engagement Plan and Data Privacy Statement to Ofgem by July 2013; 2. Publish on CLASS website customer marketing/ campaign materials by September 2013; 3. First customer workshops held by October 2013; workshops completed by December 2013; 4. Publish on CLASS website Control Group and Trial area customer communication by January 2014; 5. Customer surveys completed, with an initial summary report published by June 2015.
Research Workstream 1. Deliver the Network Modelling Reports by September 2015; 2. Deliver the Voltage Profile Modelling Reports by September 2015; 3. Deliver the Asset Health Study Report by September 2015; 4. Deliver Customer Survey Report by September 2015; 5. Develop change proposals for NETS SQSS by June 2015.	Research Workstream 1. Publish on CLASS website Interim and Final Network Modelling and Analysis Reports by January 2015 and September 2015 respectively; 2. Publish on CLASS website Interim and Final Profile Modelling Study by January 2015 and September 2015 respectively; 3. Publish on CLASS website Interim and Final Asset Health Study Report by January 2015 and September 2015 respectively; 4. Publish on CLASS website Customer Survey Report by September 2015; 5. Publish on CLASS website NETS SQSS Change Proposal Report by June 2015.
Learning & Dissemination Workstream 1. Produce first Video Podcast of the series by September 2013, the second by August 2014 and the final one by December 2014; 2. Develop and launch the CLASS Project Website and Social Media Forums by September 2013; 3. First Annual LCN Fund Conference attended in 2013, LCN Fund annual conference in 2014 and 2015 attended. Hold three webinars in June 2013, June 2014 and March 2015. Host Learning Event 1 by April 2014 and Learning Event 2 by July 2015; 4. Raw monitoring data is initially made available on demand by September 2014, and subsequently updated by December 2014 and April 2015.	Learning & Dissemination Workstream 1. Publish on CLASS website first Video Podcast by September 2013, the second by August 2014 and the final one by December 2014; 2. CLASS website and Social Media Forums is live by September 2013; 3. Active participation at Annual LCN Fund Conferences. Three webinars held, one by June 2013, one by June 2014 and one by March 2015. Two learning events held, one by April 2014 and the second by July 2015; 4. Raw monitoring data is downloadable from CLASS website by September 2014 and subsequently updated by December 2014 and April 2015.
Close Down & Long Term Monitoring Study 1. Produce a close down report and initiate a long term monitoring study with National Grid.	Close Down & Long Term Monitoring Study 1. Provide confirmation from National Grid that the long term monitoring study has been initiated.

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 £809.78k.

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:

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.

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