



Making a positive difference
for energy consumers

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Date: 19 December 2013

Dear Company Secretary,

Project Direction ref: SEPD / Solent Achieving Value from Efficiency / 19 December 2013

Southern Electric Power Distribution plc (SEPD) submitted the project Solent Achieving Value from Efficiency on 9 August 2013 to be considered for funding through the Low Carbon Networks (LCN) Fund. In this year's decision,¹ we selected the project for funding.

We have issued this Project Direction to SEPD. It contains the terms to be followed by SEPD as a condition of Solent Achieving Value from Efficiency 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 3.80 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 Funding;²
- 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 Charge Restriction Conditions (CRC) 13.30, that will form part of the calculation contained in the direction issued by the Authority under CRC13.18 (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 Solent Achieving Value from Efficiency in the schedule to this condition.

¹<https://www.ofgem.gov.uk/publications-and-updates/decision-fourth-year-competition>

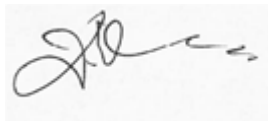
² Second Tier Funding has the meaning given in CRC13.11.

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 SEPD complies with the LCN Fund Governance Document and the schedule to this Project Direction, Solent Achieving Value from Efficiency is deemed to be an Eligible LCN Fund Project.⁴

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



Dora Guzeleva

Head of Networks Policy, Local Grids

For and on behalf of the Authority

⁴ Eligible LCN Fund Project has the meaning given in part G of CRC 13.

Schedule to Project Direction

1. TITLE

Project Direction ref: SEPD / Solent Achieving Value from Efficiency / 19 December 2013

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Southern Electric Power Distribution plc (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 Solent Achieving Value from Efficiency (the "Project") as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism.⁵

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

University of Southampton
DNV KEMA
Wireless Maingate

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 3.124 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 £8,293,396.47.

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 3.98 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 £1,015,536.77.
- (iii) complete the Project on or before the Project completion date of 29 June 2018; 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 3.98 of Section Two of the LCN Fund Governance Document. The Funding DNO must follow this guidance in preparing the reports required by paragraph 3.98 of Section Two of the LCN Fund Governance Document.

As required by paragraph 3.100 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% of the Approved Amount.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
1. Review learning from other projects	1. Produce report on UK and international efficiency project findings and the impact on the SAVE project, including recommendations and key suggestions to improve the project design and implementation. Present to Ofgem by June 2014.
2.1 Create initial customer model 2.2 Revise customer model 2.3 Finalise customer model	2.1 Produce report and present to Ofgem December 2014 2.2 Produce updated report and present to Ofgem December 2016 2.3 Host a demonstration of finalised customer model and produce final report June 2018
3.1 Create Customer Engagement Plan 3.2 Hold open days supported by online/paper information to share progress, experiences and next steps with customers involved in trials on a six monthly basis	3.1 Submit Customer Engagement Plan to Ofgem February 2014 3.2 Produce report summarising objectives and outcomes of open days January 2017
4. Create commercial energy efficiency measures	4. Establish the pricing model and processes for passing DNO price signals direct to customers. Prepare and present report on findings of exercise June 2016
5. Identify control and trial sample groups	5. Select the customers required for each group in the project, ensuring that they represent a cross-section of the population to allow extrapolation of results. Present findings and method of selection in report June 2015.
6. Install 80% of optic sensors	6. Successfully install 80% of the optic sensors within the properties of customers successfully recruited to trials, ensuring ability to retrieve data from these devices. Present findings in report June 2015.
7.1 Create initial network model and parameters for tool	7.1 Produce report and present to Ofgem by December 2014.

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

7.2 Revise model and tool	7.2 Produce updated report and present to Ofgem by December 2016.
7.3 Finalise tool	7.3 Host a workshop demonstrating tool and produce final report by June 2018.
8.1 Project close-down report	8.1 Produce report and present to Ofgem by June 2018.
8.2 Network investment tool key outcomes report (including comparison of trial method impacts)	8.2 Produce report and present to Ofgem by June 2018.
8.3 LED trial report	8.3 Produce report and present to Ofgem by June 2018.
8.4 DNO price signals direct to customers trial report	8.4 Produce report and present to Ofgem by June 2018.
8.5 Network pricing model report	8.5 Produce report and present to Ofgem by June 2018.
8.6 Customer and network modelling report	8.6 Produce report and present to Ofgem by June 2018.
8.7 Data-informed engagement trial report	8.7 Produce report and present to Ofgem by June 2018.
8.8 Community coaching trial report	8.8 Produce report and present to Ofgem by June 2018.
8.9 Project progress reports	8.8 Produce report and present to Ofgem by June 2018.
	8.9 Produce reports on a six monthly basis and present to Ofgem from June 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 £1,015,536.77.

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 3.100 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

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

- (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 3.107 of Section Two of the LCN Fund Governance Document).

14. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 3.110 to 3.114 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 13.18.

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.