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Date: 19 December 2014

Dear Steve,

**Low Carbon Networks (LCN) Fund – amendments to Electricity North West Limited’s Capacity to Customers project**

This letter contains our<sup>1</sup> decision to approve requested amendments to the Successful Delivery Reward Criteria (“SDRCs”) for Electricity North West Limited (“ENWL”)’s Capacity to Customers project (“the project”).

**Background**

On 19 December 2011, we issued a Project Direction to ENWL for this project.<sup>2</sup> The Project Direction contains the terms to be followed by the project as a condition of it being funded under the LCN Fund Second Tier and Discretionary Funding Mechanisms.<sup>3</sup>

Part of the project involves trialling managed connection agreements with at least ten new connection customers or existing customers seeking additional import or export capacity. These contracts can be attractive to customers if offered in lieu of more expensive reinforcement. ENWL is seeking at least ten of these agreements to provide evidence to all Distribution Network Operators (“DNOs”) of the acceptability of such contracts to manage point load or generation growth.

On 28 July 2014, ENWL requested amendments to the project’s SDRCs in the Project Direction for this aspect of the project. We requested further explanation and final details were received on 11 December 2014.

**SDRCs 9.38, 9.4, 9.6.3, 9.6.6 and 9.7.1.i – securing, managing, testing, reporting and learning dissemination from new connection managed agreements**

ENWL has requested changes to five of the SDRCs that relate to the new managed connection agreements aspect of the project. ENWL requested these changes primarily as a result of a reduction in maximum demand on its trial circuits. Since the project was planned in 2011, there has been an average reduction of 6.6% in maximum demand across the trial circuits. This has increased the amount of demand that can be connected without needing reinforcement. This means that ENWL has fewer opportunities to offer C2C trial contracts to customers with benefits from the reduction in costs of avoided reinforcement.

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<sup>1</sup> The terms “the Authority”, “Ofgem” and “we” are used interchangeably in this letter. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This was pursuant to the LCN (Low Carbon Networks) Fund Governance Document issued pursuant to Part E of Charge Restriction Condition 13 (“CRC13”) of the Electricity Distribution Licence.

<sup>3</sup> Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

ENWL has kept us informed of progress in securing these contracts in its last two Project Progress Reports as well as in monthly updates. ENWL has explained that it is in the final stages of negotiations with a number of customers that are likely to result in it securing ten agreements by March 2015. It has therefore requested an extension to the planned date for securing these customers from September 2014 to March 2015.

As the project was scheduled to be completed in December 2014, this request extends the timeline for the project. ENWL has explained that this delay has a consequential impact for the demand response capability testing as well as learning dissemination and project reporting. ENWL has requested that the deadlines for the four SDRCs related to these areas are also amended to March 2015, as the revised project closedown date. It has estimated the cost of this project extension at £108,000. ENWL has clarified that publication of the final white paper for the project will not be affected and will be delivered by December 2014.

We note that ENWL has offered comprehensive justification for its change request.

- Its academic project partners have confirmed that the extension will have no detrimental impact on their own work and has the potential to have a positive impact on the overall learning generated by the project compared with not securing additional new connection contracts.
- All other DNOs supported its extension request following consultation.
- It has provided evidence that the potential benefits to customers for securing new connection agreements far outweigh (by up to an order of magnitude) the additional costs of the project extension.
- Even if ENWL is unable to secure the ten connection agreements by March 2015, the experience of additional negotiations with the customers and 'post acceptance/rejection' surveys will provide valuable learning on the reasons for contract acceptance/rejection.

We also note that while ENWL's original extension request was submitted on 28 July 2014, it was not until 15 October 2014 that it submitted a version providing some of the necessary justification for such a request. Given that one of the SDRCs to be changed had an original deadline of September 2014, we would have expected this justification to have been submitted in a more timely manner.

## Conclusions

While we note that this extension will increase the project costs by £108,000, the project is still forecast to be completed at £1.4m under budget, with the outperformance being returned to customers. We also note that the potential benefits to the new customers as a result of the extension far outweigh the additional cost. Even if ENWL is unable to secure the remaining four new connection customers by March 2015, we consider that the additional learning will make a valuable contribution to the overall learning from the project.

We consider it is in the best interests of customers<sup>4</sup> and appropriate in the circumstances to approve these changes that were triggered by a material change in circumstances beyond ENWL's control. By approving these changes we are not making an evaluation of ENWL's overall management of the project.

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<sup>4</sup> The term "customer" has the meaning given to the term "Customer" in the Electricity Distribution Licence.

## Decision

In accordance with Section 13 of the Project Direction, we hereby amend the Schedule to the Project Direction in the manner set out in the Schedule to this letter.

This letter constitutes notice of reasons for our decision pursuant to section 49A of the Electricity Act 1989.

Yours sincerely,



**Dora Guzeleva,**  
Head of Networks Policy, Local Grids  
**For and on behalf of the Authority**

## Schedule

### 1. Amend existing section 11 (Successful Delivery Reward Criteria)

Amend existing Section 11 of the Schedule to the Project Direction in the following manner:

Ref	Successful Delivery Reward criterion	Evidence
9.3.8	<b>Customer Engagement</b>	8. Various engagement programs continued through until <del>Dec 2014</del> <u>March 2015</u> , using various channels including website and e-mail.
9.4	<b>Technology Implementation and Project 'go live'</b> 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).	2. Demand response capability test completed for all contracted C <sub>2</sub> C customers by <del>December 2014</del> <u>March 2015</u> .
9.6.3	<b>Dissemination of knowledge</b> 3. Identification of suitable industry conferences to attend.	3. Five industry conferences attended and presented at by <del>December 2014</del> <u>March 2015</u> .
9.6.6	5. Production of final C <sub>2</sub> C Project close down report.	6. Close down report submitted to Ofgem in <del>December 2014</del> <u>March 2015</u> .
9.7.1	<b>Demand Response Contracts</b> 1. Enter into a number of new commercial arrangements for the provision of a demand and/ or generation response, including both: i) New C <sub>2</sub> C managed connection agreements;	1. New managed contracts entered into with demand and/ or generation customers or their agents, including: i) At least ten C <sub>2</sub> C managed connection agreements by <del>September 2014</del> <u>March 2015</u> ;