



Making a positive difference
for energy consumers

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Date: 19 December 2014

Dear Company Secretary,

Project Direction ref: ENWL/ Fault Level Active Response/ 12 December 2014

Electricity North West Limited (ENWL) submitted the project *Fault Level Active Response (FLARE)* on 25 July 2014 to be considered for funding through the Low Carbon Networks (LCN) Fund. In this year's decision, we selected the project for funding.^{1 2}

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

Project Direction

Paragraph 3.80 of Section Two of the LCN Fund Governance Document states that a Project Direction will:

- set out the Project-specific conditions that the distribution network operator (DNO) is committing to in accepting Second Tier Funding;³
- require the DNO to undertake the Project in accordance with the commitments it has made in the Full Submission.⁴ Where appropriate the Project Direction may therefore include extracts from the Full Submission or refer to specific sections of the Full Submission;
- set out the Approved Amount for the Project, as defined in Charge Restriction Condition (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 *FLARE* in the schedule to this Project Direction.

¹ The terms 'the Authority', 'Ofgem', 'we' and 'us' are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

² You can find the decision on the fifth year competition [here](#).

³ Second Tier Funding has the meaning given in CRC13.11.

⁴ Unless otherwise specified, defined terms (terms in capitals) in this Project Direction are defined in Section Six of the LCN Fund Governance Document.

Decision

Provided ENWL complies with the LCN Fund Governance Document (as may be modified from time to time in accordance with CRC 13) and with the schedule to this Project Direction, *FLARE* is deemed to be an Eligible LCN Fund Project.⁵

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

⁵ Eligible LCN Fund Project has the meaning given in part G of CRC 13.

Schedule to Project Direction

1. TITLE

Project Direction ref:ENWL/ *Fault Level Active Response* / 12 December 2014

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Electricity North West Limited ("ENWL") (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 by the Funding DNO in relation to *Fault Level Active Response (FLARE)* (the "Project") as a condition of the Project being funded under the Second Tier and Discretionary Funding Mechanism.⁶

Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Section Six of the LCN Fund Governance Document version 6.⁷

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

1. ABB Limited
2. Parsons Brinckerhoff Limited
3. Impact Research Limited
4. Schneider Electric Limited
5. Kelvatek Limited

The Funding DNO will not access any funds from the Project Bank Account for the customer survey in the Customer Workstream, 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

6. United Utilities plc
7. ENER-G plc
8. Combined Heat and Power Association

4. COMPLIANCE

The Funding DNO must comply with CRC 13 and with 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 with the Project Direction.

⁶ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

⁷ Unless otherwise stated, all references are to version 6 of the LCN Fund Governance Document.

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 Distribution Service Provider) under the Second Tier Funding Mechanism and under the 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.⁸

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's 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.⁹

5. APPROVED AMOUNT FOR THE PROJECT

The Approved Amount is £4,425,277.76.

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 and 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 £502,432.35;
- (iii) complete the Project on or before the Project completion date of 31 October 2018; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

⁸ As defined in the Licence.

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

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 AND DIRECT BENEFITS

The maximum amount of Discretionary Funding that the Funding DNO can request as additional funding for cost overruns relating to the Project is 0% of the Approved Amount.¹⁰

The maximum amount of Discretionary Funding that the Funding DNO can request as additional funding for shortfall in direct benefits relating to the Project is 0% of the Approved Amount.¹¹

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 2 below (that comply with paragraphs 3.27 of Section Two of the LCN Fund Governance Document).¹²

Table 2. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
Criteria 9.1 - Technology Build Workstream	Evidence 9.1 - Technology Build Workstream
9.1.1 Produce briefing and training materials on new fault level approaches and operational procedures for use in DNO internal dissemination;	9.1.1 Brief and train Electricity North West operational teams, including planning engineers, on fault level mitigation management protocols by April 2016;
9.1.2 Install and commission fault level mitigation and monitoring equipment;	9.1.2 Publish equipment specifications and installation reports for the Adaptive Protection and the IS-limiter by September 2016 and the FCL service by April 2018;
9.1.3 Update NMS, develop interface and install and commission the Fault Level Assessment Tool software;	9.1.3 Publish NMS interface and configuration specifications and commissioning reports by September 2016;
9.1.4 Validate the Fault Level Assessment Tool; and	9.1.4 Publish report on validation of the Fault Level Assessment Tool by November
9.1.5 Examine current fault level protocols	

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

¹¹ This is the amount requested by the Funding DNO in its Full Submission.

¹² These are the Successful Delivery Reward Criteria set out in the Funding DNOs Full Submission

<p>and evaluate Adaptive Protection setting requirements.</p>	<p>2016; and</p> <p>9.1.5 Publish updated fault level management, planning, design, protection settings and operation and maintenance policies by June 2018.</p>
<p>Criteria 9.2 - Customer Workstream</p> <p>9.2.1 Develop Customer Engagement Plan and Data Privacy Statement;</p> <p>9.2.2 Design, create and test the customer survey materials using an Engaged Customer Panel;</p> <p>9.2.3 Deliver the customer survey and report the findings; and</p> <p>9.2.4 Develop appropriate commercial arrangements and contract templates for FCL service.</p>	<p>Evidence 9.2 - Customer Workstream</p> <p>9.2.1 Send Customer Engagement Plan and Data Privacy Statement to Ofgem by June 2015;</p> <p>9.2.2 Deliver Engaged Customer Panel workshop by September 2015, lessons learned from testing customer survey materials incorporated into survey and all survey materials published on the FLARE website by October 2015;</p> <p>9.2.3 Publish customer survey report and information for customer evaluation of FCL service provision on FLARE website by May 2017; and</p> <p>9.2.4 Publish contract templates for FCL service with new and existing customers and commercial arrangements learning by May 2018.</p>
<p>Criteria (9.3) - Trials & Analysis Workstream</p> <p>9.3.1 Design monitoring and analysis procedures for Trial regime;</p> <p>9.3.2 Commence live Trials;</p> <p>9.3.3 Implement monitoring and post fault analysis procedures in Trial period;</p> <p>9.3.4 Develop interim and final Cost Benefit Analysis study reports by June 2017 and July 2018 respectively;</p> <p>9.3.5 Produce a draft DCUSA change proposal for amending Common Connection Charging Methodology;</p> <p>9.3.6 Develop interim and final Carbon Impact Assessment reports by June 2017 and July 2018 respectively;</p> <p>9.3.7 Test the market for the purchase of Fault Current Limiting services;</p> <p>9.3.8 Write Safety Case for each fault level mitigation technology deployed; and</p> <p>9.3.9 Conduct Asset Health study.</p>	<p>Evidence (9.3) - Trials & Analysis Workstream</p> <p>9.3.1 Publish monitoring and analysis procedures for Trials on FLARE website by May 2016;</p> <p>9.3.2 Publicise commencement of live Trials on FLARE website by May 2016;</p> <p>9.3.3 Publish on FLARE website a summary of each fault event three months after each event, with the expectation that a minimum of 18 faults will be reported on;</p> <p>9.3.4 Publish on FLARE website the Cost Benefit Analysis study report and the buy order of FLARE/ FlexDGrid/ traditional reinforcement fault level mitigation solutions by July 2018;</p> <p>9.3.5 Submit a DCUSA change proposal for amending application approach to Fault Level Cost Apportionment Factor in Common Connection Charging Methodology by August 2018;</p> <p>9.3.6 Publish on FLARE website the Carbon Impact Assessment report by July 2018;</p> <p>9.3.7 Purchase a Fault Current Limiting service from at least one Electricity North</p>

	<p>West demand customer and one Electricity North West generation customer;</p> <p>9.3.8 Publish peer reviewed Safety Cases on the FLARE Project website by September 2018; and</p> <p>9.3.9 Publish Asset Health Study on FLARE website by July 2018.</p>
<p>Criteria 9.4 - Learning & Dissemination Workstream</p> <p>9.4.1 Develop and launch the FLARE Project website and social media forums;</p> <p>9.4.2 Produce Project progress materials for internal general awareness and a series of advertorials detailing FLARE's progress;</p> <p>9.4.3 Attend Annual LCN Innovation Conferences, deliver webinars and hold Knowledge Sharing Events; and</p> <p>9.4.4 Issue six monthly Project Progress Reports to Ofgem and on FLARE Project website.</p>	<p>Evidence 9.4 - Learning & Dissemination Workstream</p> <p>9.4.1 Deliver live FLARE website and social media forums by July 2015;</p> <p>9.4.2a Publicise FLARE within Electricity North West in monthly team brief pack and/ or Volt (intranet) and/ or Newswire (quarterly employee magazine) by January 2015, September 2015, June 2016, July 2017 and October 2018;</p> <p>9.4.2b Publish advertorials by July 2015, April 2016, July 2016, July 2017 and October 2018;</p> <p>9.4.2c Publish newsletter by May 2015, November 2015, May 2016, November 2016, May 2017, November 2017 and May 2018;</p> <p>9.4.3 Actively participate at four annual LCN Innovation conferences from 2015 to 2018; Webinars held by September 2015, by September 2016, September 2017, October 2018; and three Knowledge Sharing Events by May 2016, May 2017 and September 2018; and</p> <p>9.4.4 Issue Project progress reports in accordance with Ofgem's June and December production cycle and publish on FLARE website.</p>
<p>Criteria (9.5) - Close Down Report and Business as Usual</p> <p>9.5.1 Produce the FLARE Project Close Down Report;</p> <p>9.5.2 Update Electricity North West's Network Design Policy to define FLARE Project mitigation techniques as the intervention strategy for fault level mitigation.</p>	<p>Evidence (9.5) - Close Down Report and Business as Usual</p> <p>9.5.1 Issue FLARE Project Close Down Report to Ofgem and publish on FLARE website by October 2018; and</p> <p>9.5.2 Publish Electricity North West's approach to managing fault level reinforcement on FLARE website by October 2018.</p>

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 £502,432.35.

12. USE OF LOGO

The Funding DNO and Project Partners, External Funders and Project Supporters 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

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); and/ 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); and/ 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 3.107 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 Project 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 Project Direction constitutes notice of reasons for the Authority's decision pursuant to section 49A of the Act.

¹³ As listed in Box 1.5 in Section 1 of the Full Submission pro-forma.

ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£)
Labour	1,305,222
Equipment	1,057,839
Contractors	1,139,799
IT	572,942
Payments to users	61,474
Contingency	483,935
Decommissioning	53,885
Other	349,229
Total	5,024,323