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Date: 19 December 2014

Dear Company Secretary,

Project Direction ref: SPN/ Kent Active System Management/ 12 December 2014

South Eastern Power Networks plc (SPN) submitted the project *Kent Active System Management (KASM)* 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 SPN. It contains the terms to be followed by SPN as a condition of *KASM* 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 *KASM* in the schedule to this Project Direction.

¹ The terms 'the Authority', 'Ofgem', 'we', 'us' and 'our' 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 SPN 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, *KASM* 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:SPN/ *Kent Active System Management* / 12 December 2014

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to South Eastern Power Networks Plc ("SPN") (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 *Kent Active System Management (KASM)* (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. National Grid Electricity Transmission plc
2. Navigant Consulting (Europe) Ltd

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.

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

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

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

⁸ As defined in the Licence.

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 £3,344,537.59.

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 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 £378,064.65;
- (iii) complete the Project on or before the Project completion date of 31 December 2017; 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 Ofgem is the offices of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'Authority' are used interchangeably in this Project Direction.

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 5% 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 of its Full Submission (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
<p>Criterion (9.1) Development of the strategy for inter-control room communication protocol for the purposes of KASM by end of December 2015</p>	<p>Evidence (9.1)</p> <ul style="list-style-type: none"> Published report on key technical and commercial challenges relevant to inter-control room link and the KASM project, whether proposed by the KASM team or raised by stakeholders, including other DNOs; Implementation guidelines for the inter-control room communication link in consultation with National Grid for use by the project.
<p>Criterion (9.2) Completion of the system integration of Contingency Analysis (CA) software into UK Power Networks systems, excluding a real-time link to National Grid, by end of March 2016</p>	<p>Evidence (9.2)</p> <ul style="list-style-type: none"> Sign-off on set up of CA software; Sign-off on successful demonstration and testing of CA software; and Published report on CA software integration that includes the control room IT architecture, lessons learned, engagement with other DNOs, and identified risks.
<p>Criterion (9.3) Completion of installation of forecasting modules that will link the DNO control room with other data sources by end of March 2016</p>	<p>Evidence (9.3)</p> <ul style="list-style-type: none"> Sign-off on installation of forecasting modules; Forecast data, benchmarked for accuracy against historical data; Published report demonstrating forecasts including each of solar, on-shore wind

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

	<ul style="list-style-type: none"> and off-shore wind; Forecast error curves plotted at primary substation, 132kV circuit, and GSP levels; Description of integration architecture with the overall solution; Published report on data aggregating forecasting modules that includes lessons learned and identified risks.
<p>Criterion (9.4) Demonstration of use of real-time contingency analysis in the control room by end of December 2016</p>	<p>Evidence (9.4)</p> <ul style="list-style-type: none"> Demonstration of contingency results from live SCADA readings, supplied within 15 minutes of them being collected; Completion of user survey identifying the most critical forecast time periods perceived by control room users (e.g. next 15 mins; tomorrow; next shift); Published report with description of the solution, the user interface, and the capabilities.
<p>Criterion (9.5) Completion of trials and implementation of reliability management, outage management and network capacity management by end of December 2017</p>	<p>Evidence (9.5)</p> <ul style="list-style-type: none"> Published results from functional trials and the achieved benefits in reduced distributed generation curtailment; Published report demonstrating data collection from Grain, Kemsley, Cleve Hill, Canterbury North, Sellindge, Dungeness and Ninfield 400kV network and sensitivity of the contingency analysis results to this data; List of connection offers that have been linked to reinforcement when assessed using conventional processes, and identification of those that have been revised to remove the reinforcement requirement after being assessed using the trialled methodology; quantification of the released network capacity based on the comparison of the above list; Published report on considerations for selecting, designing and installing CA software for each use case.
<p>Criterion (9.6) Development of business design to incorporate contingency analysis as business-as-usual by end of December 2017</p>	<p>Evidence (9.6)</p> <ul style="list-style-type: none"> Identification of business areas impacted by the introduction of contingency analysis in a Distribution Network Operator Outline of proposed changes to systems, policies and processes required in the DNO operating model in order to incorporate contingency analysis as part the business as usual operation

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 £378,064.65.

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 interests 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 Electricity Act 1989.

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

ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£)
Labour	£1,591,433
Equipment	-
Contractors	£357,441
IT	£1,311,114
IPR Costs	-
Travel & Expenses	£296,091
Payments to users	-
Contingency	£296,505
Decommissioning	-
Other	-
Total	£3,852,582