

Jim Cardwell
Head of Regulation & Strategy
Northern Powergrid (Northeast) Limited
Lloyds Court
78 Grey Street
Newcastle upon Tyne
NE1 6AF

Direct Dial: 0203 263 1851
Email: Dora.Guzeleva@ofgem.gov.uk

Date: 03/09/2014

Dear Jim,

Decision to approve changes to Northern Powergrid Northeast's (NPgN) Low Carbon Networks (LCN) Fund project - Customer-Led Network Revolution (CLNR)

We have approved amendments to the CLNR because we consider they will mitigate the challenges presented by material changes in circumstances that were beyond NPgN's control and which have arisen since we originally funded the project. These amendments will allow the project to continue to deliver value for money to customers.

This letter describes the background to NPgN's request to amend CLNR, the process we have followed to assess the costs and benefits of the request, our decision and the next steps for the project.

Background

CLNR is an innovation project run by the distribution network operator (DNO) NPgN (formerly Northern Electric Distribution Limited), owned by Northern Powergrid (formerly CE Electric UK). We awarded it funding through the LCN Fund Second Tier funding mechanism¹ in December 2010.

On the 17th December 2010 we issued a project direction to NPgN.² The project direction contains the specific conditions that NPgN committed to in accepting the Second Tier Funding.³

The project direction requires NPgN to comply with –

- Charge Restriction Condition 13 (CRC 13) of its Electricity Distribution Licence
- The LCN Fund Governance document
- The project direction.

Amongst other things, NPgN is required to: undertake the CLNR project in accordance with the commitments it made in the full submission; provide us with progress reports every six months; and inform us in writing of any event or circumstance likely to affect its ability to deliver the CLNR project as set out in its full submission.

Process

¹ More information on the LCN Fund is available on our [website](#).

² <https://www.ofgem.gov.uk/ofgem-publications/45881/lcn-fund-project-direction-ce.pdf>

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

On 14 November 2013, NPgN formally submitted a request to amend the CLNR Project. It explained each amendment it sought to make and why each amendment is in customer's best interests. It also provided an amended full submission detailing each change^{4,5}.

Throughout our assessment of the change request we have sought to ensure that the project will continue to deliver the same benefits that were outlined in the original submission and which informed our decision to award CLNR funding. NPgN was required to provide sufficient evidence to determine whether the amendment is appropriate and, in particular, whether the amendments are in the best interests of customers. In addition to our consideration of the changes, we have taken a number of further steps to ensure that the amendments will deliver the necessary benefits –

- We required NPgN to seek views of all GB DNOs on the impact that the requested amendments to the project may have on the learning the project can achieve, and that the project is still cost efficient.
- We commissioned the consultant who assessed the projects during the LCN Fund competition, through which CLNR received its funding, to review the proposed amendments and associated costs.⁶
- We required NPgN to provide assurances from Durham University, its academic partner, that CLNR would deliver the benefits outlined in its original submission.

In considering this request we have also taken into consideration two documents containing additional information from NPgN, issued in response to the consultant's questions and final report. In particular we have considered if the amendments represent value for money for customers and allow the project to deliver the agreed outcomes and learning it committed to.

On the 8th August 2014, NPgN submitted a further amendment to the change request. This request was to amend the dates for several Successful Delivery Reward Criteria (SDCRs). This request was not submitted in time to be reviewed by the consultant.

Decision

CLNR has requested amendments to five areas of the project. These amendments mostly relate to extending the overall project timelines by one year. We have outlined below our consideration of the evidence provided in each of these areas and our decision on whether to approve each amendment. It should be noted that multiple changes have been requested under each of the five change areas under the change request.

1. Customer-facing trials

NPgN has requested additional time to deliver learning outcome one (monitoring), 21 months later than originally planned, and learning outcome two (customer flexibility), 18 months later than previously planned. This is due to the scarcity of heat pump (HP), electric vehicle (EV) and photovoltaic (PV) customers, Rent-a-Roof providers not agreeing to the required monitoring, and smart appliance suppliers withdrawing from the UK market.

Several customer trials had lower levels of participants than identified as needed at bid stage and some trials have been cancelled or subsumed into other trials. In response to the challenge of scarcity of HP, PV and EV customers, NPgN spent additional time developing alternative routes to customers and formed alliances with other projects (Switch EV, Charge Your Car, My Electric Avenue) to combine data sets. Where quantitative results are required, NPgN has developed an analysis technique to compensate for any reduction in

⁴ [Covering letter to Northern Powergrid's request to make amendments to Customer-Led Network Revolution](#)

⁵ [Northern Powergrid's request to make amendments to Customer-Led Network Revolution](#)

⁶ [TNEI's report](#)

physical data. Alternative suppliers were sought to mitigate the withdrawal of the supplier identified at bid stage.

We agree with the consultant's findings that the EV/HP/PV customer recruitment strategy was not robustly developed despite firm statements in the bid that this was so. Recruitment and analysis started slowly and some delays should have been foreseen and avoided. Based on the evidence we have seen, we consider that it is not possible to determine whether the limited number of participants in some test cells will provide statistically robust results until all analysis has been completed.

Learning outcome one and learning outcome two form essential building blocks of the subsequent learning outcomes. Because of this, we agree that the extra time that it has taken to find an alternative route to participants and to find alternative suppliers of smart appliances was in the best interest of consumers. Additional learning has also been generated from these trials that had not been envisioned at bid stage which includes learning that will inform the development of future demand response propositions.

We approve this amendment. However we will review the outputs that have been achieved at the close of project to ensure that all learning outcomes have been met.

2. Network Technology Trials

NPgN has requested additional time to complete learning outcome three (network technology) asking that this be completed 15 months later than originally planned. The delays in these trials are due to the unavailability of innovative network technology (bankruptcy of a chosen supplier of equipment and scarcity of particular network equipment in the market).

NPgN negotiated with the bankrupt supplier to ensure that equipment was supplied at the original contracted price. However, this meant that equipment delivery was delayed considerably. NPgN designed its own prototype solution when it was discovered that a piece of network equipment wasn't available in the market. To minimise delays, NPgN rationalised the network technology trials to focus on the trials which are expected to yield the most significant results. As the trial proceeds, the hypothesised results will be compared to the results of the field trials and any needed adjustments will be made to the trials.

The initial bid clearly stated that the novel technology had been de-risked during the pre-bid stage due diligence and design. This was a contributing factor to NPgN being awarded the project. However, the number of technology related problems on this part of the project brings the level and effectiveness of the due diligence into question.

Nevertheless, we believe that the additional time to develop alternative solutions is in the best interest of customers as it is necessary to deliver learning outcome three as set out in the bid. Like learning outcomes one and two, learning outcome three is an essential building block for learning outcomes four and five: identifying the optimal solution to resolve network constraints; and identifying the most effective means to deliver optimal solutions between customers, suppliers and distributors. The alternative would have been to significantly reduce the range of network technologies being trialled which would not have delivered the learning expected from the project. The project has also created an additional modelling technique, the Validation, Extension, Extrapolation, Enhancement and Generalisation (VEEEG) methodology which has enabled the project to produce more learning from the results of physical trials.

While we may have reservations about the cost effectiveness of the procurement and design decisions, it is clear that funds have already been committed and to deny this change request would have detriment to the learning being delivered. We therefore approve this amendment but we will conduct a review of costs against outcomes achieved at the end of the project.

3. Development of solutions

Due to delays in the customer and network technology trials (as described above), there has been a knock on delay to learning outcome four (optimum solutions) and learning outcome five (effective delivery). NPgN has requested to deliver these learning outcomes 15 months later than planned.

NPgN has minimised the extent of the overall delay by drafting the policies, guidance and tools needed to progress towards business as usual based upon the anticipated results of the trials for learning outcomes one to three. These results will be updated following the actual trial outcomes.

We consider that taking the additional time to complete learning outcomes four and five is in the best interest of customers as it is the learning from these two outcomes that may deliver considerable benefit to network operations in the future. The alternative would have been to curtail the project and fail to deliver the learning in an implementable form and thus the anticipated benefits. We therefore approve this change.

4. Budget restructuring

NPgN has requested a restructuring of the project budget. NPgN stated that the original second tier funding remains sufficient to deliver the project and that the total cost of the project remains unchanged. However, various budget line costs have changed, requiring a transfer between categories.

The cost categories that have changed the most are employment costs and contractor costs. These have increased by 32% and 20% respectively. This includes a £1.63m increase in project management costs partially offset by savings on other employment cost lines. This has been part funded by £1.0m from the contingency budget.

Customer and user payments have decreased by 40%. The incentive payments for domestic customers have reduced commensurate to the reduction in the number of customers recruited to the residential test cells. Of the original £3.34m contingency, £2.25m has been allocated to cover the increased employment costs and contractor costs, leaving a residual contingency of £1.09m. At the time the original budget was set, it was thought that the most significant call upon contingency would be related to project management and network trials equipment. Significant provision for an increase in contractor costs was not anticipated, nor the need for the extension.

While additional information including monthly budget reporting spreadsheets and a breakdown of the contingency utilisation have been received, these have not been analysed in depth as such analysis would require significant additional detail for this to be meaningful. Likewise the consultant commissioned to review the change request did not view it as appropriate to undertake a full forensic analysis at this stage.

We determine that to terminate the project before delivering the full learning outcomes represents poor value for money since the costs of the project are front end loaded, but the learning created is back end loaded. This is because the value of the later learning builds upon the learning created in earlier learning outcomes (learning outcomes one, two and three). It is important to note that learning is also ongoing across the entire project, not just the changed elements. We therefore agree that these changes are in the best interest of consumers and approve the changes. However, given the scope of the changes, we retain the right to review the final out-turn costs at the project close-out stage to ensure that the bid objectives have been satisfactorily met.

Change requests should ideally be raised where there has been a material change in circumstances impacting on the project design, programme or costs. Many of these changes appear to have already been made, and therefore this is an ex-post change

notification rather than an ex ante change request. However, it is clear that the CLNR is a challenging and complex project, as correctly anticipated at bid stage, and NPgN has managed many of the unexpected challenges.

5. *Successful Delivery Reward Criteria (SDRCs)*

NPgN has requested to amend the dates of 11 of CLNR's 16 SDRCs due to the problems the project encountered recruiting customers and procuring network equipment, as discussed above.

We consider that it is reasonable to allow for the change in date for those SDRCs that relate to network technology. The number of technology related problems on this project brings the level and effectiveness of due diligence at bid stage into question. However, there were other problems that we believe were out of the control of NPgN. These problems relate to the bankruptcy of a vendor and the acquisition of a new supplier of network equipment. This affected the date that equipment was installed on the network, the initiation of the network trials and the close down date of the project. We believe that NPgN took actions to minimise the delays through rationalising the trials to focus on those which expected to yield the most significant results.

The SDRCs with regard to which we approve to change the date are the following:

- Complete installation and commissioning of network equipment relating to learning outcome three by December 2013 (moved from December 2012)
- Project close down report by December 2014 (moved from December 2013)
- Network data showing performance of selected network technologies by October 2014 (moved from September 2013)
- Provide understanding of and disseminate how advance voltage control, thermal ratings and storage can be integrated to enable more low carbon technologies to be accepted onto the network and costs with arrangements by December 2014 (moved from September 2013)

NPgN has requested to change the date of 7 of its SDRCs that relate to the recruitment of consumers. We agree with the consultant that the EV/HP/PV customer recruitment strategy was not robustly developed despite firm statements in the bid that this was so. However as the SDRCs listed below will in actuality be met during the extra time NPgN have requested to complete the project, we agree to approve the change of date. This decision should not be taken as an indication of a reward for successful delivery. By approving change requests, we are not making an evaluation of the DNO's management of projects.

We therefore approve to change the date of the following SDRCs:

- Demand profiles grouped by customer type finalised August 2014 (moved from end 2012)
- Demand profiles grouped by low carbon technology types August 2014 (moved from end 2012)
- Output of profiles of existing generation types August 2014 (moved from end 2012)
- Output/demand profiles before and after a range of interventions August 2014 (moved from April 2013)
- Publish analysis of load profile data October 2014 (moved from end 2012)
- Publish analysis of generation profile data October 2014 (end 2013)
- Undertake and disseminate a critical review of how commercial models and arrangements between parties may evolve to facilitate customer-side response December 2014 (moved from end of 2013)

NPgN has requested to include a further SDRC relating to the dissemination of learning from customer trials, network trials and the project out-puts. We would only consider it appropriate to include a further SDRC if a material change in circumstance made it necessary. We have not been presented with evidence that this is the case.

We therefore do not approve the addition of the following SDRC:

- Dissemination of learning from customer trials, network trials and the project outputs by end of December 2014

Next Steps

We consider that it is reasonable that the project should continue given the costs committed to date and the learning that is forthcoming across the entire project. An outstanding question is whether costs have been reasonably incurred in light of the changes and outputs. The individual changes appear reasonable and we agree that it is in the best interests of the consumer to approve the change request. However, due to the change in scope, we retains the right to review the final turn out costs at the project close down stage to ensure that the bid objectives have been satisfactorily met.

We agree to approve the changes to the date of the SDRCs listed above. However, this is not an indication of a decision with regards to the Successful Delivery Reward. The Successful Delivery Reward is intended to incentivise the DNOs to manage their projects well. When change requests are assessed, consideration is given to whether there has been a material change in circumstances and whether any proposed changes are in the interests of customers. By approving change requests, we are not making an evaluation of the DNO's management of projects.

To implement these changes, we have amended the CLNR project direction so that it requires NPgN to deliver CLNR in line with the schedule to this direction. The amended direction is in Annex 1. We require CLNR to provide monthly progress updates until the new end date of the project.

If you would like to discuss any of the issues raised in this letter, please contact Keavy Larkin at keavy.larkin@ofgem.gov.uk or on 0207 901 3136.

NOW THEREFORE:

In accordance with section 7 of the CLNR project direction, and in particular section (iv), the Authority hereby amends the schedule to the CLNR project direction in the manner set out in Annex 1 of this letter.

This constitutes notice of reasons for the Authority's decision pursuant to section 49A of the Act.

Yours sincerely,



Dora Guzeleva
Head of Networks Policy
For and on behalf of the Authority

Annex 1

Schedule One

1. Title

Project Direction Ref: NEDL/Customer-led Network Revolution/17-12-10

2. Preamble

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Northern Powergrid (Northeast) Limited (the "Implementing 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 the Customer-led Network Revolution (the "Project") as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism⁷.

Unless otherwise specified, defined terms in this Project Direction are defined in section 7 of the LCN Fund Governance Document.

References to specific sections of the Implementing DNO's Full Submission in this Project Direction are, for ease of reference, made by referring to the box number in the Implementing DNO's Full Submission pro-forma.

3. CONDITION PRECEDENT

The Implementing DNO will not access any funds from the Project Bank Account until it has signed contracts with the External Collaborators named in Table 1.

Table 1. Condition Precedent

British Gas
Durham Energy Institute (Durham University)

4. COMPLIANCE

The Implementing DNO must comply with CRC13 and the LCN Fund Governance Document (as may be modified from time to time in accordance with CRC13 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 Implementing DNO or another DSP) 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 3.93 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's⁸ 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.

⁷ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

⁸ Ofgem is the offices of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'The Authority' are used interchangeably in this Project Direction.

5. APPROVED AMOUNT FOR THE PROJECT

The Approved Amount is £27,587k.

6. PROJECT BUDGET

The Project Budget is set out in Table 2. The Implementing DNO must not spend more than 110% of any category total (e.g. Box 6 Employment costs) without the Authority's prior consent (such consent is not to be unreasonably withheld).

The Implementing DNO will report on expenditure against each line 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 3.68 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 Implementing DNO with respect to reporting that are set out in the LCN Fund Governance Document.

Table 2. Project Budget

Box 6 (Employment costs)	
Project Manager	£2,537k
Technical Engineer	£1,231k
Project Accountant / Procurement	£88k
Administrator	£110k
Commercial Analyst/Manager	£409k
Box 7 (Equipment costs)	
2.5MW/5MWh storage ⁹	
100kW/200kWh storage	
50kW/100kWh storage	
100 systems for direct management of pv export	£281k
240 "smart energy" systems	£74k
3,600 detailed energy profiling systems	£1,378k
150 Load controllable white goods	£165k
Network Monitoring	£511k
Voltage control	£484k
Real time thermal rating	£493k
Control interfaces	£3,370k
Domestic CHP	£80k
Box 8 (Contractor costs)	
British Gas	£3,867k
EA Technology Limited	£4,086k
Durham Energy Institute (Durham University)	£3,640k
Expert challenge function	£50k
DUoS tariff design	£233k

⁹ The figures for the three battery systems have been redacted due to commercial confidentiality as these figures now represent actuals rather than budget costs.

Dissemination	£317k
Box 9 (Customer and user payments)	
Domestic customers	£281k
Small commercial customers	£218k
Box 10 (Other costs)	
IT costs	£110k
Contingency	£600k
Decommissioning	£507k
Other	£84k

7. PROJECT IMPLEMENTATION

The Implementing 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 Box 1 (Project, Method and Solution) and Box 2 (Project description);
- ii. provide a DNO Compulsory Contribution of £3,103k;
- iii. complete the Project on or before the Project completion date of 31 December 2014; and
- iv. disseminate the learning from the Project at least to the level described in Box 18 (Arrangements for disseminating learning).

8. REPORTING

The Implementing DNO must submit to the Authority, within two months of the date of this Project Direction, how it proposes to comply with paragraph 3.68 of Section Two of the LCN Fund Governance Document, including how it will assure us that the information in the report is accurate.

Ofgem may produce further guidance about the structure and content of the reports required by paragraph 3.68 of Section Two of the LCN Fund Governance Document.

9. COST OVERRUNS

The maximum amount of Discretionary Funding that the Implementing DNO can request as additional funding for cost overruns on the Project is 0%¹⁰.

10. INTELLECTUAL PROPERTY RIGHTS (IPR)

In Box 19 (Arrangements for Intellectual Property Rights) the Implementing DNO has stated that the Project does conform to the default IPR arrangements set out in Chapter 2 of 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 3¹¹ below

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

¹¹ These are the Successful Delivery Reward Criteria set out in the Implementing DNOs Full Submission

(that comply with paragraphs 3.17 and 3.18 of Section Two of the LCN Fund Governance Document).

Table 3. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
<p>The following project milestones will be achieved to the timescales below:</p> <ul style="list-style-type: none"> • Commence installation and commissioning of network equipment relating to learning outcome 3 – September 2011; • Complete installation and commissioning of network equipment relating to learning outcome 3 – December 2013; and • Project close down report produced – December 2014. 	<ul style="list-style-type: none"> • Installation and commissioning plan and details of expenditure relating to network equipment installation activities provided to Ofgem/auditors. • Equipment on site and operational, available for site audit. • Project close down report issued to Ofgem, fellow distributors and website.
<p>Delivery of the following arrangements relating specifically to the dissemination of learning:</p> <ul style="list-style-type: none"> • Project website up and running by end May 2011 and updated in line with project developments; • Industry stakeholder forum held on an annual basis, by end May 2011, May 2012 and December 2013; • Distributor project review meetings held by end July 2012 and December 2013; and • Regional stakeholder panel meeting held on an annual basis by end March 2011, March 2012 and December 2013. 	<ul style="list-style-type: none"> • Website content and breakdown of composition of updates. • Meeting minutes in relation to distributor project review meetings, regional stakeholder panel meetings and industry stakeholder forum. • Materials presented in support of the above meetings.
<p>Provision of the following data sets for availability and use by other distributors and researchers:</p> <ul style="list-style-type: none"> • Demand profiles grouped by customer type interim by end 2012, finalised August 2014; • Demand profiles grouped by low-carbon technology type interim by end 2012, finalised August 2014; • Output profiles of existing generation types interim by end 2012, finalised August 2014; • Output/ demand profiles before and after a range of interventions interim by end April 2013; finalised August 2014; and • Network data showing performance of selected network technologies by end October 2014. 	<ul style="list-style-type: none"> • Data sets in an open and useable format issued to distributors and other interested parties.
<p>Publish analysis of load profile data by October 2014</p>	<ul style="list-style-type: none"> • Proposals for changes to standard load profiles for network planning, issued to: <ul style="list-style-type: none"> o fellow distributors and website; and o ENA Engineering Committee, with any recommendations to update/replace ACE 49.

<p>Publish analysis of generation profile data October 2014</p>	<ul style="list-style-type: none"> • Proposals for changes to standard generation profiles for network planning, issued to: <ul style="list-style-type: none"> o fellow distributors and website; and o ENA Engineering Committee, with any recommendations to update ETR 130. • Generic GB distribution policy guidance on generator interface protection to secure contribution to system security, issued to: <ul style="list-style-type: none"> o fellow distributors and website; and o ENA Engineering Committee, with any recommendation to update ER G59.
<p>Provide an understanding of, and disseminate by end December 2014 to other distributors, how advanced voltage control, thermal ratings and storage may be integrated to enable more low-carbon technologies to be accepted on the network. Provide a view of the costs associated with these arrangements.</p>	<ul style="list-style-type: none"> • Quantified, evidence-based cost/benefit analysis of novel network technologies issued to fellow distributors and website • Generic GB distribution policy guidance on the application of novel network technologies, issued to: <ul style="list-style-type: none"> o fellow distributors; and o ENA Engineering Committee, with any recommendations to create new engineering recommendations.
<p>Undertake, and disseminate by December 2014 to other distributors, a critical review of how commercial models and arrangements between distributor and supplier may evolve to facilitate customer-side response.</p>	<ul style="list-style-type: none"> • Recommendations for changes to industry codes (for example, this could include DCUSA, CDCM and related industry codes) as relevant to industry bodies such as DCUSA Ltd, BSC Review Panel, Ofgem, ENA.

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 £3,103k.

12. BANK ACCOUNTS

The Implementing DNO has requested an exemption from the requirement in paragraph 3.66 of Section Two of the LCN Fund Governance Document to keep the funds from the Second Tier Funding for this Project in a separate bank account. The Authority has decided to grant this exemption subject to the conditions set out in this section.

The Implementing DNO must provide a financial tracking and reporting system which is functionally equivalent to a separate bank account for this Project. This means they must hold any Approved Amounts, the DNO Compulsory Contribution and all other funding from the Implementing DNO, External Collaborators and External Funders, that the Implementing DNO has identified within its Full Submission as being used to fund the Project, unless otherwise agreed by Ofgem in a memorandum account¹² which is capable of providing all the information that would be available from a separate bank account. This memorandum account must:

- (i) show all transactions relating to (and only to) the Project;

¹² Or equivalent unique code within their financial system, if approved as functionally equivalent by the Implementing DNO's auditors. For this direction, the term memorandum account will also refer to the equivalent unique code if the auditors approval has been obtained.

- (ii) be capable of supplying a real time statement (of transactions and current balance) at any time;
- (iii) accrue expenditures when a payment is authorised (and subsequently reconciled with the actual bank account);
- (iv) accrue payments from the moment the receipt is advised to the bank (and then subsequently reconciled with the actual bank account);
- (v) calculate a daily total; and
- (vi) calculate interest on the daily total according to the rules applicable to the account within which the funds are actually held.

The Implementing DNO's auditors must review the systems and processes that the Implementing DNO is proposing to use to conform to the requirements set out in this section and provide a signed statement to Ofgem that the systems and processes are fit for purpose, before the Project is initiated and any funds are spent.

The Implementing DNO's auditors must provide an annual report to Ofgem to confirm that the Implementing DNO is conforming to the requirements set out in this section.

The Implementing DNO must provide an audited schedule of all the memorandum account transactions, including interest (calculated according to subpoint (vi) above), as part of its detailed progress reports¹³ to Ofgem.

The Implementing DNO is still required to comply with the remainder of paragraph 3.66 (in relation to the date on which the funds will be deposited and the requirements of use) and the rest of the LCN Fund Governance Document, and for the purposes of such compliance the requirements set out in this section are considered to comprise the Project Bank Account.

The Implementing DNO has also requested an exemption from the requirement in paragraph 3.66 of Section Two of the LCN Fund Governance Document to keep all funding from External Collaborators and External Funders, that the Implementing DNO has identified within its Full Submission as being used to fund the Project, in the Project Bank Account. The Authority has decided to grant this exemption and therefore the Implementing DNO is no longer required to keep the funding from External Collaborators and External Funders as listed in Table 4 below in the Project Bank Account. This exemption does not exempt the Implementing DNO from any reporting requirements.

Table 4. Exempted external funding

External Collaborator/External Funder	Line item
Customers	heat pump installations
Customers	solar PV installations
British Gas	smart meter installations
British Gas	BG proportion of contractor costs
British Gas	BG proportion of contingency
Customers/Plugged-in Places	electric vehicle charging points
Customers	Customer proportion of load-controllable white goods
Customers	Customer proportion of domestic CHP

¹³ The detailed report is described in Section Two, paragraph 3.68 of the LCN Fund Governance Document.

13. CUSTOMER PROTECTION

The Implementing DNO must comply with additional project-specific conditions in relation to customer protection. These conditions require the Implementing DNO to:

(i) submit to Ofgem, at least two months prior to initiating any form of Customer¹⁴ engagement, a plan of how it, or any of its External Collaborators or partners¹⁵, will engage with, or impact upon, Customers as part of the Project. The Implementing DNO and its External Collaborators or partners cannot initiate any form of Customer engagement until the plan has been approved by the Authority, and must comply with the approved plan at all times. The plan must include:

- a. a communications strategy which sets out inter alia:
 - i. any proposed interaction with a Customer or premises of a Customer or proposed interruption to the supply of a Customer for the purposes of the Project, and how the Customer will be notified in advance;
 - ii. ongoing communications with the Customers involved in the Project; and
 - iii. arrangements for responding to Customer queries or complaints relating to the Project; and
- b. information on the Priority Services Register Customers¹⁶ who will be involved in the Project and how they will be appropriately treated (including providing information to any person acting on behalf of a Priority Services Register Customer in accordance with condition 26 of the Electricity Supply Licence, where applicable);
- c. details of any safety information that may be relevant to the Project; and
- d. details of how any consents that may be required as part of the Project will be obtained; and

(ii) publish the plan by making it readily available on its website.

The Implementing DNO and its External Collaborators or partners must also comply with the following conditions:

- (i) not visit a premises of a Customer for sales or marketing activities¹⁷ in connection with, in the context of or otherwise under the guise of the Project; and
- (ii) have regard to the implementation of the smart meter roll-out in its Distribution Services Area¹⁸ to ensure that the Project does not impede the implementation in any way.

In addition, if the Implementing DNO or any of its External Collaborators or partners is installing any equipment at the Customer's premises as part of the Project, the Implementing DNO and the External Collaborators or partners must comply with the following conditions:

- (i) not enter the premises of a Customer, other than for the purposes contained in the Licence or for communication purposes (set out above), unless it first obtains the prior consent of the Customer, such consent to be formally recorded;

¹⁴ Customer has the meaning given to it in SLC 1 of the Licence.

¹⁵ As listed in Box 23 of the Full Submission pro-forma.

¹⁶ Priority Services Register Customers has the meaning given to it in SLC 10 of the Licence.

¹⁷ For the purposes of this condition, recruiting or engaging Customers to participate in the Project does not constitute a sales or marketing activity.

¹⁸ Distribution Services Area has the meaning given to it in SLC 1 of the Licence.

- (ii) where the equipment is any form of smart meter, the Implementing DNO, its External Collaborators or partners must first notify the Customer's Electricity Supplier¹⁹; and
- (iii) provide the Customer with information (which should be identified as part of the communications strategy) on how the equipment will be installed, how long it will be installed for, and how it will be decommissioned.

14. DATA PROTECTION

The Implementing DNO must submit a strategy for dealing with personal data (as defined in the Data Protection Act 1988) to Ofgem at least two months prior to collecting or using any personal data. The Implementing DNO and its External Collaborators or partners cannot collect or use any personal data until the strategy has been approved by the Authority. The strategy must set out the following:

- (i) what personal data will be collected for the purposes of the Project;
- (ii) how this personal data will be used;
- (iii) how consent for use of the personal data will be obtained;
- (iv) what information will be provided to the Customer prior to consent being sought;
- (v) if Priority Services Register Customers are included in the Project, how their personal data will be obtained;
- (vi) who owns the personal data;
- (vii) how long the personal data will be retained; and
- (viii) how this personal data will be managed (which should be based on a 'privacy by design' approach, as advocated by the Information Commissioner's Office²⁰).

15. USE OF LOGO

The Implementing DNO and External Collaborators and partners 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.

16. 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 Implementing DNO considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees (paragraph 3.70 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 3.78 of Section Two of the LCN Fund Governance Document); or
- (iii) if the Implementing 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 3.77 of Section Two of the LCN Fund Governance Document).

¹⁹ Electricity Supplier has the meaning given to it in SLC 1 of the Licence.

²⁰ See http://www.ico.gov.uk/news/current_topics/privacy_by_design_conference.aspx

17. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 3.79 to 3.83 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 CRC13.16. 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 Implementing DNO clarifying the effect of that halting decision as regards the status and legal force of the conditions contained in this Direction.