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for energy consumers

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Date: 8 July 2015

Dear Company Secretary,

Low Carbon Networks (LCN) Fund – approval of requested amendments to Southern Electric Power Distribution Ltd’s Innovation-squared: managing unconstrained EV connections project

This letter contains our decision to approve changes to the Project Direction for your Innovation-squared: managing unconstrained EV connections project (the Project).

Background

In 2012, Southern Electric Power Distribution (SEPD) was awarded Second Tier Funding¹ for the Project (My Electric Avenue (then I2EV) project). On 21 December 2012, we² issued a Project Direction³ to SEPD⁴ which set out the terms for this funding. The Project Direction contains the terms to be followed in relation to the Project as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism⁵.

On 2 October 2014, you asked us to make three amendments to the Project Direction. We requested further explanation of the amendments from you and we received final details from you on 7 July 2015.

Two of the requested amendments would change the legal entities named within the Project Direction as project partners for the Project. In one instance, this follows the transfer of relevant staff between companies. In the other, you requested a change in response to advice from the relevant Project Partner that a different legal entity within the same company group would be more appropriate to sign sub-contracts. These changes seek to align the Project Direction with the legal

¹ Second Tier Funding has the meaning given in CRC 2J of the Electricity Distribution Licence.

² The terms “the Authority”, “Ofgem” and “we” are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority.

³ <https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-fund-project-direction-innovation-squared-managing-unconstrained-ev-connections>

⁴ 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.

⁵ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

commercial structure of the Project. This letter contains our approval of these changes to the Project Direction.

The third requested amendment would change the distribution of elements of the Project Budget between budget categories, including increasing one category by around 13%. This and other proposed increases would be wholly offset by reductions to other categories. This letter contains our approval of transfers between the Project Budget categories for the Project.

Under the terms of paragraph 2.6 of version 7 of the LCN Fund Governance document⁶, you are required to report on progress at least every six months. In addition, Section 6 of the Project Direction requires you to report against specific line items of expenditure and explain any variance in excess of 5 per cent. Furthermore, as the Funding DNO, you must not spend more than 110 per cent of any cost category total in Annex 1 of the Project Direction without our prior consent.

Amendment One

At the time of bid submission, Charge Your Car (North) Limited was to undertake work on the Project and it is named in the Project Direction. Since that time, the staff involved with the Project and the associated work have been transferred to the company Zero Carbon Futures (UK) Limited.

You have asked for the reference to Charge Your Car (North) Limited to be changed to Zero Carbon Futures (UK) Limited within the Project Direction and within the Full Submission. This would maintain consistency between the references in the Project Direction and the legal commercial structure within the Project, as specified in Appendix H to your change request document, published alongside this letter. You have confirmed there is no associated change in the role fulfilled by the relevant project partner within the Project.

Amendment Two

One of the Project Partners, Northern Powergrid, highlighted to SEPD that the name by which it was identified within the Project Direction was not appropriate for the signing of the sub-contract.

You have asked for the company name of Northern Powergrid Holdings Company Limited to be changed to Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) Plc. This change would maintain consistency between the Project Direction and the legal commercial structure of the Project. We note you have confirmed there is no associated change in the role fulfilled by the relevant Project Partner within the Project.

Amendment Three

You asked us to approve the transfer of allocations between Project Budget categories. This is due to two factors:

⁶ [Low Carbon Networks Fund Governance Document v.7](#)

- a) the effects of a transcription error in the Project's Full Submission spreadsheet, which altered the intended allocation of funds between tasks and categories; and
- b) the impact of additional conditions introduced in the Project Direction relating to the recruitment of trial participants.

The requested amendment would not result in any change to the overall Project Budget.

In factor a), a transcription error in the Final Submission spreadsheet reduced the total amount of Project funding requested by approximately £220k and altered the intended distribution of funds between Tasks and Categories. This affected all tasks itemised.

Factor b) relates to additional recruitment targets which were introduced in the initial Project Direction (version 1.10). The Project Partners had intended to follow a process of sequential cluster establishment, but funding restrictions required the Project to re-plan the recruitment strategy to recruit clusters in parallel. This primarily resulted in an increase in costs within the 'contractors' budget category. We note your confirmation that all additional costs incurred in this category related to activities conducted by EA Technology Limited (EATL).

You have explained that additional costs relating to marketing, customer liaison and test-drive events were required to recruit the necessary clusters. You also note that significant further effort was required to maintain customers' interest in the Project until funding was released, with some early clusters waiting six months for the order of their vehicles from the point at which they agreed to participate in the trial.

You emphasise that additional costs have been borne by Project Partners through Project savings and reductions in daily rates. You estimate these changes will increase the project support contributed by two of the Project Partners by approximately £460k.

You have asked us to update the finance sections of the Project Budget to reflect the new Forecast Cost at Completion values for the Project Budget allocation across project categories and tasks, as outlined in the appended Schedule to the Project Direction, to account for reallocation following the transcription error and additional customer recruitment costs.

Conclusions

We note that the changes proposed under Amendments One and Two will align the Project documentation with legal commercial arrangements and do not affect the scope of roles or functions fulfilled by Project Partners, nor do they affect the scope or outcomes of the Project.

We note that Amendment Three results in no change to the final costs to customers of the Project. It is a re-allocation of funds between categories to enable correction for the error introduced to the Full Submission spreadsheet and to enable Project Partners to adapt their approach to customer recruitment following additional requirements in the Project Direction.

We also note that EATL and Project Partners have borne the cost reduction from the intended Project Budget resulting from the transcription error. This is principally through reductions in day rates and trial equipment costs (ie in effect they have delivered more work than originally expected for the same funding). You have confirmed the Project is expecting to deliver, at a minimum, the learning planned for in the bid submission.

We note that you and the Project Partners have engaged with the matters concerned and addressed them within the Project Budget. Given the early awareness which you had of these issues, it may have been possible to provide a comprehensive and coherent explanation with supporting evidence earlier in the Project.

We consider it is in the best interests of customers⁷ and appropriate in the circumstances to approve these changes. Consequently, we have approved the transfer between cost categories in the Project Direction.

Decision

In accordance with Section 14 of the Project Direction, we hereby amend the Schedule to the Project Direction in the manner set out in Schedule one to this letter. This decision also approves the amendments to the Full Submission as listed in Schedule two.

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

Yours sincerely,



Andy Burgess

Associate Partner, Smarter Grids and Governance
For and on behalf of the Authority

⁷ The term "customer" has the meaning given to the term "Customer" in the Electricity Distribution Licence.

Schedule one – Schedule to Direction

1. Amend existing section 3

Amend existing section 3 of the Schedule to the Project Direction in the following manner:

Replace “Charge Your Car (North) Limited” with “Zero Carbon Futures (UK) Limited” in Tables 3 and 4.

2. Amend existing section 3

Amend existing section 3 of the Schedule to the Project Direction in the following manner:

Replace “Northern Powergrid Holdings Company Limited” with “Northern Powergrid (Northeast) Limited. and Northern Powergrid (Yorkshire) Plc.”.

3. Amend existing section Annex 1

Amend existing section Annex 1 of the Schedule to the Project Direction in the following manner:

Replace the table in Annex 1 with Table A below:

Table A:

Ofgem Categories	Category Cost (£k)
Labour	£ 222.25
Equipment	£ 278.63
Contractors	£ 3,532.15
IT	£ 2.71
Travel & Expenses	£ 3.00
Payments to users	£ 276.63
Contingency	£ 400.40
Decommissioning	£ 26.29
Other	£ 7.37
Total	£ 4,749.43

The original Cost Category values in Annex 1 of the Project Direction and the percentage change in Cost in each Category resulting from this Amendment are shown in Table B below.

Table B:

Ofgem Category	Bid Submission Budget (£k)	Re-forecast Budgets (£k)	Net Change (£k)	% Variation
Labour	222.25	222.25	0	0%
Equipment	484.71	278.63	-206.1	-43%
Contractors	3120.44	3532.15	411.70	13%
IT	3.27	2.71	-0.60	-17%
Travel & Expenses	107.43	3.00	-104.40	-97%
Payments to Users	311.76	276.63	-35.10	-11%
Contingency	400.40	400.40	0	0%
Decommissioning	26.29	26.29	0	0%
Other	72.88	7.37	-65.51	-90%
Total	4749.43	4749.43	0	0%

Schedule two – Amendments to Full Submission

Amend the Full Submission in the manner set out in the table below :

Change Number	Document Section	Document Page	Paragraph	Original Text / Value	Revised Text / Value
1	External Funding	1	1	4,908	5,369
2	List of Project Partners, External Funders and Project Supporters	1	1	Charge Your Car	Zero Carbon Futures (UK) Limited (ZCF)
3	List of Project Partners, External Funders and Project Supporters	1	2	Charge Your Car	Zero Carbon Futures (UK) Limited (ZCF)
4	2.3 Description of design of trials	4	7	Charge Your Car North Ltd.	ZCF
5	2.3 Description of design of trials	5	2	Charge Your Car North Ltd.	ZCF
6	2.3 Description of design of trials	5	3	Charge Your Car North Ltd.	ZCF
7	2.3 Description of design of trials	5	6	Charge Your Car North Ltd. (CYC)	ZCF
8	2.4 Changes since Initial Screening Submission	9	4	Charge Your Car	ZCF
9	2.4 Changes since Initial Screening Submission	9	9	Charge Your Car North	ZCF

Change Number	Document Section	Document Page	Paragraph	Original Text / Value	Revised Text / Value
10	4.1 Accelerates the development of a low carbon energy sector and has the potential to deliver net benefits to future and/or existing customers	19	1	Charge Your Car	ZCF
11	4.2 Provides value for money to distribution customers	21	3	Charge Your Car	ZCF
12	4.4 Involvement of other partners and external funding	23	2	Charge Your Car	ZCF
13	4.4 Involvement of other partners and external funding	23	3	Charge Your Car North Ltd.	ZCF
14	4.4 Involvement of other partners and external funding	23	5	In-kind value: £97,000	In-kind value: £158,000
15	4.4 Involvement of other partners and external funding	23	11	EA Technology will contribute circa £636,000...	EA Technology will contribute £1,036,000
16	4.5 Relevance and Timing	24	4	Charge Your Car	ZCF
17	5.1 Knowledge dissemination	29	4	Charge Your Car	ZCF

Change Number	Document Section	Document Page	Paragraph	Original Text / Value	Revised Text / Value
18	6.1 Why the project can start in a timely manner	33	8	Charge Your Car North	ZCF
19	6.1 Why the project can start in a timely manner	34	1	Charge Your Car North	ZCF
20	6.2 How the costs and estimates have been estimated	34	4	<p>A breakdown of the costs are given below. Phasing over the years is estimated from the likelihood of when clusters will be established and therefore when data will be available. The cost of each task has been budgeted by estimating the days for EA Technology and partners' time and the materials, travel and accommodation required. Where possible fixed price contracts have been arranged. The contingencies were calculated by multiplying the costs for mitigating the risk by the probability of the risk occurring. The breakdown of costs per tasks is as follows. Please note that all costs are in gross real terms (i.e. the partner / customer contributions(s) have not been shown and the figures are un-inflated).</p>	<p>A breakdown of the utilisation of the funding provided to the project by the Low Carbon Network (LCN) Fund is given below. This does not include the additional funding provided towards the project under the areas of:</p> <ul style="list-style-type: none"> • DNO Compulsory Contribution (£474.94k) • Original in-kind contributions from partners (£4,908.26k) • Additional in-kind contributions from partners (£461k) <p>The total value of the project is forecast to equate to c£10,119k, of which £4,749.43k is funded by the LCN Fund (NB, this value includes the DNO's compulsory 10% contribution).</p>

Change Number	Document Section	Document Page	Paragraph	Original Text / Value		Revised Text / Value	
				Novel commercial agreement	£211k	Novel commercial agreement	£197.55k
				Initial background – evaluation of initial trial	£24k	Initial background – evaluation of initial trial	£8.62k
				Customer engagement	£194k	Customer engagement	£547.25k
				Integration of the Technology with charging points	£357k	Installation of the technology in clusters	£1,015.31k
				Establishment of Customer/ Cluster trials	£5,545k	Establishment of Customer/ Cluster trials	£721.49k
				Monitoring the trials	£122k	Monitoring the trials	£121.63k
				Trial participant interviews	£177k	Trial participant interviews	£259.93k
				Network Modelling	£199k	Network Modelling	£231.64k
				Independent Project Evaluation	£150k	Independent Project Evaluation	£153.21k
				Consultation with eV manufacturers – cycle times	£30k	Consultation with EV manufacturers – cycle times	£19.65k
				Project recommendations and implementation	£264k	Project recommendations and implementation	£16.18k
				Dissemination	£322k	Dissemination	£229.71k
				Programme Management	£848k	Programme Management	£826.85k

Change Number	Document Section	Document Page	Paragraph	Original Text / Value		Revised Text / Value	
				Contingency	£395k	Contingency	£400.4k
21	6.4 Verification of all information in the proposal	36	9	Charge Your Car		ZCF	
22	6.4 Verification of all information in the proposal	36	9	Charge Your Car		ZCF	
23	6.4 Verification of all information in the proposal	37	2	Charge Your Car		ZCF	
24	Section 8: Customer impacts	44	2	Charge Your Car		ZCF	
25	8.2 Monitoring Existing EV owners (the social trials)	45	2	Charge Your Car		ZCF	
26	8.2 Monitoring Existing EV owners (the social trials)	45	4	Charge Your Car		ZCF	
27	8.2 Monitoring Existing EV owners (the social trials)	45	8	Charge Your Car		ZCF	