



Making a positive difference  
for energy consumers

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Date: 20 July 2016

Dear Alex

### **Low Carbon Networks Fund – amendments to Southern Electric Power Distribution’s SAVE project**

This letter contains our<sup>1</sup> decision to approve requested amendments to certain sections of the Project Direction<sup>2</sup> dated 19 December 2013 and to certain sections of the Full Submission<sup>3</sup> for Southern Electric Power Distribution’s (SEPD’s) Solent Achieving Value from Efficiency (SAVE) project (the project). The amendments we are approving are set out in the amended Project Direction in the schedule to this letter and the amended Full Submission Appendix 8 of the Change Request itself.

### **Background**

On 19 December 2013, we issued a Project Direction to you.<sup>4</sup> 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 Mechanism.<sup>5</sup>

On 30 June 2016 you asked us to make changes to the Project Direction (the change request).<sup>6</sup> We asked for further clarification in relation to the change request and you sent this to us on 4 July 2016. The amendments relate to three areas:

- 1) 12 month project delay;
- 2) changing the monitoring equipment supplier and installing new equipment; and
- 3) restructuring the project budget.

The rest of this letter contains our analysis of the three areas of the proposed change and our decision.

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<sup>1</sup> 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 Gas and Electricity Markets Authority.

<sup>2</sup> All capitalised terms not otherwise defined in this letter have the meaning given to them in the Project Direction.

<sup>3</sup> SAVE Full Submission can be found at: <https://www.ofgem.gov.uk/ofgem-publications/84803/lcnsubmissionfromsepd-solentachievingvaluefromefficiency.pdf>

<sup>4</sup> This was pursuant to the LCN Fund Governance Document issued pursuant to Part E of Charge Restriction Condition 13 (Low Carbon Networks Fund) (CRC13) of the Electricity Distribution Licence setting out the terms to be followed in relation to the project as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism. The Project Direction can be found at: <https://www.ofgem.gov.uk/ofgem-publications/85400/saveprojectdirection.pdf>

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

<sup>6</sup> SEPD’s change request and associated documents are published alongside this letter and can be found at: <https://authors.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund/second-tier-projects/sse>

### **Change 1: 12 month project delay**

This change proposes extending the project by 12 months for the removal of the current faulty equipment and the installation of the new equipment in 4,007 participant households. All related Successful Delivery Reward Criteria will have to be amended to take account of this delay. This change is required because of an epidemic failure of the current household monitoring equipment identified in July 2015 (detailed in Appendix 1 of your Change Request). This involved batteries failing within four months rather than the stated 10-15 month expected battery life, removing the project's ability to assess the various trials accurately. Subsequently the monitoring equipment supplier went into liquidation and was removed from the project.

You state that this change is required to ensure an effective reinstallation process and to ensure the deliverables are kept in line with the Project Direction and Full Submission. Schedule one sets out the required changes to the Project Direction.

### **Change 2: changing the monitoring equipment supplier and installing new equipment**

The loss of the monitoring equipment supplier has driven this change. A new supplier was required to provide equipment and data services and was appointed in May 2016 (with informal agreement from us). New monitoring equipment will need to be installed in all participants' households. This also includes the removal of smart plugs from the trial due to safety concerns.

You provided details of improved performance of the new equipment including a vastly improved battery life of 7-10 years removing the previous requirement of reinstalling batteries during the lifetime of the project. You stated that the removal of smart plugs would not affect learning due to the ability to extrapolate appliance specific demand data from the increased granularity of metering equipment (10 second metering data). You stated that this change would restore the project's ability to monitor energy usage across its population effectively and deliver the same learning objectives. Schedule one below sets out the necessary changes to the Project Direction.

### **Change 3 – restructuring the project budget**

This change is required due to the original equipment failure and the lack of remuneration from the old project partner for this failure. You informed us that you negotiated with the equipment supplier in light of the failure with the help of your procurement and legal teams in the hope of achieving an outcome which covered the majority, if not all, of the total costs of the required corrective actions. These negotiations were unsuccessful and in March 2016, the project partner advised you that it had filed for insolvency. There were however other reasons outside the SAVE project for this.

A new supplier has been appointed and new equipment is required. This has resulted in project budget increases in parts of the project, but no increases in the overall project budget as detailed in the Change Request. The change includes substantial cost changes, such as for equipment - increasing by £461,000, contractors, increasing by £350,000, labour, decreasing by £598,000 and IT - decreasing by £164,000. You stated that you would continue to monitor project costs, and if you felt that the project was likely to overspend by more than 10% at project closure, you would formally approach us to discuss options. You also stated that this restructure would allow any potential compensation following the administration of the project partner to meet any additional costs. We would expect any underspend in light of compensation to be returned to customers at project close. Schedule one below provides details of the budget changes.

## **Evidence and assessment**

Along with your detailed Change Request, you have included your equipment issue investigation report, (submitted to us in August 2015) and a detailed report of the corrective action plan. You have kept us well informed of these issues and proposals and asked for our guidance throughout the period. You have also provided letters of support from project partners DNV GL and the University of Southampton for the three main changes described here. These letters and your Change Request also confirm that no changes to the expected learning are likely to result from these proposed changes.

Based on the evidence provided, and the ongoing discussions with you, we are satisfied that the changes are necessary and will not change project learning or benefits substantially. We agree with your approach to apply efficiencies in the project and restructure budget instead of seeking increases in overall budget as previously discussed.

## **Decision**

We consider that, with the proposed amendments contained in your Change Request, you will still deliver the expected benefits and outcomes outlined in the Full Submission and that these amendments are in the interests of customers to enable the project to continue.

Our assessment in this letter does not in any way fetter our discretion with respect to any future decision on the Successful Delivery Reward, should you make a submission after the completion of the project.

In accordance with Section 13 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 letter constitutes notice of reasons for our decision pursuant to section 49A of the Electricity Act 1989.

If you would like to discuss any of the issues raised in this letter, please contact Tom Mackenzie at [Thomas.Mackenzie@ofgem.gov.uk](mailto:Thomas.Mackenzie@ofgem.gov.uk) or 020 7901 7406.

Yours sincerely



**Andy Burgess,**  
Associate Partner, Energy Systems Integration  
**For and on behalf of the Authority**

## Schedule 1 –Project Direction changes

**This change request proposes that the following changes are made to the Project Direction:**

### 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**

University of Southampton
DNV <del>GL-KEMA</del>
<del>Wireless Maingate</del>

### 7. PROJECT IMPLEMENTATION

(iii) complete the Project on or before the Project completion date of 289 June 201~~98~~; and

### 11. SUCCESSFUL DELIVERY REWARD CRITERIA

Successful Delivery Reward criterion	Evidence
1. Review learning from other projects	1. Produce report on UK and international efficiency project findings and the impact on the SAVE project, including recommendations and key suggestions to improve the project design and implementation. Present to Ofgem by June 2014.
2.1 Create initial customer model 2.2 Revise customer model 2.3 Finalise customer model	2.1 Produce report and present to Ofgem December 2014  2.2 Produce updated report and present to Ofgem December 201 <del>76</del>  2.3 Host a demonstration of finalised customer model and produce final report June 201 <del>98</del>
3.1 Create Customer Engagement Plan  3.2 Hold open days supported by online/paper information to share progress, experiences and next steps with customers involved in trials on a six monthly basis	3.1 Submit Customer Engagement Plan to Ofgem February 2014  3.2 Produce report summarising objectives and outcomes of open days January 201 <del>87</del>
4. Create commercial energy efficiency measures	4. Establish the pricing model and processes for passing DNO price signals direct to customers. Prepare and present report on findings of exercise June 2016
5. Identify control and trial sample groups	5. Select the customers required for each group in the project, ensuring that they represent a cross-section of the population to allow extrapolation of results. Present findings and method of selection in report June 2015.
6. Install 80% of <del>loop-clamp</del> -sensors	6. Successfully install 80% of the <del>loop clamp</del>

	sensors within the properties of customers successfully recruited to trials, ensuring ability to retrieve data from these devices. Present findings in report June 2015.
7.1 Create initial network model and parameters for tool	7.1 Produce report and present to Ofgem by December 2014.
7.2 Revise model and tool	7.2 Produce updated report and present to Ofgem by December 2017 <del>6</del> .
7.3 Finalise tool	7.3 Host a workshop demonstrating tool and produce final report by June 2019 <del>8</del> .
8.1 Project close-down report	8.1 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.2 Network investment tool key outcomes report (including comparison of trial method impacts)	8.2 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.3 LED trial report	8.3 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.4 DNO price signals direct to customers trial report	8.4 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.5 Network pricing model report	8.5 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.6 Customer and network modelling report	8.6 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.7 Data-informed engagement trial report	8.7 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.8 Community coaching trial report	8.8 Produce report and present to Ofgem by June 2019 <del>8</del> .
8.9 Project progress reports	8.9 Produce reports on a six monthly basis and present to Ofgem from June 2014.

#### ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£k)
Labour	<del>£2,445.88</del> £1,848.32
Equipment	<del>£553.89</del> £1,015.00
Contractors	<del>£4,735.73</del> £5,085.35
IT	<del>£753.32</del> £586.85
IPR	£0.00
Travel & Expenses	£26.40
Payments	<del>£428.30</del> £472.30
Decommissioning	<del>£257.94</del> £206.93
Other	<del>£442.22</del> £402.53
<b>Total</b>	<b>£9,643.68</b>