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for energy consumers

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Date: 13 August 2018

Dear Company Secretary,

Request for further information regarding the FUSION innovation project

On 16 January we issued the FUSION Project Direction.¹ As explained in paragraph 5.66 of the Network Innovation Competition (NIC) Governance Document,² the Project Direction contains the terms to be complied with by the Project as a condition of it being funded. Condition 2 of the Project Direction required SP Distribution Plc (SPD) to make reasonable endeavours to coordinate with the Funding Licensees of two other projects.

To demonstrate compliance with Condition 2 of the Project Direction the licensee was required to submit a report to us within six months of the Project Direction being issued. In this report it had to demonstrate how it had addressed each of the six points in paragraph (i) of Condition 2. On 6 July you submitted this report. Our assessment of the information provided within the application is that it:

- does not sufficiently justify the proposed budget, and
- does not sufficiently articulate how you have ensured or will ensure the definitions, requirements and trials will be applicable to other licensees.

Accordingly, we require further information before we make a decision on whether or not to provide funding for the FUSION project.

Additional information

Paragraph (v) of Condition 2 allows us to seek additional information from you if this is required before making a decision.

Additional information required:

1. Please provide a detailed commentary against each work package/line item in the 'whole project costs' tab of the full submission spreadsheet you submitted in July. Within this commentary please describe:
 - a. The internal processes you put in place to understand where there may be areas of unnecessary duplication before engaging with other licensees.
 - b. The processes you implemented within your business after engaging with the other licensees to remove areas of un-necessary duplication or reduce cost?

¹ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-project-direction-fusion>

² <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

- c. The areas of potential future savings relative to the proposed budget which are attributable to the processes for avoiding unnecessary duplication which you have implemented – please include the scale of potential future savings.
 - d. The approach you will take to achieve these future savings
2. How have you ensured that the definitions and requirements of FUSION trials and your use of market models within the project will deliver learnings that are complementary (rather than duplicative) of those that will be delivered by the other two licensees?
 - a. Have the definitions and requirements of your trial and market model changed since your Full Submission?
 - i. If so, how and why?
 - ii. If not, why?

Please provide the information requested above by 27 August at the latest.

Decision deadline

The original deadline for us to make a decision was 17 August. We will extend this as permitted by paragraph (v) of the Project Direction. We will make a decision by 28 September. If you have not received written consent for the project to proceed by 28 September, consent will not be deemed to have been given and you should request actual consent to proceed in accordance with paragraph (iv) of Condition 2.

To discuss the contents of this letter please contact either neil.copeland@ofgem.gov.uk or edwin.tammas-williams@ofgem.gov.uk.

Steven McMahon
Deputy Director, Network Price Controls, Electricity Distribution and Cross Sector Policy
For and on behalf of the Authority