

Erratum notice¹ – Low Carbon Networks Fund – amendments to the Project Direction relating to Flexible Networks for a Low Carbon Future Project

The Authority² issues directions (the Project Direction) pursuant to the provisions the LCN Fund Governance document and pursuant to the provisions of the Charge Restriction Condition 13 of the Distribution Licence. The licensee is required to comply with the directions issued by the Authority.

We have been notified by one of the distribution service providers (DSPs), SP Distribution Limited (SPD), of an error in the Schedule to the Project Direction issued to it on 27 October 2014. The Project Direction said that SPD should return £1,019k to customers. The amount to be returned should be calculated as follows:

$$\text{Funding to be returned} = \text{Old funding request} - \text{Amended funding request}$$

Applied to the changes in the project budget in this case, this would have produced the following calculation:

$$£749\text{k} = £3,600\text{k} - £2,851\text{k}$$


However, we transposed two figures in the amended funding request number when we undertook this calculation. We calculated the amount to be returned as set out below:

$$£1,019\text{k} = £3,600\text{k} - £2,581\text{k}$$

We have amended the Schedule to the Project Direction, attached, and have shown the amendment in red font. We will return £270k to SPD in the 2015 funding direction. This amount is calculated below:

$$\text{Amount to be returned to SPD} = \text{Amount returned to customers} - \text{Amount that should have been returned to customers}$$

If you have any questions regarding the contents of this letter please contact Neil Copeland on 020 7901 7193 or neil.copeland@ofgem.gov.uk.



Judith Ross
Head of Network Regulation Policy

¹ Issued to SP Distribution Limited on 16 October 2015.

² The terms "the Authority", "we" and "us" are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority.

Schedule

Amendments to Schedule to Project Direction

1. Amend existing section five: Approved Amount for the Project

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

The Approved Amount is ~~£3,600k~~ ~~£2,581k~~ £2,851k

2. Amend existing section seven: Project Implementation

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

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 Section 2 (Project Description);
- (ii) provide a DNO compulsory Contribution of ~~£625k~~ £515k³
- (iii) provide extra funding in excess of the DNO Compulsory Contribution of at least ~~£1,963k~~ £1,917k⁴
- (iv) complete the Project on or before the Project completion date of ~~31 December 2014~~ 30 September 2015; and
- (v) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

3. Amend existing section twelve: Successful Delivery Criteria

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

Successful Delivery Reward criterion	Evidence
The project will be delivered to budget in accordance with the Tier 2 full submission. A 5% variance will be acceptable between work packages but the overall project will be delivered in line with this submission in order to demonstrate effective cost control.	Ongoing cost reporting to monitor progress and publication of a final report to Ofgem will identify costs incurred per work package to assess compliance with the Tier 2 submission. Project completion date of December 2014 September 2015.
The project will be delivered in accordance with the timelines outlined in the Tier 2 submission to ensure timely learning can be disseminated and adopted in advance of RIIO-ED1 commencing. Delivery in accordance with these timelines, and in line	Ongoing project reporting and formal reports to Ofgem will identify the how well the project is being delivered in accordance with the time lines set out within this submission. Should individual work package time lines deviate from plan, a lower reward

³ The DNO Compulsory Contribution may take the form of Direct Benefits realised from the Project

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<p>with budget as per criterion 1 will demonstrate effective project management.</p>	<p>weighting may be appropriate as long as the overall project is delivered on time. Completion date December 2014 September 2015.</p>
<p>This criterion is to reward on the basis of degree of success on achieving the stated project outputs.</p> <p>The St Andrews trial will be making use of the network monitoring to improve knowledge of the network and provide robust evidence of the benefits of the physical solutions. The flexible network control, dynamic asset rating and voltage regulators will provide additional back-feed capability such that the existing substation and OHL reinforcements can be deferred or avoided. An increase in capacity of 20% is being targeted.</p>	<p>The Evidence will be submitted in the form of a sufficiently robust business case paper detailing the full basis, costs and benefits of the installed Flexible Network solution sufficient for Scottish Power to defer or avoid the business as usual reinforcement.</p> <p>At the end of the project, evidence detailing how a 20% headroom has been achieved will be published along with details of the methodology for this, along with supporting verification from one of the project partners. A comparative analysis of the traditional reinforcement solution will also be provided to demonstrate the nature of the saving.</p> <p>Work will be undertaken within the permitted CI/CML allowance and with no health, safety or environmental incidents. All of these measures will form part of the internal reporting structure and will feature in any formal report to Ofgem, Completion date December 2014 <u>September 2015</u>.</p>
<p>This criterion is to reward on the basis of degree of success on achieving the stated project outputs.</p> <p>The Wrexham trial (to be undertaken within the SP Manweb DNO licence area) will be making use of the cascade monitoring to improve knowledge of the network and provide robust evidence of the benefits of the physical solutions. The improved knowledge will then be used to allow further PV connections without significant reinforcement as is currently envisaged with the target to facilitate an additional 20% of PV onto the network.</p>	<p>The Evidence will be submitted in the form of a sufficiently robust business case paper detailing the full basis, costs and benefits of the installed Flexible Network solution sufficient for the Licensee to defer or avoid the business as usual reinforcement.</p> <p>An evidence base will be published which outlines the amount of microgeneration which the project has proven can be connected to this part of the network as a result of this solution, a comparative analysis will be provided of the volume of microgeneration which could be connected pre-project, with the target to facilitate an additional 20%. This will be supported by independent analysis by an appropriate project partner to verify the results.</p> <p>Work will be undertaken within the permitted CI/CML allowance and with no health, safety or environmental incidents. All of these measures will form part of the</p>

	internal reporting structure and will feature in any formal report to Ofgem. Completion date December 2014 <u>September 2015</u> .
<p>This criterion is to reward on the basis of degree of success on achieving the stated project outputs.</p> <p>The Whitchurch trial (To be undertaken within the SP Manweb DNO license area) will be making use of the network monitoring to improve knowledge of the network and provide robust evidence of the benefits of the physical solutions. The flexible network control, and dynamic asset rating will provide additional back-feed capability such that the existing substation and OHL reinforcements can be deferred or avoided. A increase in capacity of 20% is being targeted.</p>	<p>The Evidence will be submitted in the form of a sufficiently robust business case paper detailing the full basis, costs and benefits of the installed Flexible Network solution sufficient for the Licensee to defer or avoid the business as usual reinforcement.</p> <p>At the end of the project, evidence detailing how a 20% headroom has been achieved will be published along with details of the methodology for this, along with supporting verification from one of the project partners. A comparative analysis of the traditional reinforcement solution will also be provided to demonstrate the nature of the saving.</p> <p>Work will be undertaken within the permitted CI/CML allowance and with no health, safety or environmental incidents. All of these measures will form part of the internal reporting structure and will feature in any formal report to Ofgem. Completion date December 2014 <u>September 2015</u>.</p>
<p>This criterion covers both Internal and External engagement and dissemination activities as described in Work Package 3.</p> <p>It will also monitor how the Licensee adopts or incorporates the outputs of the LCNF project into the core business processes going forward. Having the positive outcomes accepted as beneficial for core business will be a strong indication of both success of the trials as well as an indication of the commitment of the Flexible Networks project team in driving the business change and acceptance process.</p> <p>The key aspects of this criterion are to ensure that the project provides high quality and timely engagement and dissemination with the internal and external stakeholders.</p>	<p>Internal and External workshops which will include formal post-workshop surveys to effectively score the success of the learning. Surveys will include points on whether there is sufficient high level information to understand the project context, as well as detailed information on the solution design, data/information gathered and shared, and how the acceptance process within SP Energy Networks progressed.</p> <p>A survey will also be undertaken within each trial area of the affected Stakeholders to gauge the level of satisfaction and to confirm whether they felt they were sufficiently informed of the activities, benefits and risks of the LCNF project.</p> <p>Further proposed milestones which will demonstrate this success are:</p> <ul style="list-style-type: none"> - Project website established to provide overview of project - April 2012 - Site visit of PNDC for DNO and Ofgem

	representatives to demonstrate technology - June 2013 - Formal dissemination event to disseminate outcomes - December 2014 <u>September</u> <u>2015</u>
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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 £625k £515k.

4. Amend existing Annex One to the Schedule to Project Direction: Project Budget

Cost Category	Total (£k)
Labour	2049-1203
Project Management	479 452
Internal Stakeholder Engagement	65 44
Installation and Maintenance	456 40
Internal Engineering Days	1049 668
Equipment	2008 1815
WP1.2 Monitoring Equipment (Whitchurch)	326 284
WP1.2 Monitoring Comms. (Whitchurch)	38 40
WP1.2 Monitoring Equipment (St Andrews)	499 551
WP1.2 Monitoring Comms (St Andrews)	59 42
WP1.2 Monitoring Equipment (Ruabon)	189 234
WP1.2 Monitoring Comms (Ruabon)	22 32
WP2.1 Dynamic rating equip. (Whitchurch)	70 15
WP2.1 Dynamic rating equip. (St Andrews)	155 90
WP2.2 Control equip. (St Andrews)	194 334
WP2.1 Dynamic rating equip. (Ruabon)	70 5
WP2.2 Control equip. (Whitchurch)	146 59
WP2.4 11kV Voltage Regulators	240 128
Contractors	1106 1533
TNEI Days	147 291
Internal Engineering Days	94 148
University Assistance	289 380
Other contractors	474 680
Legal and Procurement	102 34
IT	319
System Development / Network Control Functionality	125
Software Licences and Contractor Days	44
IT Upgrades & incorporation of equipment technology	150
IPR Costs	0
Travel & Expenses	44 22
Travel Expenses	44 22
Payments to users	100
WP2.3 Energy Efficiency	100
Contingency	304 223
Whitchurch	64 21
Ruabon	31 26

St Andrews	100 84
TNEI days	4
Internal Engineering Days	20
Contractors	34
IT	14
Legal and Procurement	5
Payments to Users, Maintenance/Faults and Decommissioning Days	8
11kv Voltage Regulators	24 8
Decommissioning	45 33
WP1.2 Decommissioning Days (Secondary s/s monitoring)	45 33
Other	278 37
Work at PNDC and other Lab work	224 37
Interruptions	0