



Making a positive difference  
for energy consumers

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Date: 9 March 2016

Dear Company Secretary

## **Low Carbon Networks Fund – amendments to Electricity North West Limited’s *eta* project**

This letter contains the Gas and Electricity Markets Authority’s (the “Authority’s”) approval of the request to amend sections 7 ‘Project Implementation’ and 11 ‘Successful Delivery Reward Criteria’ of the Project Direction for Electricity North West Limited (“ENWL”)’s *eta* project (“the Project”). The Project is using innovative technology to manage voltage on low voltage networks, with the aim of creating capacity for low carbon technologies.

### **Background**

On 19 December 2013, we<sup>1</sup> issued a Project Direction<sup>2</sup> to ENWL. The Project Direction set 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.

On 16 September 2015, ENWL requested some amendments to the Project Direction. These amendments were to push back the Project end date and the date of completing some Successful Delivery Reward Criteria (“SDRC”).

### **Change to the Project end date and completion date of the SDRCs**

The Project end date has been pushed back by four months. The completion date for several SDRCs has also been pushed back by four months. This is due to a delayed delivery of High Voltage (HV) ground mounted capacitors. The delay was the result of the unexpected length of time taken to carry out safety modifications needed for the capacitors to operate effectively. This delay means that if the original Project end date, and some SDRC dates, were to remain unchanged, the Project’s trial period would need to be shortened.

The trials were designed to cover two years. ENWL has demonstrated that shortening the trial length would not allow a full data set to be obtained. The full data set is required to maximise learning and to fully quantify the benefits.

We have amended the Project Direction in Section 7 to extend the Project end date by four months. We have also amended the dates in Section 11 to extend the completion dates of the SDRCs. This extension will allow the Project to complete all the testing and trials. This will

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<sup>1</sup> The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority. The terms “the Authority”, “Ofgem”, “we” and “us” are used interchangeably in this document.

<sup>2</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=98&refer=Networks/ElecDist/lcnf/stlcnf/year2/falcon>

ensure there is no adverse impact on the Project achieving its aims and objectives and delivering its benefits.

In accordance with Section 13 of the Project Direction, and in particular Section 13(i), we hereby amend the Schedule to the Project Direction in the manner set out in the Schedule to this Direction.

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

A handwritten signature in blue ink that reads "Andy Burgess". The signature is written in a cursive style with a period at the end.

**Andrew Burgess**

Associate Partner, Energy Systems Integration

**For and on behalf of the Authority**

# Schedule to Direction

## 1. TITLE

Project Direction ref: ENWL/ *eta* / 19 December 2013

## 2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to Electricity North West Limited (the "Funding 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 *eta* (the "Project") as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism.<sup>5</sup>

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

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

## 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**

1. Kelvatek
2. Siemens UK Ltd
3. Impact Research

## 4. COMPLIANCE

The Funding DNO must comply with CRC 13 and the LCN Fund Governance Document (as may be modified from time to time in accordance with CRC 13 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 Funding DNO or another DSP<sup>6</sup>) 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 3.124 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's<sup>7</sup> permission, any funds that have not been spent in line with the approved

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

<sup>6</sup> As defined in the Licence.

<sup>7</sup> Ofgem is the offices of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'Authority' are used interchangeably in this Project Direction.

Project Budget contained within the Project Direction, and any unspent funds on the completion of the Project.

## **5. APPROVED AMOUNT FOR THE PROJECT**

The Approved Amount is £8,438,508.18.

## **6. PROJECT BUDGET**

The Project Budget is set out in Annex 1. The Funding DNO must not spend more than 110% of any category total (e.g. "Labour") in Annex 1 without the Authority's prior consent (such consent is not to be unreasonably withheld).

The Funding DNO will report on expenditure against each line under the category total 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 3.98 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 Funding DNO with respect to reporting that are set out in the LCN Fund Governance Document.

## **7. PROJECT IMPLEMENTATION**

The Funding 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 £955,012.80;
- (iii) complete the Project on or before the Project completion date of ~~30<sup>th</sup> April~~ ~~December~~ 201~~8~~<sup>7</sup>; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

## **8. REPORTING**

Ofgem will issue guidance (as amended from time to time) about the structure and content of the reports required by paragraph 3.98 of Section Two of the LCN Fund Governance Document. The Funding DNO must follow this guidance in preparing the reports required by paragraph 3.98 of Section Two of the LCN Fund Governance Document.

As required by paragraph 3.100 of Section Two of the LCN Fund Governance Document, the Funding DNO must inform the Authority promptly in writing of any event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

## 9. COST OVERRUNS AND DIRECT BENEFITS

The maximum amount of Discretionary Funding that the Funding DNO can request as additional funding for cost overruns on the Project is 0% of the Approved Amount.<sup>8</sup>

The maximum amount of Discretionary Funding that the Funding DNO can request as additional funding for shortfall in direct benefits on the Project is 0% of the Approved Amount.<sup>9</sup>

## 10. INTELLECTUAL PROPERTY RIGHTS (IPR)

In Section 5 (Knowledge Dissemination) the Funding DNO has stated that the Project does conform to the default IPR arrangements set out in 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 2<sup>10</sup> below (that comply with paragraphs 3.27 of Section Two of the LCN Fund Governance Document).

**Table 2. Successful Delivery Reward Criteria**

Successful Delivery Reward criterion	Evidence
<p><u>9.1 Technology Workstream</u></p> <ol style="list-style-type: none"> <li>1. Produce and apply the <i>eta</i> site selection methodology and select the <i>eta</i> Trial networks;</li> <li>2. Complete procurement exercise for all <i>eta</i> network equipment;</li> <li>3. Install and commission all network equipment;</li> <li>4. Update NMS, develop interface and install and commission the Optimisation software;</li> <li>5. Update LV network management policy protocols, including adaptive protection settings;</li> <li>6. Produce briefing and training materials on new LV network management and operational procedures for internal dissemination.</li> </ol>	<ol style="list-style-type: none"> <li>1. Publish on the <i>eta</i> website a report detailing the site selection methodology, and a map of <i>eta</i> Trial areas by July 2014;</li> <li>2. Contracts for the supply of networks equipment signed by July 2014;</li> <li>3. Publish network equipment specifications and installation reports by <del>Sept</del> January-2016<sup>5</sup>;</li> <li>4. Publish NMS, interface and Optimisation configuration and commissioning reports by <del>September 2015</del> January 2016;</li> <li>5. Publish new LV network management protocols by June 2015;</li> <li>6. ENWL operational personnel, including Control Engineers briefed and/ or trained on LV network management protocols by June 2015.</li> </ol>
<p><u>9.2 Trials Workstream</u></p> <ol style="list-style-type: none"> <li>1. Complete Trial and Test Regimes design;</li> <li>2. Commence live Trials;</li> <li>3. Complete the suite of <i>eta</i> Trials and Tests;</li> <li>4. Transfer Trial data to University of Manchester and Queen's University Belfast.</li> </ol>	<ol style="list-style-type: none"> <li>1. Publish the Trial and Test Regimes design report on <i>eta</i> website by <del>February</del> October 2016<sup>5</sup>;</li> <li>2. Publicise commencement of live Trial on <i>eta</i> website by <del>September</del> January 2016<sup>5</sup>;</li> <li>3. Publish on <i>eta</i> website a summary overview of each Trial; with summaries of all Trials and Tests available on the website by <del>April</del> December 2018<sup>7</sup>;</li> <li>4. Confirmation received from University of Manchester and Queen's University Belfast confirming successful receipt of/completion of data transfer process by <del>September</del></li> </ol>

<sup>8</sup> This is the amount requested by the Funding DNO in its Full Submission.

<sup>9</sup> This is the amount requested by the Funding DNO in its Full Submission.

<sup>10</sup> These are the Successful Delivery Reward Criteria set out in the Funding DNOs Full Submission

<p><u>9.3 Customer Workstream</u></p> <ol style="list-style-type: none"> <li>1. Develop Customer Engagement Plan and Data Privacy Statement;</li> <li>2. Produce appropriate campaign materials to raise awareness about <i>eta</i>;</li> <li>3. Test the Customer campaign materials using the Engaged Customer Panel;</li> <li>4. Customer Contact Centre briefing and training materials created and delivered;</li> <li>5. Produce report of Customer Surveys.</li> </ol>	<p><u>January 2016</u>.</p> <ol style="list-style-type: none"> <li>1. Send Customer Engagement Plan and Data Privacy Statement to Ofgem by June 2014;</li> <li>2. Deliver general awareness materials and publish on the <i>eta</i> website by October 2014;</li> <li>3. Engaged Customer Panel workshop delivered by September 2014, lessons learned published on the <i>eta</i> website by October 2014;</li> <li>4. Customer Contact Centre training delivered and materials published on the intranet by July 2015;</li> <li>5. Publish on <i>eta</i> website the Customer Survey report by <u>April/December 2018</u>.</li> </ol>
<p><u>9.4 Research Workstream</u></p> <ol style="list-style-type: none"> <li>1. Deliver the HV and LV Voltage and Configuration Optimisation Study;</li> <li>2. Deliver the Retrofit Design and Operation of Interconnected LV Networks Study;</li> <li>3. Deliver the Cost Benefit Assessment Study;</li> <li>4. Deliver the Carbon Impact Assessment report;</li> <li>5. Deliver consultation on impact on customers' electrical installations or appliances from the <i>eta</i> Method;</li> <li>6. Deliver Optimisation Implementation Strategy for adoption of <i>eta</i> across GB on all Network Management System solutions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Publish on <i>eta</i> website an interim and final HV and LV Voltage and Configuration Optimisation Study report by <u>February/October 2017</u> and <u>April/December 2018</u> respectively;</li> <li>2. Publish on <i>eta</i> website an interim and final Retrofit Design and Operation of Interconnected LV Networks Study by <u>February/October 2017</u> and <u>April/December 2018</u> respectively;</li> <li>3. Publish on <i>eta</i> website an interim and final Cost Benefit Assessment Study by <u>October/February 2017</u> and <u>April/December 2018</u> respectively;</li> <li>4. Publish on <i>eta</i> website the interim and final Carbon Impact Assessment report by <u>February/October 2017</u> and <u>April/December 2018</u> respectively;</li> <li>5. Publish on IET.TV and <i>eta</i> website the results from the consultation process on impact on customers' electrical installations from application of the <i>eta</i> Method by <u>April/December 2018</u>;</li> <li>6. Produce and publish Optimisation Implementation Strategy and make available for dissemination by <u>February/October 2018</u>.</li> </ol>
<p><u>9.5 Learning &amp; Dissemination Workstream</u></p> <ol style="list-style-type: none"> <li>1. Develop and launch the <i>eta</i> Project website and social media forums;</li> <li>2. Produce project progress materials for internal general awareness and a series of advertorials detailing <i>eta</i>'s progress;</li> <li>3. Attend Annual LCN Fund Conferences, produce <i>eta</i> Webinars and hold <i>eta</i> Knowledge Sharing Events;</li> <li>4. Make raw monitoring data available on demand via <i>eta</i> website;</li> <li>5. Issue <i>eta</i> six monthly Project Progress Reports to Ofgem and on <i>eta</i> website.</li> </ol>	<ol style="list-style-type: none"> <li>1. <i>eta</i> website and social media forums live by July 2014;</li> <li>2a. Publicise <i>eta</i> within Electricity North West in Monthly Team Brief pack and Volt (intranet) and/ or Newswire (bimonthly staff magazine) by January 2014, September 2014, June 2015, <u>February/October 2017</u> and <u>October 2017/February 2018</u>;</li> <li>2b. Publish advertorials by July 2014, July 2015, <u>February/October 2016</u>, <u>February/October 2017</u>, <u>April/December 2018</u>;</li> <li>3. Active participation at four Annual LCN Fund Conferences from 2014 to 2017, two <i>eta</i> Webinars held by July 2014 and April 2015, and three <i>eta</i> Knowledge Sharing Events by October 2015, <u>February/October 2017</u> and</li> </ol>

	<p><del>September</del> <del>January</del> 201<del>8</del>7;</p> <p>4. Raw monitoring data is available via <i>eta</i> website by <del>April</del><del>December</del> 201<del>6</del>5;</p> <p>5. Project Progress Reports issued in accordance with Ofgem’s June and December production cycle and publish on <i>eta</i> website.</p>
<p><u>9.6 Close Down &amp; Business as Usual Handover Phase</u></p> <p>1. Produce the <i>eta</i> Close Down Report;</p> <p>2. Update Electricity North West’s Network Design Policy to define <i>eta</i> as the intervention strategy for LCT clustering.</p>	<p>1. <i>eta</i> Close Down Report issued to Ofgem and published on <i>eta</i> website by <del>April</del><del>December</del> 201<del>8</del>7;</p> <p>2. Publish on <i>eta</i> website Electricity North West’s approach to managing LCT clustering by <del>April</del><del>December</del> 201<del>8</del>7.</p>

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 £955,012.80.

## 12. USE OF LOGO

The Funding DNO and Project Partners, External Funders and Project Supporters<sup>11</sup> 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.

## 13. 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 Funding DNO considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees (paragraph 3.100 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 3.102 of Section Two of the LCN Fund Governance Document); or
- (iii) if the Funding 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 3.107 of Section Two of the LCN Fund Governance Document).

## 14. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 3.110 to 3.114 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 CRC 13.18.

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 Funding DNO clarifying the effect of that halting decision as regards the status and legal force of the conditions contained in this Direction.

<sup>11</sup> As listed in Box 1.5 in Section 1 of the Full Submission pro-forma.

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**NOW THEREFORE:**

In accordance with the powers contained in the LCN Fund Governance Document issued pursuant to Part E of CRC 13 (Low Carbon Networks Fund) of the Licence the Authority hereby issues this Project Direction to the Funding DNO in relation to the Project.

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

Internal Only

**The Office of Gas and Electricity Markets**

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