

Company Secretary
London Power Networks
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Date: 16 January 2018

Dear Company Secretary,

Project Direction ref: LPN / Active Response / 16 January 2018

London Power Networks Plc (LPN) submitted the project Active Response (the Project) in August 2017 to be considered for funding through the Electricity Network Innovation Competition (NIC). In this year's decision¹, we selected the Project² for funding.

This Project Direction contains the terms to be complied with by LPN as a condition of the Project receiving funding through the Electricity NIC. It must comply with these terms, which can be found in the Schedule to this Project Direction.

Project direction

Chapter 5 of the Electricity NIC Governance Document³ states that a Project Direction will:

- set out the Project-specific conditions that the Network Licensee (which for this project is LPN) is committing to in accepting funding;
- require the Network Licensee to undertake the Project in accordance with the commitments it has made in the Full Submission. Where appropriate, the Project Direction may therefore include extracts from the Full Submission or refer to specific sections of the Full Submission;
- set out the Approved Amount for the Project, that will form part of the calculation contained in the Funding Direction issued by the Authority under Chapter 7 of the Governance Document;
- set out the Project budget that the Network Licensee must report against and how variances against the Project budget will be reported and approved; and
- set out the mechanism for the Network Licensee receiving the Approved Amount as set out in section 4 of the Funding Direction.

¹ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2017-funding-decisions>

² Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

³ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

These are described for the Project in the Schedule to this Project Direction.

Decision

Provided LPN complies with the Electricity NIC Governance Document and with the Schedule to this Project Direction, the Project is deemed to be an Eligible NIC Project.⁴

This Project Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Geoffrey Randall
Associate Partner, RIIO Networks
For and on behalf of the Authority

⁴ Eligible NIC Project has the meaning given in definitions of the Electricity Distribution licence.

Schedule to Project Direction

1. TITLE

Project Direction ref: LPN / Active Response / 16 January 2018.

2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to London Power Networks plc (the "Funding Licensee") pursuant to the Electricity NIC Governance Document issued pursuant to Part E of Charge Restriction Condition 5A (The Network Innovation Competition) of the Electricity Distribution Licence (the "Licence"). It sets out the terms to be complied with in relation to Active Response (the "Project") as a condition of it being funded under the NIC and the Funding Return Mechanisms.⁵

Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

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

3. CONDITION PRECEDENT

The Funding Licensee 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. Project Partners

Scottish Power Energy Networks Ricardo Energy and Environment Turbo Power Systems CGI
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4. COMPLIANCE

The Funding Licensee must comply with Part E of Charge Restriction Condition 5A of the Licence and with the Electricity NIC Governance Document (as may be modified from time to time in accordance with Part E of Charge Restriction Condition 5A and as modified and/or augmented in respect of the Project by this Project Direction) and with this Project Direction.

Any part of the Approved Amounts that the Authority determines not to have been spent in accordance with this Project Direction (or in accordance with the Electricity NIC Governance Document) is deemed to be Disallowed Expenditure.

Pursuant to Charge Restriction Condition 5A, Disallowed Expenditure is revenue received (whether by the Funding Licensee or by another Licensee) under the NIC and Funding Return Mechanisms that the Authority determines not to have been spent in accordance with the provisions of the Electricity NIC Governance Document or with those of the relevant Project Direction.

⁵ The Funding Return Mechanism is defined in part C of Charge Restriction Condition 5A.

Pursuant to Chapter 8 of the Electricity NIC Governance Document, Disallowed Expenditure includes any funds that must be returned if the Project is halted without Ofgem's permission, any funds that have not been spent in accordance with the approved 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 **£13,835,663.79**

6. PROJECT BUDGET

The Project Budget is set out in Annex 1 of this Project Direction.

The Funding Licensee 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, in accordance with Chapter 8 of the Electricity NIC Governance Document. Ofgem will use the reported expenditure and the explanation to assess whether the funding has been spent in accordance with the Electricity NIC Governance Document and with this Project Direction.

7. PROJECT IMPLEMENTATION

The Funding Licensee must undertake the Project in accordance with the commitments it has made in the Full Submission approved by the Authority pursuant to the Electricity NIC Governance Document and with 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) of the Full Submission;
- (ii) provide a Network Licensee Compulsory Contribution of £3,067,536.15
- (iii) complete the Project on or before the Project completion date of 30 November 2021 and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

8. REPORTING

Ofgem may issue guidance (and amend it from time to time) about the structure and content of the Project Progress Report required by Chapter 8 of the Electricity NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports.

As required by Chapter 8 of the Electricity NIC Governance Document, the Funding Licensee must inform the Authority promptly in writing of any material event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

9. INTELLECTUAL PROPERTY RIGHTS ("IPR")

In Section 5 of its Full Submission (Knowledge Dissemination) the Funding Licensee has stated that the Project conforms to the default IPR arrangements set out in Chapter 9 of the Electricity NIC Governance Document. The Funding Licensee must therefore undertake the Project in accordance with the default IPR arrangements.

10. Project Deliverables

At the end of a Project, the Funding Licensee must commission a report from an independent third party that verifies whether the Project Deliverables set out in Table 2 below (which comply with Chapter 5 of the Electricity NIC Governance Document) have been achieved.

After it has received the report, the Funding Licensee must send it to the Authority. Where a Project Deliverable has not been achieved we will consider whether funding should be returned to customers using the Funding Return Mechanism. If the Network Licensee is deemed by Ofgem to be at fault for the non-delivery of the Project Deliverable, it is the proportion of funding assigned to it within Table 2 below, which may be returned to customers.

Table 2. Project Deliverables

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
1	High Level Design Specification of Advanced Automation Solution	15 August 2018	Report outlining the requirements and options for the Active Response software solution (WS2)	1
2	Trial Site Selection Criteria and Process Outcome	31 January 2019	Description of possible site selection criteria, derivation of the selected methodology and details of the networks selected for the 4 project trials (WS3)	3
3	Learning from Hardware factory tests	15 August 2019	Details of the key learning from the hardware specification, design and testing process (WS1)	23
4	Learning from Commissioning and Operation of Active Response Software Solution tools	31 January 2020	Report outlining the key learning from the initial off-line trials of the project software tools (WS2)	35
5	Initial Learning from the Installation and Commissioning of Active Response Hardware	31 March 2020	Report outlining the key learning from the initial installation and commissioning of the project hardware (WS1)	23
6	Project technology handover, rollout and adoption into BaU plan	29 January 2021	Implementation Plan for the adoption of the project solutions into Business as Usual (WS4)	3

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
7	Review of the Active Response Methods applicability in Scottish Power Energy Network licence areas	30 June 2021	A report by Scottish Power Energy Networks detailing the number implementations in their license areas that the project methods provide benefits (WS3)	1
8	Presentation of findings from the project trials	31 August 2021	Analysis and findings from the 4 project trials, including key learning and recommendations (WS3)	7
9	Review of solution applications and project business case	30 November 2021	Comparison of the project technology following the trials against that envisaged at inception, and review of applications and benefits (WS3)	4
Common Project Deliverable				
N/A	Comply with knowledge transfer requirements of the Governance Document.	30 November 2021	<ol style="list-style-type: none"> 1. Annual Project Progress Reports which comply with the requirements of the Governance Document. 2. Completed Close Down Report which complies with the requirements of the Governance Document. 3. Evidence of attendance and participation in the Annual Conference as described in the Governance Document. 	N/A

12. USE OF LOGO

The Funding Licensee and the Project Partners, External Funders and Project Supporters⁶ may use the NIC logo for purposes associated with the Project but not use the Ofgem logo in any circumstances.

13. AMENDMENT OR REVOCATION

As set out in Chapter 8 of the Electricity NIC Governance Document and this Project Direction, this Project Direction may be amended or revoked under the following circumstances:

⁶ As listed in Box 1.6 in Section 1 of the Full Submission pro-forma.

- (i) if the Funding Licensee considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees; or
- (ii) to reflect amendments made to the Licence.

14. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs Chapter 8 of the Electricity NIC 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 Part E of Charge Restriction Condition 5A.

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

NOW THEREFORE:

In accordance with the powers contained in the Electricity NIC Governance Document issued pursuant to Part E of Charge Restriction Condition 5A of the Licence the Authority hereby issues this Project Direction to the Funding Licensee in relation to the Project.

This constitutes notice of reasons for the Authority's decision pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£)
Labour	
	1,639,615.22
Equipment	
	6,371,632.31
Contractors	
	1,955,830.39
IT	
	5,915,520.99
IPR Costs	
	-
Travel & Expenses	
	40,684.36
Payments to users	
	-
Contingency	
	718,002.55
Decommissioning	
	-
Other	
	382,539.09
Total	17,023,824.93