



Making a positive difference
for energy consumers

Company Secretary
Southern Electric Power Distribution
No.1 Forbury Place
43 Forbury Road
Reading
RG1 3JH

Direct Dial: 020 7901 7106
Email: Geoffrey.Randall@ofgem.gov.uk

Date: 16 January 2018

Dear Company Secretary,

Project Direction ref: SEPD / Transition / 16 January 2018

Southern Electric Power Distribution Plc (SEPD) submitted the project Transition (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 funding is conditional upon SEPD engaging with the licensees implementing the EFFE and Fusion projects, removing areas of unnecessary duplication and coordinating their activities to ensure the best outcome for consumers. The three companies will submit updated plans, within six months of us issuing this direction, which we will approve before projects can proceed.

This Project Direction contains the terms to be complied with by SEPD 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 SEPD) 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;

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>

- 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.

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

Decision

Provided SEPD 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: SEPD / TRANSITION / 16 January 2017.

2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to Southern Electric Power Distribution 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 followed in relation to TRANSITION (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

Condition 1

Table 1. Project Partners

Given Condition 2 of this Project Direction we recognise that Project Partners may change, as a result, the Funding Licensee's Project Partners for the Project shall be the parties listed below or such other parties as are agreed with the Authority.

Electricity North West Limited Atkins CGI Origami Energy Limited

Condition 2

- (i) In addition, the Funding Licensee will not access any NIC funding until we have provided our consent by way of an update to this Project Direction to reflect the revisions made to the project budget, programme and Project Deliverables as a result of this condition. We will only provide consent where we are satisfied that, within six months of issuing this Project Direction, the Funding Licensee demonstrates it has made reasonable endeavours to coordinate with the Funding Licensees of the FUSION and EFFS Projects, so it can provide the following to an appropriate standard (such standard to be determined by the Authority):
 - a. An updated project budget (this may include the cost of complying with this condition) which is sufficiently justified and, where appropriate, includes reduced costs from those identified during the Full Submission

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

process as a result of identifying and removing areas of unnecessary duplication between TRANSITION, FUSION and EFFS.

- b. Trial definitions and requirements for all three projects in order to ensure delivery of complementary learnings.
 - c. Definition of requirements for the three projects relating to the use of complementary market models for accessing flexibility.
 - d. Stage gates that will allow the continued validity of the proposed trials to be tested in terms of delivering beneficial learning for network customers against the wider industry, policy and regulatory landscape, and aligning the phasing of the projects such that all three (TRANSITION, FUSION and EFFS) have successfully concluded the Design Stage in a complementary manner; any one project will not commence the deployment stage without prior approval of the Authority.
 - e. A coordinated dissemination plan so that all interested stakeholders are informed of each of the Project's and each of the other projects' outputs and learning in a coordinated fashion.
 - f. An explanation of the cooperation activities for the three projects. This will identify how all of the projects will interact with each other to deliver a complementary and coordinated set of learning outcomes to maximise benefits to consumers, how peer review of outputs will work, who will be attending project meetings, and how the various work packages will align with and complement each other, without unnecessarily duplicating, the Open Networks activities, including taking account of wider stakeholder views.
 - g. Updated set of Project Deliverables to replace those set out in Part 10 (Project Deliverables) below. These should be based on the reviews described above; and
 - h. The endorsement of the Open Networks Steering Group (or equivalent) for the actions taken and the proposed next steps.
- (ii) To demonstrate compliance with this Condition, the Funding Licensee must submit a report to us demonstrating how it has addressed each of the points in paragraph (i) and each of its sub-bullets above within six months of the date of this Project Direction
- (iii) Following receipt of the Funding Licensee's submission under paragraph (ii) above, we will make a decision on whether to provide written consent for the Project to proceed and indicating whether the Funding Licensee can access NIC funding by way of an update to this Project Direction.
- (iv) Subject to any requests for additional evidence under paragraph (v) below, if we do not provide written consent within six weeks of receiving the Funding Licensee's submission under paragraph (iii) above, the Authority will be deemed to have given permission to the Funding Licensee to proceed with the Project in accordance with the revised project budget, programme and Project Deliverables as identified in its submission to satisfy condition (ii). If we have requested additional evidence under paragraph (v) below, no consent shall be deemed to have been given within 6 weeks of the Funding Licensee's submission and the Funding Licensee will need to request actual consent from the Authority.

(v) If during the six-week period described in paragraph (iv) above, we consider that the Funding Licensee has not provided sufficient evidence in accordance with paragraph (i) above, we may request additional information from the Funding Licensee, allowing two weeks for the submission of additional information. We may extend the time within which we will update this Project Direction by an additional six weeks.

The dates for the project deliverables and project completion included in this version of the Project Direction will be replaced once the new co-ordinated plan has been produced.

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.

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 **£13,081,704.53**

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 explanation to assess whether the funding has been spent in accordance with the Electricity NIC Governance Document and with this Project Direction.

For the avoidance of doubt this reporting requirement does not change or remove any obligations on the Funding Licensee with respect to reporting that are set out in the Electricity NIC Governance Document.

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 £1,469,085.45
- (iii) complete the Project on or before the Project completion date specified in the project programme 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 (as amended 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	WP6 Trial specification Produce and apply the site selection methodology and select the Trial networks.	30/06/2018	<ol style="list-style-type: none"> 1. Publish on the TRANSITION website a report detailing the site selection methodology, and a map of Trial areas. 2. Selection of networks to install monitoring (if required). 	6%
2	WP2 Requirements design development Data exchange requirements and updated data governance processes specified.	31/08/2018	<ol style="list-style-type: none"> 1. Publish report detailing learning from relevant international DSO experience relating to trial objectives. 2. Functional specification for connectivity model, data exchange and governance requirements. 	8%
3	Stakeholder feedback event (Stage Gate)	30/04/2019	<ol style="list-style-type: none"> 1. Stakeholder feedback event to disseminate and gather feedback on outputs from WP 2-6. 	7%
4	WP7 Deployment Develop appropriate commercial arrangements and contract templates for flexibility services. Network adaptation for trial deployment.	31/08/2019	<ol style="list-style-type: none"> 1. Publish contract templates for flexibility services and commercial arrangements learning 2. Publish equipment specifications and installation reports 	35%
5	WP7 Deployment Platform Full Acceptance Testing completed	30/08/2020	<ol style="list-style-type: none"> 1. Publish interface and configuration specifications and commissioning reports. 	17%
6	WP8 Trials stage 1 Completion of one stage of trials	31/03/2021	<ol style="list-style-type: none"> 1. Publish monitoring and analysis results for Trials on TRANSITION website. 2. Stakeholder dissemination event showcasing learnings. 	17%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
7	WP8 Trials stage 2 Completion of second stage of trials	31/12/2021	1. Publish monitoring and analysis results for Trials on TRANSITION website 2. Stakeholder dissemination event showcasing learnings.	10%
Common Project Deliverable				
N/A	Comply with knowledge transfer requirements of the Governance Document.	31/12/2022	3. Annual Project Progress Reports which comply with the requirements of the Governance Document. 4. Completed Close Down Report which complies with the requirements of the Governance Document. 5. 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 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:

- (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

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

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

ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£)
Labour	
	4,988,238.40
Equipment	
	1,524,445.96
Contractors	
	3,262,308.45
IT	
	3,706,196.20
IPR Costs	
	-
Travel & Expenses	
	567,465.98
Payments to users	
	569,648.71
Contingency	
	0
Decommissioning	
	72,550.75
Other	
	0
Total	14,690,854.45