

Company Secretary
Scottish Hydro Electric Power
Distribution Plc
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Date: 18 December 2019

Dear Company Secretary,

Project Direction ref: SHEPD / Resilience as a Service / 18 December 2019¹

Scottish Hydro Electric Power Distribution Plc (SHEPD) submitted to Ofgem the project Resilience as a Service (the Project) in July 2019 to be considered for funding through the Electricity Network Innovation Competition (NIC). In the 2019 NIC decision², we selected the Project³ for conditional funding.

SHEPD must comply with the terms and conditions contained in this Project Direction as a condition of the Project receiving funding through the Electricity NIC. These terms can be found in the Schedule to this Project Direction.

Project direction

Chapter 5 of the Electricity NIC Governance Document⁴ states that a Project Direction will:

- set out the Project-specific conditions that the Network Licensee (which for this project is SHEPD) is committing to in accepting funding;

¹ This Project Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989

² <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2019-funding-decisions>

³ Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

⁴ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

- require the Network Licensee to undertake the Project in accordance with the commitments it has made in the Full Submission⁵;
- 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 the Funding Direction.

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

Decision

Provided SHEPD 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.⁶

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



Steven McMahon

Deputy Director, Electricity Distribution and Cross Sector Policy

For and on behalf of the Authority

⁵ Where appropriate, the Project Direction may therefore include extracts from the Full Submission or refer to specific sections of the Full Submission.

⁶ Eligible NIC Project has the meaning given in definitions of the Electricity Distribution licence.

Schedule to Project Direction

1. TITLE

Project Direction ref: SHEPD / Resilience as a Service / 18 December 2019

2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to Scottish Hydro 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 complied with in relation to Resilience as a Service (the "Project") as a condition of it being funded under the NIC and the Funding Return Mechanism.⁷

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

In accepting funding for the Project, the Funding Licensee is subject to the following Project-specific conditions:

Condition 1

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.

⁷ The Funding Return Mechanism is defined in Part C Charge Restriction Condition 5A.

Table 1. Project Partners

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Condition 2

The Funding Licensee will not proceed with WP6 and WP7 (Project Deliverables 5, 6 and 7) unless the Stage Gate defined in Project Deliverable 4 has been successfully passed following a review of the evidence provided to SHEPD’s Project Steering Board and their recommendation to proceed, stop or modify the project. If the Project Steering Board makes a recommendation for the Project to be modified, the Funding Licensee should report the proposed modifications to the Authority if required in terms of paragraphs 8.27 to 8.33 of the Electricity NIC Governance. Following the completion of the stakeholder feedback event described in Project Deliverable 4, the Funding Licensee should notify the Authority summarising the feedback gathered at the stakeholder engagement event. The Funding Licensee should also explain if it considers that the Project should proceed based on the recommendation of the Project Steering Board, which will include consideration of any feedback received.

4. COMPLIANCE

The Funding Licensee must comply with Charge Restriction Condition 5A, the Electricity NIC Governance Document (as may be modified from time to time in accordance with Part E of Charge Restriction Condition 5A) 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 any revenue received (whether by the Funding Licensee or by another Licensee) from the System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the Electricity NIC Governance Document or the terms 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 line with the approved Project Budget contained within the Project Direction,

any unspent funds on the completion of the Project and any Directly Attributable Costs that the Authority deems to have been misreported following a Project audit. In particular, it includes the proportion of funds associated with a Project Deliverable (as proposed by the Network Licensee), where the Network Licensee is deemed by Ofgem to be at fault for the non-delivery of that Project Deliverable.

5. APPROVED AMOUNT FOR THE PROJECT

The Approved Amount is **£9,696,262**

The Approved Amount will be recovered by the System Operator from GB customers and transferred to the Network Licensee in the Relevant Year following the issue of the Project Direction. The Relevant Year is a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next calendar year. Transfer of revenue between the System Operator and one or more Network Licensees must be made monthly on an equal basis, for the entirety of the Relevant Year, on the day of the month agreed by the Network Licensee making the transfer. The Network Licensee is responsible for notifying the System Operator of the bank account details to which transfers must be made. If a Network Licensee is required to return funding to the System Operator, the reverse applies.

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 £1,093,111;
- (iii) complete the Project on or before the Project completion date of 30 June 2024; and
- (iv) disseminate the learning from the Project as a minimum to the level described in Section 5 (Knowledge Dissemination) of the Full Submission.

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 the Funding Licensee may be required to return to customers.

Table 2. Project Deliverables

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
1	Front End Engineering Design (FEED) (WP2)	August 2020	<ol style="list-style-type: none"> 1. Report detailing the selected site for demonstration and proposed Use case(s) for the RaaS demonstration. 2. External peer review of FEED. 	4%
2	Detailed Design (WP3)	January 2021	<ol style="list-style-type: none"> 1. Detailed design of controls, electrical integration, available DER and the BESS complete. 2. Publish Trial Programme on SSEN RaaS webpage. 	7%
3	Business Model for potential RaaS suppliers (WP5)	February 2021	<ol style="list-style-type: none"> 1. Construct investment business case for RaaS supplier 2. Produce draft Heads of Terms for RaaS method. 	7%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
4	Stakeholder Feedback Event (Stage Gate)	April 2021	<ol style="list-style-type: none"> 1. Stakeholder feedback event to disseminate and gather feedback on outputs. 2. Evidence provided to Project Steering Board to inform Stage Gate decision including technical design, stakeholder feedback, alignment with Open Networks Project, updated budget and business case. 	6%
5	Supply Chain Engagement (WP6)	November 2021	<ol style="list-style-type: none"> 1. Publish Commercial Strategy on SSEN RaaS webpage. 2. Present Enterprise design for Resilience as a Service on SSEN website 	6%
6	Network Adaptation and Acceptance Testing (WP7)	March 2022	<ol style="list-style-type: none"> 1. Produce interface and configuration specifications and commissioning reports. 	41%
7	Trial 1 – Demonstration at first site complete (WP7)	December 2023	<ol style="list-style-type: none"> 1. Publish Demonstration analysis results on SSEN RaaS webpage covering both technical and commercial aspects. 2. Stakeholder dissemination event showcasing learnings. 	25%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
8	BAU Preparation	June 2024	<ol style="list-style-type: none"> 1. Technical design to support second demonstration site. 2. Consultation with potential RaaS market for second demonstration site. 	4%
Common Project Deliverable				
N/A	Comply with knowledge transfer requirements of the Governance Document.	End of Project	<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

11. USE OF LOGO

The Funding Licensee and the Project Partners, External Funders and Project Supporters⁸ may use the NIC logo for purposes associated with the Project but not use the Ofgem logo in any circumstances.

12. 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:

⁸ 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.

13. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in 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 Charge Restriction Condition 5A of the Electricity Distribution Licence.

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 terms and 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	
	1,489,315.91
Equipment	
	3,308,967.41
Contractors	
	5,262,815.28
IT	
	-
IPR Costs	
	-
Travel & Expenses	
	513,670.58
Payments to users	
	-
Contingency	
	-
Decommissioning	
	356,338.22
Other	
	-
Total	10,931,107.39