

Michael Green
Future Networks
Scottish Power HQ, 8th floor,
320 St. Vincent Street, Glasgow
G2 5AD

Direct Dial: 0141 354 5416
Email: Steven.McMahon@ofgem.gov.uk

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Dear Michael,

Network Innovation Competition – Approval to proceed FUSION

The Network Innovation Competition (“NIC”) funds a number of large-scale innovation projects and was set up to encourage network licensees to innovate in the design, development and operation of their networks.¹

In August 2017, Southern Electric Power Distribution (SEPD), Western Power Distribution (WPD) and Scottish Power Distribution (SPD) (‘the Licensees’) submitted requests for NIC funding for three projects (‘the Projects’). These were:

- TRANSITION by SEPD;
- Electricity Flexibility and Forecasting Systems (EFFS) by WPD; and
- FUSION by SPD.

In January 2018, we issued Project Directions for the Projects (‘the first Project Directions’). We set out that the funding was conditional upon the Funding Licensee engaging with the licensees implementing EFFS and TRANSITION, removing areas of unnecessary duplication and coordinating their activities to ensure the best outcome for consumers. Condition 2(i)(d) of the first Project Directions provided that the Licensees must provide stage gates that will allow the continued validity of the proposed trials to be

¹ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

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, EFFF and FUSION) 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.

Conditions 2(i) and 2(ii) of the first Project Directions provided that the Licensees required to submit, within six months of us issuing that direction, a report demonstrating how they had addressed the condition, which we were to approve before projects could proceed and they could access the NIC funding. The Licensees submitted the NIC 2017 Compliance Document in July 2018² ('the Compliance Document'). The Licensees provided further information in August 2018 including further justification of costs, description of how learnings are to be complementary to those delivered by the other projects and an explanation of changes to the definitions and requirements of the project's trials. In the Compliance Document, the Licensees committed to a design phase stage gate 18 months after approval of the commencement of the projects.³ As part of the stage gate, project teams were to produce a Stage Gate Report to the Project Steering Board that makes a recommendation on the projects proceeding and that Stage Gate Report would then be provided to Ofgem for approval.⁴

We made a decision to provide consent for the Projects to proceed by way of updated Project Directions published in September 2018⁵ ('the updated Project Directions'). In the updated Project Directions we set out that the Licensees must undertake the Project in accordance with the commitments it has made in the Full Submission, as well as the compliance report received in July 2018 and additional information received in August 2018.

We received the Stage Gate Report in February 2019. This letter relates to our approval for the continuation of the projects.

² https://www.ofgem.gov.uk/system/files/docs/2018/10/nic_2017_compliance_document_v2_public_1.pdf

³ Page 14, Compliance Document

⁴ Page 15, Compliance Document

⁵ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-amended-project-direction-fusion>

Our view

We have considered our approval against the commitments made and criteria that the Licensees set out in the Compliance Document, further information submitted in August 2018 and the Full Submission submitted to the Authority. The Licensees committed to considering the five key issues below as part of the Stage Gate⁶:

1. Alignment of objectives with the Energy Networks Association's (ENA's) Open Networks Project and approval from its Steering Group

We consider the TRANSITION, EFFE and FUSION (TEF) joint project team to have embedded sufficient processes to maintain alignment with the ENA Open Networks Project. This includes recurring agenda items to discuss coordination, a review of Open Networks Project's communications plan to identify opportunities to coordinate engagement, and directly leading and testing elements of Open Networks Project product outputs.

We acknowledge approval to proceed was issued by the ENA Open Networks Project Steering Group on 20 February 2020.

2. Projects align and unnecessary duplication has been avoided

We welcome the progress the projects have made to avoid unnecessary duplication. We note, for example, the application of EFFE forecasting outputs in the TRANSITION and FUSION projects. We consider there have been positive efforts in alignment in TRANSITION and FUSION design and procurement of power system analysis tools and market platforms to remove unnecessary coordination.

More widely we acknowledge the approach the companies are taking to identify unnecessary duplication and promote alignment. This includes the TEF project delivery board holding sessions on detailed design of each project, and the development of common context diagrams to illustrate some of the core building blocks on test for each project, enabling simpler comparison.

3. Review of increased detail around the trial locations, network requirements, number and scope of trials to identify areas of duplication or overlap. Importantly, this will

⁶ Page 10, Appendix 4, Compliance Document

also include the opportunity to test learning across the projects to provide validation of the outcomes;

We have seen progress in developing trial design in a coordinated manner. This includes joint trial planning sessions to identify key dependencies and opportunities to share learning. We note the comparison of each projects' trials across features including market models used, voltage level and use-cases to identify unique and complementary learnings.

4. Review of the business cases to ensure that the scale and timing of benefits are still appropriate to justify the projects

The TEF project team have reviewed the continued validity of the business cases. We agree that learnings from the projects are strongly relevant to our regulatory priorities around effective markets for flexibility. We recognise external development in technology and policy, including continued growth in distributed energy resources and BEIS's FleX competition, reinforce the relevance and appropriate timing of the benefits of the projects.

5. Review of stakeholder feedback to ensure projects remain relevant and reflective of stakeholder requirements.

We note the steps the TEF projects have taken to develop a coordinated approach to gathering stakeholder feedback and then embedding it into the projects. For example, SPD consulted on the adoption of the Universal Smart Energy Framework in GB to shape their implementation plan, SEPD ran a series of market rules simulation workshops to test weaknesses in market rules before they are trialled, and WPD held workshops to define functional DSO requirements.

Overall, we consider that the stage gate has been delivered in accordance the commitments the Funding Licensee made in the Compliance Document received in July 2018, further information received in August 2018 and the Full Submissions. For the avoidance of doubt, we consider that this also meets the criteria for approval of the continuation of the projects as set out in the first Projection Directions, ie that the projects deliver beneficial learning for network customers against the wider industry, policy and regulatory landscape, and have aligned the phasing of the projects such that all three (TRANSITION, FUSION and EFFS) have successfully concluded the Design Stage in a complementary manner.

Our decision

We approve the continuation of FUSION.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Steven McMahon', written in a cursive style.

Steven McMahon

Deputy Director, Electricity Distribution & Cross Sector Policy, Network Price Controls

For and behalf of the Authority