



Making a positive difference
for energy consumers

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Date: 03 February 2022

Dear Sarah,

We write further to your letter dated 14 September 2022 seeking permission to extend the deadline for completing the Resilience as a Service NIC project.

Background

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.

The purpose of the Resilience as a Service project is to deliver low carbon, cost effective network resilience and security of supply to communities in areas susceptible to power outages. It aims to achieve this by developing and trialling a new market-based solution which uses services provided by a Battery Energy Storage System (BESS) together with local Distributed Energy Resources (DER) to swiftly and automatically restore power to customers in the event of a fault.

On 18 December 2019, we¹ issued a Project Direction² which outlined the terms to be followed in relation to the project as a condition of it being funded under the NIC.³

On 14 September 2022, Scottish Hydro Electric Power Distribution (SHEPD) submitted a change request to the 2019 Project Direction. The requested changes related to the extension of project timescales due to:

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority. The terms 'you' and 'your' are used to refer to Scottish Hydro Electric Power Distribution (SHEPD) Plc.

² <https://www.ofgem.gov.uk/publications/network-innovation-competition-project-direction-resilience-service>

³ The Authority issued a Project Direction to SHEPD pursuant to the NIC Governance Document issued pursuant to Part E of Charge Restriction Condition 5A of the Electricity Distribution setting out the terms to be followed in relation to the project as a condition of it being funded under the Network Innovation Competition.

- Impacts associated with the COVID-19 pandemic which delayed early project activities;
- Impacts associated with current global supply chains issues, which have affected the price of materials and delivery timeframes; and
- The requirement for detailed engagement with potential suppliers.

Material Change Request to 2019 Project Direction

This letter contains our decision on the requested changes to the Project's 2019 Project Direction. Our decision relates to the deadline for the remaining Project Deliverables (5,6,7 and 8). Other project aspects such as the scope of Project Deliverables and Project Budget remain unchanged.

On 14 September 2022, SHEPD submitted a material change request to the Authority as required under paragraph 8.21 of the Electricity NIC Government Document. The reasons provided by SHEPD for the material change request are:

- Impacts associated with the COVID-19 pandemic which delayed early project activities, such as the site visits required to evaluate substations and select the site to be taken forward to the design stage;
- Delivery timeframes reported by suppliers in their responses to E.ON's tender for the RaaS Battery Energy Storage System (BESS). The impact of the global political situation on both material prices and delivery timeframes has resulted in quoted delivery dates that are notably longer than the expected timeframes built into the original project programme; and
- The time necessary for detailed engagement with potential suppliers, including their own modelling work, through Request for Information, Request for Proposals, and Request for Quotations stages when developing the detailed design for the proposed demonstration scheme at Drynoch and forming requirements to issue the tender for BESS scheme procurement.

A summary of requested timeline extensions for Project Deliverables 5-8 is provided below:

Ref	Project Deliverable	Output	Project Direction Deadline	Requested Deadline
5	Supply Chain Engagement (WP6)	<ul style="list-style-type: none"> • Publish Commercial Strategy on SSEN RaaS webpage. • Present Enterprise design for Resilience as a Service on SSEN website. 	November 2021	April 2024
6	Network Adaptation and Acceptance Testing (WP7)	<ul style="list-style-type: none"> • Produce interface and configuration specifications and commissioning reports. 	March 2022	November 2024
7	Trial 1 – Demonstration at first site complete (WP7)	<ul style="list-style-type: none"> • Publish Demonstration analysis results on SSEN RaaS webpage covering both 	December 2023	April 2026

		technical and commercial aspects. <ul style="list-style-type: none"> Stakeholder dissemination event showcasing learnings. 		
8	BAU Preparation	<ul style="list-style-type: none"> Technical design to support second demonstration site. Consultation with potential RaaS market for second demonstration site. 	June 2024	August 2025
	Comply with knowledge transfer requirements of the Governance Document.	<ul style="list-style-type: none"> Annual Project Progress Reports which comply with the requirements of the Governance Document. Completed Close Down Report which complies with the requirements of the Governance Document. Evidence of attendance and participation in the Annual Conference as described in the Governance Document. 	End of Project	

Decision

We have considered the request to extend the Project deadline and are of the view that it would be appropriate in the circumstances to extend the deadline. We consider that the timeline extension requests set out above relate to circumstances that would have been difficult or impossible for SHEPD to foresee at the outset of the project.

We have decided to approve the NIC change request. In accordance with Section 13 of the 2019 Project Direction, we hereby amend the schedule to the 2019 Project Direction in the manner set out in Schedule 1 of this letter. The letter constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

As specified at clause 8.46 of the Electricity Network Innovation Competition Governance Document V3.0 we require you to provide a Close Down Report.

We have published the Amended Project Direction in the Schedule to this letter. If you would like to discuss any of the issues raised in this letter,

If you would like to discuss any of the issues raised in this letter, please contact Herpreet Bhamra at herpreet.bhamra@ofgem.gov.uk or 020 7901 7194.

Yours sincerely,

Graeme Barton

Head of Price Control Operations – Small & Medium Sized Projects

For and on behalf of the Authority

Schedule to Amended Project Direction

1. TITLE

Project Direction ref: SHEPD / Resilience as a Service / 03 February 2023

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 Mechanism⁴.

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.

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

⁴ The Funding Return Mechanism is defined in Part C Charge Restriction Condition 5A.

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