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*Promoting choice and value for
all gas and electricity customers*

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Dear Company Secretary

Approval of the fault level technologies procurement report by Western Power Distribution (WPD) for its LCN Fund Project – FlexDGrid

This letter contains our decision in relation to the approval of WPD's procurement report for its LCN Fund Project FlexDGrid.

Background

On 21 December 2012, the Gas and Electricity Markets Authority (the "Authority")¹ issued a Project Direction² to Western Power Distribution (Midlands West) plc (WPD).³ The Project Direction set out the terms to be followed in relation to the Project as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism.⁴

Condition B Value for Money of the Project Direction required that you must, prior to issuing an Invitation to Tender (ITT) for fault level mitigation technologies, provide a report to us that demonstrates how you will procure fault level mitigation technologies in a way that will deliver best value for money.

The Project Direction states that you may not issue the Invitation to Tender for fault level mitigation technologies until we are satisfied that the competitive procurement process will be undertaken in a way that will deliver best value for money.

On 20 March 2013 you submitted a procurement report to us in accordance with the above requirements. The procurement report describes the details of how you intend to procure fault level technologies.

Assessment of WPD's procurement report

In your procurement report you state that the procurement of fault level technologies will comply with your organisational procurement strategy and wider relevant legislation, for example the Utilities Contract Regulations 2006 (UCR). We note that the procurement process will be undertaken by trained procurement staff⁵, in conjunction with relevant technical staff, to ensure that the contracts are commercially and technically complete. You

¹ In this document the terms the "Authority", "we", "us" and "our" are used interchangeably

² <http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/stlcnf/year3/flexgrid/Documents1/FLEXDGRID%20Project%20Direction.pdf>

³ This was pursuant to the LCN (Low Carbon Networks) Fund Governance Document issued pursuant to Part E of Charge Restriction Condition 13 ("CRC13") of the Electricity Distribution Licence.

⁴ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

⁵ Staff already have qualifications or are studying for a qualification in procurement With the Chartered Institute of Purchasing and Supply (CIPS) Graduate Diploma and hold Member of the Chartered Institute of Purchasing and Supply (MCIPS) status.

have also provided assurance that the procurement of fault level technologies will also undergo due management scrutiny.

You have confirmed that you have used the Achilles Utilities Vendor Database (UVDB) to source suppliers, as well as inviting known suppliers to the pre-qualification questionnaire (PQQ) process. This process should ensure that the procurement of fault level mitigation technologies is transparent and open to a wide range of suppliers, including small and medium enterprises.

You also confirmed that the ITT for fault level mitigation technologies will be sent to seven suppliers that have passed the PQQ stage. We consider that this should ensure that you have a competitive procurement process that delivers value for money for consumers.

Alongside the procurement report, you provided a copy of the relevant ITT. The ITT includes information for prospective suppliers on the necessary technological requirements (eg nominal operational voltages and the applicable standards) and also provides flexibility about other elements of the design features (eg the time between faults that the device can successfully operate). We consider that this will ensure that the procured technology is suitable for the network, but will allow suppliers space to be innovative where possible. We consider that this approach should deliver value for money for consumers.

Finally, you provided information on the criteria and weighting that will be used to assess the tenders (technical fit – 60 per cent, service levels and delivery – 20 per cent and financial and commercial – 20 per cent). We agree that the proposed evaluation criteria and weightings will deliver value for money, as it should ensure that appropriate technologies are selected, that there is support for ongoing repairs/maintenance if necessary, that technologies are delivered in a timely manner and that the price represents good value for money. You have also confirmed that you will undertake post tender negotiations to discuss all aspects of the submission (including, but not limited to price).

Decision

Based on the information provided in your report, we are satisfied that the procurement of fault level mitigation technologies will be a competitive process that will be undertaken in a way that will deliver value for money. This decision letter constitutes our approval for the purposes for the purposes of Condition B Value for Money of the Project Direction.

If you make changes to the approach used to procure fault level mitigation technologies, we expect you to revise the report accordingly and resubmit it to us for approval.

To meet the requirements of the Project Direction, WPD is also required to submit a report to satisfy us that the proposed fault level mitigation technologies will deliver the learning outlined in the Full Submission pro-forma. We note that this must be achieved by 31 December 2013 and we look forward to receiving this report (alongside the written responses from the other DNOs) later this year.

If you have any questions on this letter, please contact Stephen Perry on 020 7901 1806 or by email at stephen.perry@ofgem.gov.uk.

Yours faithfully,



Andy Burgess
Associate Partner, Transmission and Distribution Policy
For and on behalf of the Authority