

Dora Guzaleva
Head of Networks Policy, Local Grids
9 Millbank
London
SW1P 3GE

11 December 2013

Dear Dora,

Notification of Low Carbon Network Fund royalties – Low Carbon London

Further to discussions that my colleagues have had with Arun Pontin, I am pleased to be able to write to you confirming that we expect to earn royalties in regulatory year 2013/14 from the Low Carbon London LCNF project and will therefore need to utilise the royalty mechanism as detailed in the current version of the Low Carbon Network Fund (LCNF) Governance document (v.6).

This letter sets out the amount of royalties and rationale behind the amount. We will be in a position to confirm its inclusion in this year's Funding Direction by 13 December at the latest, once the necessary agreement is in place.

Following an approach and negotiation with Shell International Petroleum Company Limited (Shell), and following the remaining terms being agreed between us, we intend to enter into an agreement to extend the use of component parts of the system tools developed as part of Low Carbon London. The particular parts of the system are limited to the Operational Data Store (ODS) and the Active Network Management Core system

The project agreement we are entering into will investigate the ability of electric vehicles to provide services to the system operator as well as the distribution network operator by way of managed fleet charging. Due to the innovative use of the active network management system and the unique operation of the ODS to link charging data and network data to network topology, we have negotiated a pre-tax sum of £420,000 for access to the system for the duration of the project (December 2013 through to December 2015). You will note that this sum exceeds the amount suggested by Deloitte based on their evaluation.

I can confirm that we have not transferred rights or title in either the data or the system and the arrangement is non-exclusive, meaning that licence fees could be earned from other parties.

We have agreed the sum referred to above following the use of a third (and independent) party to provide assurance to Shell and also the fund. For reference, please find attached the valuation report compiled by Deloitte, and a cover note explaining the basis on which they are able to share this with Ofgem.

We are also pleased to confirm that in this instance we will be waiving the proportional component of the allowed royalties (section 5, clause 3.3 of the LCNF governance document) and once the royalty payment has been paid in accordance with the proposed agreement, we intend to pass the total amount back to the fund. We also do not intend to deduct any Directly Attributable Costs (section 5, clause 3.2). The full amount of £420,000 referred to above is therefore intended to be passed back to customers through the mechanism.

We have agreed suitable arrangements with Shell with respect to new IPR generated within the joint UK Power Networks / Shell project which will run in parallel with Low Carbon London, should we wish to register our involvement as an IFI or LCNF project. We will make a separate registration if we decide to take this forward as an IFI or LCNF project.

Finally, I can confirm that the legal agreement that we are in the process of drafting with Shell provides for no claw-back of the licence fee once distributed to customers through the royalties mechanism. In the event of a dispute, liability will rest with UK Power Networks and the fund would not be required to refund any money.

We look forward to writing to you by 13 December with a final confirmation, and would be grateful of any feedback you have at this stage.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Hutton', written over a light grey horizontal line.

Keith Hutton
Head of Regulation
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
Martin Wilcox, Head of Future Networks, UK Power Networks

Att: Deloitte valuation & assessment of Low Carbon London system components
Deloitte release letter