

Lloyds Court
78 Grey Street
Newcastle Upon Tyne
NE1 6AF

Dora Guzeleva
Head of Networks Policy
Ofgem
9 Millbank
London
SW1P 3GE

24 September 2014

Dear Dora

NORTHERN POWERGRID'S SMART BENEFITS SAVINGS

Since the publication of your Draft Determination we have been considering various aspects of the proposals including your proposed smart grid and smart meter based deductions from our business plan costs.

Ofgem's analysis allocated £118m of smart savings to Northern Powergrid (NPg) and calculated that we had offered some £36m of this allocation already in our plan, leaving a balance (after rounding) of £81m.

Having taken the time to study your analysis we have come to the conclusion that Ofgem has materially understated the savings we offered in the plan.

The savings in our plan fall into two areas:

- Explicitly offered smart savings, and
- Other offered savings driven by smart activity.

I shall deal with each of these in more detail below.

Explicitly offered smart savings

Our plan explicitly offered smart savings in the four areas shown in the table below. In its assessment for the Draft Determination Ofgem recorded only two of those areas, and neither of those were recorded correctly.

In our answer to supplementary question RIIO-ED1-Ph3-P2, we did not include the general HV/LV related smart savings and the smart meter related savings. This was because the guidance we received from Ofgem led us to suppose that these questions related to low carbon technology related investment. Hence we returned information on voltage solutions to PV driven voltage rise and Transform model related savings, but not on smart meter related savings or general HV/LV related smart savings.

We note however there is no correlation between the areas covered in supplementary question RIIO-ED1-Ph3-P2 and those recorded by Ofgem.

NORTHERN POWERGRID

is the trading name of Northern Powergrid (Northeast) Ltd (Registered No: 2906593) and Northern Powergrid (Yorkshire) plc (Registered No: 4112320)

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Area	£m	Comment	Recorded by Ofgem?
Offered smart meters	-5.5	In appendix 3 of annex 1.9	Yes however an NPV value was taken as a non-discounted value
Offered HV/LV general reinforcement reduction	-19	These were described qualitatively in our business plan Annex 1.29: Reinforcement forecast for 2015-23, section 3 HV and LV general reinforcement The quantified reduction can be seen in the difference between our July 2012 and October 2013 submission.	No
Offered LCT related from Transform	-5.9	In response to supplementary question RIIO-ED1-Ph3-P2	Yes however a gross saving was assumed to be a net saving
Offered advanced voltage control to avoid unbundling looped services	-24.4	Described in Annex 1.9: Smart grid development plan, Appendix 3 Loop service unbundling analysis, and response to supplementary question RIIO-ED1-Ph3-P2	No

Other offered savings driven by smart activity

There are in addition two areas of savings which are in our plan, but were not drawn out specifically as smart. The first of these is clearly shown within the submitted plan; the latter is not shown in the plan as it refers to monies that connecting customers will not have to pay and as such does not form part of the submission. Both meet the definition of smart from the Draft Determination.

The first involves circuit automation. Jaratt Street low side interconnection and automation, and Bramham-Audby Lane-Collingham 33kV automation are both discussed in *Annex 1.29: Reinforcement forecast for 2015-23* of our plan. Both use automated switching to avoid network reinforcement and we believe both of these qualify as smart under your assessment criteria. We accept that these were not detailed in supplementary question RIIO-ED1-Ph3-P2. Once again this was because we were led to believe that your questions related to low carbon technology related investment. However, since they are clearly set out in the plan we should receive credit for them under your assessment.

The second area relates to the rollout of the learning from our AMN trial in the Drifffield area. The contracts for this trial have been let and it will provide a template for an AMN system which will definitely be used in the Drifffield area where we are already offering heavily constrained connections. This scheme will save the first customer to connect after its commissioning around £5m; subsequent customers will make additional savings. We were advised not to include these savings in our answers to the supplementary questions as they are not savings on our own direct investments and do not appear in the business plan templates. Now that we know how you have used the information we think that guidance was incorrect and that we should be given credit for these savings.

Area	£m	Comment
Smart EHV reinforcement (only valid if EHV not removed)	-5.1	Jaratt Street low side interconnection and automation, Bramham, Audby Lane and Collingham 33kV automation
Driffield SGS Automated Network Management	-5.0	Both costs and benefits will flow to customers as they connect in this area (only £255k IFI committed by NPg thus far)

Effect of corrections to Ofgem calculations

In Ofgem's Draft Determination it is stated that Ofgem expected £118m of savings in the RIIO-ED1 plan due to smart activity and that NPg have offered only £36m, leaving a balance (after rounding) of £81m.

We have shown above that we have offered over £65m of savings. We shall write to you separately about Ofgem's estimation and allocation of the savings that might be available to DNOs, and on the potential uncertainty mechanisms relating to smart savings that might be a suitable way forward.

If for any reason Ofgem does not agree with any of these points, we would like to discuss this further with you.

Yours sincerely



John France
Regulation Director