

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

Your ref

Our Ref

Date 31 January 2012

Contact / Extension

Martin Hill
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Dear Dora,

Update and further consultation on the design of the Network Innovation Competition – Ref 02/12

Thank you for the opportunity to comment on Ofgem's further consultation document referenced above. This response is written on behalf of SP Energy Networks (SPEN), which is the Scottish Power business unit responsible for the licensed network businesses of SP Transmission, SP Distribution and SP Manweb.

Further to your request for views on the treatment of network licensees who are not regulated through the RIIO price control process, in respect of funding bid submission costs, we would propose that bidders include the cost of preparing each bid within their overall proposals and if successful they would be entitled to recover their costs in full.

We believe that this approach would create an incentive on bidders to ensure that costs in the preparation of each bid are efficiently incurred and would promote a greater quality of project to be taken forward for approval. In the absence of such an incentive upon prospective bidders, we have a concern that money may be wasted on inappropriate and weak proposals. It is also worth bearing in mind that the relative price controls currently in place for independent network licensees means that they benefit indirectly from innovation funding allowances for 'host' transportation companies before any special funding arrangements are applied.

With regard to Ofgem's proposal for a sliding cap of between 5 & 10 percent of the NIA to fund bid submission costs for RIIO network licensees, we consider that the proposed level of cap would amount to roughly half that of the current LCNF regime, which we have found challenging to operate within given the level of detail that is required for these bids. Our existing Tier 1 allowance amounts to around 0.5% of annual revenue, of which we are allowed to use 20% of the fund for Tier 2 bid preparation. We therefore think that the proposed cap should be reconsidered to allow a higher bid preparation allowance.

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I hope that this is helpful, but should you have any questions regarding any aspect of our response, please do not hesitate to contact me by return.

Yours sincerely



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Martin Hill
SP Energy Networks