

Dora Guzeleva
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Ofgem
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30 January 2012

Dear Dora

Update and further consultation on design features of the Network Innovation Competition

Thank you for the opportunity to contribute to the development of the Network Innovation Competition (NIC) framework.

This response should be regarded as a consolidated response on behalf of UK Power Networks' four electricity distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, South Eastern Power Networks plc, and UK Power Networks (IDNO) Ltd.

I can confirm that this response is non-confidential and can be published via the Ofgem website.

UK Power Networks believes that the current governance arrangements for the LCN Fund are providing a sound basis for the governance of the RIIO-ED1 Network Innovation Competition (NIC) and Network Innovation Allowance (NIA). We see no reason to constrain the participation of non-RIIO licensees in the NIC, but continue to believe that the participation of RIIO licensees in consortia with non-RIIO licensees will lead to the most valuable learning outcomes.

We acknowledge that licensees should have access to proportionate bid funding, either through a sliding cap mechanism in the Network Innovation Allowance for RIIO licensees or through the NIC for other licensees.

Our detailed answers to the considerations you have raised are set out in the appendix to this letter. I hope that you will find our comments helpful. If you have any questions please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Keith Hutton', with a stylized flourish at the end.

Keith Hutton
Head of Regulation

Copy Paul Measday, Regulatory Returns & Compliance Manager

Appendix: UK Power Networks views on Ofgem's considerations

i) Appetite for Entry:

N/A

ii) Potential Benefits:

A broad range of participants will stimulate innovation and we support wider participation. We continue to believe that this is best supported through collaborations of large, medium and small participants. The two stage process as used in the LCN Fund second tier creates an opportunity for collaboration opportunities with RIIO licensees to be identified and exploited.

For innovation funded through the NIC to be most useful, we agree that non RIIO licensees should be subject to the same requirements on disseminating learning if not already collaborating with a RIIO licensee as part of the project

iii) Meeting the evaluation criteria:

Newly built networks may provide ideal opportunities to test new technologies and new approaches to distribution networks and should not be excluded. We encourage non RIIO licensees to work with larger RIIO licensees to consider the implications of wider scale roll out, but this should not prevent non RIIO licensees from building and leading partnerships making submissions to the NIC.

Furthermore, we agree that all licensees should have to meet the same evaluation criteria that is used to ensure that LCN Fund expenditure is in the interests of customers and learning is shared with all network companies

iv) Potential barriers:

There are almost certainly additional challenges for smaller network operators in building and leveraging relationships with larger suppliers of equipment and services or large public bodies that the large RIIO licensees have ongoing relationships with.

We believe that the two stage approach used for the LCN Fund second tier funding would create an opportunity for smaller consortia to identify opportunities with larger operators to further promote their ideas and further enhance opportunities for overall learning.

v) Funding bid submission costs:

The reasonable costs of making a submission for a non price controlled company should be recoverable. It would seem that allowing reasonable bid costs to be recovered through the NIC funding for successful proposals would create the right balance between incentivising high quality bids, protecting companies from high costs whilst maintaining some control over the costs of submissions.

vi) Halting projects:

This requirement would seem a reasonable requirement on participants.