

Ms Dora Guzeleva,
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Our ref

Your ref

Date

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31 January 2012

Dear Dora

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

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to the above letter of 11 January.

Network licensee participation in the NIC

We would welcome non-RIIO IDNO participation in the Network Innovation Competition, either on their own if they want, or more likely in collaboration with a RIIO network licensee.

Funding RIIO licensees bid costs

In principle we do not object to linking innovation funding to allowed revenue rather than customer numbers, or to limiting the recovery of bid costs. We understand it is Ofgem's intention to continue funding innovation resources at broadly the same level under ED1 as LCN 1st Tier allowances and the Innovation Funding Incentive that the NIA will replace. The new mechanism needs to achieve broadly the same funding outcome.

Under the current DPCR5 arrangements 20% of LCN Tier 1 allowances is used to fund innovation resources to progress the projects including but not limited to bid costs. There is also an allowance for internal costs of 15% of the Innovation Funding Incentive.

Ofgem's proposed allowance ranges of 0.5-1% of allowed revenue overall with 5-10% of this for bid costs, is likely to provide a lower level of innovation funding. To provide the equivalent level of funding for Innovation under ED1 as for DPCR5 Ofgem needs to set the NIA project allowances at a minimum of 1% of base revenue with funding for project resources including but not limited to bid costs set at 10%-15% of estimated project costs.

If you would like to discuss this further please contact Roger Hey, our Future Networks Manager, at rhey@westernpower.co.uk.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AS', with a small dot above the 'S'.

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager