FCWG Meeting – 09/05/12
The Ideal Strategy for Developing a Business Plan

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Initial Strategy – Establish What Customers Want

- **Informed through stakeholder engagement**

- **Customers' expectations**
  - Willingness to pay – no increase in DUoS
  - Avoid increases in investment by being innovative
  - Smart World options and solutions to network security standards
  - Manage level of network risk to current levels
  - Increased availability of capacity

- **Improved performance and customer service**
  - Connecting significantly higher volumes on time
  - Networks that meet the needs of a low carbon economy
  - Improved performance in New Connections
    - Increased choice and improved information available
    - Removing delays in providing connections

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SSEPD Approach to RIIO-ED1

- **Recognising uncertainties in the period**
  - Smart Metering
  - Removal of FiTs, uncertainty about EVs, carbon neutral homes
  - Wherever possible through ex-ante allowance
- **Aiming to not exceed DPCR5 investment levels**
  - Correct solution is not about increasing DUoS
  - It's about being innovative
- **Smart Working will be a key means of minimising investment**
- **Important to include strong incentives**
  - IQI
  - Health Indices
  - Load
  - Connection (DG and demand)
  - Broader Measure Plus
  - Safety

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FCWG – A Possible Incentive Scenarios

- **Flexibility and Capacity at lowest overall costs through**
  - Minimising Connection and Reinforcement Costs
  - Applying Innovative Solutions
  - Considering Real Options
- **Uncertainty Mechanism Options**
  - The Current DG Incentive Mechanism **or**
  - Encouragement of Innovative Solutions (DG and Demand)
  - Revenue Driver - Suitable unit rates/cap-and collar
- **Setting the Outputs/Targets ?**
  - Fund/Penalty through UoS allowance – link to benefitting customers
  - Differentiate by Volumes and Voltages – HVLC, LVHC etc
  - Carve out or Economic Indicator (High Cost)

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Consider Against

- **Targets**
  - Quantify through worked up WS3 scenarios
  - Individual DNO submission
- **Timeframe**
  - Incentivise efficiency
  - Encourage emerging innovations
  - Through ED1 for ED2 and beyond.
- **Triggers**
  - Uncertain Costs (i.e. Nat Grid projects, future technology defects)
  - DNOs to identify in submission
- **Tools**
  - Stakeholder Engagement to develop/justify business plans
  - Unit Costs, Cap and Collar to incentivise exposure to risk/reward
  - High cost mechanism
  - Cost benefit analysis/real options tools

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.....and finally – a Real Example

- **Orkney Active Network Management**
  - Network already full.
  - Renewable generation to connect.
  - Substantial reinforcement to resolve.

- **The Solution - Monitor and constrain generation in real time.**
  - Connecting additional 20MW (9MW connected to date)
  - At development cost of £500k
  - Avoiding reinforcement in excess of £30M.

- **Critical that frontier performance is incentivised and rewarded**

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