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Our ref

Your ref

Date

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27 June 2012

Dear Dora

**Consultation on funding the cost of preparing submissions for the Network Innovation Competition and the Governance of the Network Innovation Allowance**

Thank you for the opportunity to respond to the above consultation. The LCN fund introduced in DR5 has successfully filled the previous gap between Research and Development (supported by the Innovation Funding Incentive - IFI) and the engineering innovation delivered by our engineers and technicians on a daily basis.

We are pleased to see that the proposed NIA scheme will continue to provide DNOs with the extra resources, and "space", to pursue projects that investigate smarter engineering and commercial solutions to help our customers adopt low carbon technologies.

The NIA and NIC have been extensively consulted upon and developed in conjunction with your Innovation Working Group. WPD is looking forward to further working group meetings to finalise arrangements, and in particular to discussing transitional arrangements (from IFI/LNCF to NIA/NIC) and the details of the Innovation Rollout Mechanism (IRM).

The attached appendix sets out specific responses to the themes and questions posed in your letter.

I hope this response to the consultation is helpful. Should you wish to discuss any aspects of our response please contact Roger Hey ([rhey@westernpower.co.uk](mailto:rhey@westernpower.co.uk)).

Yours sincerely



Alison Sleightholm  
Regulation and Government Affairs Manager

## APPENDIX – Response to Consultation Question Areas

### ***Funding the cost of preparing submissions for the NIC***

Question 1: Do you agree with a fixed annual allowance for bid costs for all licensees and an annual cap per bidding group of £175k or 5% of annual NIC funding request, whichever amount is the smaller? If not please provide evidence to justify an alternative level of cap.

We understand the need to ensure the costs of preparing the bids are justified, and are not excessive. As the number of participants involved in the NIC increases the number of bids submitted could rise substantially, meaning a cap is sensible. The proposed cap of £175k per bidding group would have been sufficient for WPD in either of the first two years of the LCNF competition.

Question 2: We welcome views from stakeholders on whether the funding for bid preparation costs should be funded from the existing funding set aside for funding the NIC, or alternatively, should it be raised in addition to the annual NIC allowance?

Funding of bid preparation costs for DNOs should be through the NIA allowance. For non RIIO network businesses, the costs of funding bids should form part of their unregulated business operations. No separate allowance should be necessary.

### ***Network Innovation Allowance***

Question 3: Do you agree with the proposed high level eligibility criteria? If you do not agree then please explain why.

Yes

Question 4: Do you agree with our proposed approach to funding projects with non-financial benefits? If you do not agree then please explain why.

We sympathise with the issue of self-approval of projects with un-quantified financial or carbon benefits. However, we would be concerned as to whether Ofgem would be adequately resourced to approve engineering projects associated with, for example, operational safety or environmental performance. There are established methodologies for applying financial benefits to safety related projects, and similar mechanisms could be developed for environmental projects. An alternative approach would be to require network licensees to work together to produce a best practice guide and develop a common evaluation framework for such projects.

### ***Project Registration Process***

Question 5: Do you agree with our proposal that licensees should self certify projects against the eligibility criteria? If you do not agree then please explain why.

Yes

Question 6: Do you agree with our proposal that licensees should register projects with Ofgem before they begin? If you do not agree then please explain why.

Yes

Question 7: Do you agree that in the three sets of circumstances, described above, licensees should require Ofgem's permission before registering the project? If you do not agree then please explain why.

We agree with the first two circumstances (IPR and related undertakings) but refer you to our suggestion of a "DNO best practice guide" as described in our answer to question 4 for unclear financial benefits.

### ***Internal Expenditure***

Question 8: Do you agree with our proposal to include an annual cap on internal expenditure? If you do not agree then please explain why.

Yes. As is the case with LCNF, internal expenditure should, in addition to project development costs, include those costs necessary to operate the systems, processes and administrative arrangements for the overall NIA/NIC/IRM DNO programme.

Question 9: What proportion of a licensee's NIA do you consider would be an efficient level of internal expenditure? Please include evidence and justification of your view.

The proportion of costs spent internally and externally varies widely between projects. Few projects involve purely DNO resources, but equipment installation costs can be a substantial proportion of a demonstration project's expenditure. Applying a cap too low could inadvertently penalise DNOs with internal delivery resources, or cause them to outsource construction activities. The concept of a cap at some level is sound to ensure as broad a range of organisations as possible have access to the NIA mechanism. For the current IFI mechanism the proportion of internal costs for WPD has broadly remained within the 15% cap (WPD Midlands requested an increase to 16% on one occasion). Retaining the 15% cap for R&D type projects and placing a higher cap (say 50%) for demonstration projects may be a good starting point. The caps could be subject to a review after two years of scheme operation.

### ***Internal Expenditure***

Question 10: What elements of the current IFI annual report work best; and what would you improve to make these reports more effective as knowledge dissemination tools?

The current IFI report is a comprehensive summary of every R&D project within a DNO portfolio. As such it is an easy point of reference and fulfils a useful purpose for a broad range of stakeholders. Expanding the report to summarise demonstration projects would be relatively simple to achieve, with minimal additional effort required. The reports are already available on DNO, ENA and Ofgem websites.

Question 11: Do you agree with our proposal for sharing the NIA annual reports? In addition, what other means are there of disseminating this learning to all interested parties?

Yes. Please see response to question 10.

Question 12: Would an annual NIA conference be a useful tool for disseminating the knowledge gained from NIA projects? Why?

Yes. The annual LCNF conference in year 1 of LCNF was a widely acclaimed success. Already the year 2 even to be held in October has proved to be popular with presenters, delegates and exhibitors. By year 5 the conference is likely to be established as "the" smart grid event of the year, and therefore well positioned to combine with an NIA conference. Placing a requirement on network operators to organise and agree the content (as with LCNF) is likely to be simple and effective.

Question 13: Do you agree with our proposals requiring licensees to share the learning from NIA projects? If you do not agree then please explain why.

Yes.

### ***Intellectual Property***

Question 14: Do you agree with our proposed approach on IPR?

The default IPR arrangements have worked well for LCNF projects. LCNF projects are, on the whole, taking proven solutions and demonstrating them at a system level. It is unlikely that the same arrangements would be appropriate for many R&D type projects (currently funded under IFI) where IP is much more contentious. For IFI projects WPD has protected interests through arrangements on a project by project basis as is most appropriate. In all cases the investment being made (by WPD and customers) is protected by ensuring a proportion of any benefits gained by the third party accrue back to us. A limit is sometimes placed on this (say 2 or 3 times the investment cost). Retaining default IPR arrangements for NIA demonstration projects, and requiring DNOs to protect customer interests in a more flexible manner for R&D projects would be logical.

Question 15: Should a carve out for commercial products be included with the default IPR arrangements?

Yes

Question 16: Should the carve out be limited to projects focusing on lower technical readiness levels?

Yes

Question 17: If a carve out is provided, should other requirements be placed on the licensee to ensure best value for consumers?

Yes