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Date: 4 November 2013

Dear Jenny,

Decision to allow Scottish Hydro Electric Transmission Limited to register a Network Innovation Allowance Project named: Insulated Cross Arms – Lecht & St Fergus Trials

On 7 July 2013 you requested permission to register a Network Innovation Allowance (NIA) Project. – “Insulated Cross Arms – Lecht & St Fergus Trials” (the Project). The project was started under the Innovation Funding Incentive (IFI) arrangements in April 2009. However, to complete the project you wish to use NIA funding. This funding is contingent on a different set of conditions to IFI funding. The NIA has a default set of Intellectual Property Rights (IPR) arrangements.

You sought permission to register the project because you did not consider that it would conform to the default IPR arrangements set out in the NIA Governance Document¹ (the Governance Document).

The Default IPR Arrangements

When establishing the NIA we recognised that the projects financed by the NIA may create IPR either for some or all of the parties involved in projects. These rights could restrict the dissemination of knowledge and also provide value through future revenues. We included default IPR arrangements in the Governance Document. The purpose of these arrangements is to:

- Ensure the dissemination of knowledge generated by each NIA project; and
- Protect customers against paying excessively for products or approaches (for which they have contributed to the cost of development by providing NIA funding).

Request to deviate from the default IPR arrangements.

Paragraph 3.10 of the Governance Document requires you to seek permission to register a project where you wish to deviate from the default IPR arrangements. On 7 July you requested permission to register a project in accordance with paragraph 3.10.

We have considered the request, further information that has been requested and the issues that have been raised. The reasons for our decision are set out below. We have included a summary of the information relevant to our decision below.

¹ <https://www.ofgem.gov.uk/publications-and-updates/electricity-network-innovation-allowance-governance-document>

Project Summary

The project involves the design and trial of new Insulated Cross Arms (ICAs). The ICAs developed through the project will allow the voltage up rating of 132kV tower lines to 275kV.			
Start Date	04/2009	End Date	03/2014
Innovation Funding Incentive Funding		£474,000	
Proposed NIA Expenditure		£15,000	
Third Party Funding		£0	
Intellectual Property Rights (IPR)		<ul style="list-style-type: none">• Background IPR is retained by the parties who bring it.• Foreground IPR (consisting of test results and installation know-how) is owned by the University of Manchester, who have agreed to transfer it to Arago Technology Limited² (this company will develop ICAs into commercial product).	
Discounts		5% discount on resulting commercial product	

Reasons for our decision

The Governance Document, 3.10 (i): Demonstrate how the learning from the Project can be successfully disseminated to network operators and other interested parties.

Following your request to deviate from the default arrangements we have asked a number of questions. In the response to one question you explain that learning and reports prepared by SHE Transmission in the course of the project can be shared with other licensees – so long as they do not contain confidential information.

While the arrangements that have been entered into do not comply with the requirements of Section 7 of the Governance Document, we note that some information will be available to other licensees and that the vast majority of the project has been funded through the IFI. Further, you started the Project under the IFI before you could have been aware of the arrangements that would come into force for the NIA.

The Governance Document, 3.10 (ii): Take into account any potential constraints or costs caused, or resulting from, the imposed IPR arrangements.

We are concerned that other licensees will not have access to the detailed learning from this project. This will prevent other licensees from understanding the detail of the development process. We would prefer other licensees to be able to access all relevant foreground IPR associated with the project. However, we also note that halting the project now would prevent you accessing benefits from the project and that the vast majority of the project has been funded through the IFI.

The Governance Document, 3.10 (iii): Justify why the proposed IPR arrangements provide value for money for Customers.

We recognise that you have agreed a discount with Arago, for yourselves, on any commercial products that are developed as a result of the Project. We would prefer that all licensees could receive this discount. However, again we recognise that the vast majority of the project has already been funded through the IFI.

Decision

The majority of the expenditure on the Project has already been provided under the IFI. We consider that allowing a relatively small amount of NIA expenditure in this case will allow the Project to be completed and that this will deliver better value for money than halting

² <http://www.aragotechnology.com/>

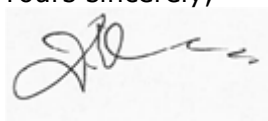
the project at this late stage. While we would normally require projects that transfer to the NIA to be compliant to the maximum extent possible we have decided to allow this project to be registered as only a very small proportion (3.16%) of the total project expenditure is funded by the NIA.

We therefore approve the request to register the Project in accordance with the Governance Document. However, we ask you to note that we expect projects to comply with the default IPR arrangements in most cases. However, in the minority of cases, where projects do not expect to conform to the default arrangements we expect licensees to set out: how they will deliver value for money for consumers; and how learning will be shared with other licensees.

If you have any questions on this letter, please contact Neil Copeland on 020 7901 7193 or by email at Neil.Copeland@ofgem.gov.uk.

This letter serves as notice pursuant to section 49A of the Electricity Act.

Yours sincerely,



Dora Guzeleva

Head of Networks Policy: Local Grids