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Your ref

Our Ref

Date

22 January 2014

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Dear Hannah

### **Consultation on initial assessment of RIIO-ED1 innovation strategies**

This letter provides the response of SP Energy Networks (SPEN) to the initial assessment of the RIIO-ED1 innovation strategies.

SPEN believe that a reasonable explanation has been provided with constructive feedback on areas that require to be improved for the re-submission. We are generally in agreement with the views that have been provided through the assessment; however we are cautious that the level of detail that is required may result in the innovation strategies becoming formulaic as these documents are revised.

We recognise that companies innovation strategies were subject to assessment in parallel to the main ED1 Fast Track process, however the process does raise questions regarding innovation as one of the three “pillars” of RIIO, and the weight placed on innovation in the ED1 Fast Track assessment process.

Our detailed response to the Fast Track consultation sets out our concerns in this regard, and includes the following observations:

- a) Ofgem assess WPD’s innovation strategy as only satisfying 3 of the 8 assessment criteria;
- b) The fast track cost efficiency assessment process appears to be insufficiently sophisticated to understand high levels of innovation embedded within plans.

SPEN had embedded the benefits of innovation activity to date within its plans as business as usual activities, supported by cost benefit analysis and delivering 100% of the benefits to customers.

As such SPEN is now quite unclear as to the weight innovation bears in the context of the fast track RIIO–ED1 assessment, and the extent to which innovation can be properly considered in this process.

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We welcome the opportunity to resubmit our Innovation Strategy to address the feedback provided, and firmly believe that the RIIO-ED1 Innovation mechanisms offer an excellent opportunity for us to continue to improve service and reduce costs to customers. We are also committed to working with the Ofgem team to enable more effective assessment of innovative solutions in the RIIO-ED1 normal track process.

Yours sincerely



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