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Dear Neil,

**Proposed changes to the Network Innovation Competition and Network Innovation Allowance Governance Documents**

The SSE Group network companies, Scottish and Southern Energy Power Distribution (SSEPD) and Scotia Gas Networks (SGN), welcome the opportunity to respond to this consultation. We agree that the Network Innovation Competition (NIC) and Network Innovation Allowance (NIA) governance arrangements are currently functioning well but would benefit from the proposals to review and improve clarity in some areas.

We have provided specific comments on individual questions in Appendix I and a separate list of minor typographical, formatting and consistency issues with the current documents in Appendix II.

We hope that this information is helpful. If you have any questions on the information provided, or would like to discuss this further then please do not hesitate to contact me.

Yours sincerely

Jenny Rogers  
**Regulation Adviser, Networks Advisory**

## **Appendix I – Consultation question responses**

### **Question 1: Do you agree that this criterion should be clarified to make it clear that licensees must explain their processes for selecting ideas and partners? Please explain your answer.**

We are not opposed to clarification of the information expected at ISP as it is likely to result in consistent presentation of information and we do not see any issues in responding to the proposed bullets.

We do note however that the current “ISP criteria” projects are judged to have passed/failed do not include a criterion related to partners and feel that evaluation at the Full Submission stage, as under the current governance, is the right approach. There should be scope for flexibility in the methods used to select project ideas and partners, and it should also be recognised that partners may not have been identified prior to ISP.

We would welcome any further feedback, guidance or opportunities for discussion with Ofgem regarding robust processes for partner selection.

### **Question 2: Do you agree that this provision should be amended to clarify that licensees should only make changes to their submissions to correct errors and incorporate changes as a result of discussions with the Expert Panel? Please explain your answer.**

We support clarification but our view is the current proposal is too narrow. It may be that licensees have information available to them later in the evaluation process that was not available at the Full Submission deadline and may be very useful to the Expert Panel in evaluating the project. Challenges and questions may also be received from Ofgem and the consultants which lead to provision of new information.

Where any such information is communicated to the Expert Panel, either via discussions or in writing, it should be possible to include it in the resubmission and the wording of the clarification should reflect this

It is our view that more explicit feedback from the Panel on their ideas for how projects could be improved, which would lead to incorporation of additional elements or analysis, or removal or adaptation of elements judged too risky for customers to fund, would ultimately improve projects and the outcomes for GB customers.

### **Question 3: Do you have any comments regarding the time frame of the NIC process or the submission materials?**

**Timeframe:** We would welcome more time between the ISP and Full Submission and ideally would prefer a later Full Submission deadline. An additional four weeks between ISP and Full Submission would allow us to improve the quality of our bids. We would not support bringing the ISP deadline forward however and if this is the only option, would prefer the current timeframe to continue.

**Full Submission Spreadsheet:** the spreadsheet would benefit from a complete review and redesign to fully incorporate minor ad-hoc amendments and fixes to errors identified by licensees. Where possible calculations should be automated to reduce potential errors. In particular inflation should be automated.

It would be useful to extend the template so project duration can be up to eight years (maximum length under a RII price control) and up to ten partners can be added (likely maximum) to avoid potential errors due to manual extension.

The calculation of interest assumes that all funding is deposited in the Project Bank Account at the start of the project whereas the total amount is received in instalments during the first year of the project. This means the calculation assumes more interest can be earned than is actually possible. We would like to see the calculation updated to reflect the actual funding arrangements.

**ISP Pro-forma:** more space would be required to respond to the new bullets proposed in relation to Q1 of this consultation.

**ISP and Full Submission Pro-formas:** The current formatting is not effective due to the layout of text boxes. We understand that Ofgem need to ensure that page allowances are adhered to but suggest this could be achieved by removing the text boxes (other than where answers are very short) and advising licensees of margin, font and spacing rules and a set number of pages/words per section.

**Notes on Completion of the Submission Document:** the Governance Document and this guidance and their definitions of what should be covered are not always consistent. For example, 4.3.g Demonstration (i) of a robust methodology and (ii) that the project is ready to implement is in the Governance Document but not in this guidance.

**Process for redaction:** It would be helpful to specify that redacted text should be replaced with “xxxx” and highlighted in black in the Word version of the relevant document, before it is converted to pdf.

We recommend consultants are instructed not to include commercially sensitive information in their questions if there is a general rule that their questions cannot be redacted. For example specific companies’ names should be replaced with “vendors” in a question which will be published.

#### **Question 4: Are there any typographical, formatting or consistency issues associated with the NIC or NIA Governance Documents that you consider should be corrected?**

Our legal team carried out a full review of the NIA and NIC governance documents to identify these types of issues – please see appendix II for a comprehensive list.

Although not strictly covered by this question, we would like to draw attention to the high value of the assumed interest rate that can be earned on funds deposited in Project Bank Accounts in the current NIC Governance Document (Bank of England base rate plus 1.5 per cent on 30 June of the year in which the Full Submission is made).

We have not found it possible to achieve this rate at any time since the introduction of the LCNF. As a result SSEPD and SGN are currently exposed to funding gaps on LCNF Tier 2 and NIC projects of over £1m. This financial exposure grows with every project awarded under these terms as the base rate is not expected to rise significantly in the near future. We believe it would be reasonable to decrease the assumed interest rate as the current arrangements could effectively result in licensees contributing more than the required 10% to total project costs. If the base rate does increase, this could be reflected in a future update to the Governance Document.

**Question 5: Do you have any concerns regarding any aspects of the Gas NIC? Please explain your answer.**

No, as projects with financial but not environmental benefits can be funded through NIA we do not think the current limitations on NIC funding require revision.

**Question 6: Please indicate whether or not you plan to make use of the IRM and if so how many applications you intend to make.**

We are currently considering potential innovations for this funding mechanism but do not expect to submit any applications under the first window for the RIIO T1 or GD1 IRM in 2015.

We recognise the mechanism's value and are already actively considering applications for the RIIO-ED1 IRM. More applications may be made in future when the NIA Project Benefits Guide is approved, and licensees are able to register NIA projects which have carbon/environmental benefits whose value can be quantified but not realised in financial terms.

## Appendix II – typographical, formatting and consistency issues

This list is based on a review by our legal team with a view to avoiding any potential ambiguity for readers unfamiliar with the industry and innovation funding mechanisms.

### NIA Governance Document

- 1.4 – the terms ‘First Tier Funding’ and ‘Second Tier Funding’ are used but not defined.
- 1.5 – the first point should refer to the ‘NIA’ Governance Document to mirror the second point where it refers to NIC Governance Document.
- 1.6 – the term ‘Electricity Transmission Licence’ is used but not defined. There is a danger that the documents assume that the reader is familiar with the industry, its regulation and funding regimes. All capitalised Terms should really be defined to avoid any assumptions on meaning which can lead to misunderstanding.
- 1.18 – the terms ‘DNO’ and ‘IDNO’ are used but not defined.
- Chapter 2 – there are a number of references to a ‘Collaboration and Learning Portal’. There are definitions of ‘Collaboration Portal’ and ‘Learning Portal’ but these appear to be separate i.e. there are 2 separate portals, by grouping the definitions together this is not made clear.
- 2.8 – the term DECC is used. Again this is an acronym and as a matter of ‘good housekeeping’ the full title should be set out in the definition section.
- 3.32 – the term ‘Registered’ is used. This is not a defined term. The defined term is ‘Registration’. Either the wording in the clause should be amended to read ‘Once a NIA Project has met and completed its Registration requirements....’ Or the definition should be amended to state ‘...and ‘Registered’ shall be construed accordingly’.
- Chapter 4 – The terms ‘Eligible NIA Project Expenditure’ is used but not defined. It may be that the term should actually be ‘Eligible NIA Expenditure’ but this is not clear and should not be assumed. It may be that they intend these to be separate terms and, if this is the case, a definition of ‘Eligible NIA Project Expenditure’ needs to be set out.
- Chapter 4 – The terms ‘Eligible Bid Preparation Costs’ is used but not defined. It may be that the term should actually be ‘Eligible NIC Bid Preparation Costs’ but this is not clear and should not be assumed. It may be that they intend these to be separate terms and, if this is the case, a definition of ‘Eligible Bid Preparation Costs’ needs to be set out.
- 4.2 – Need to set out the calculation under the NIA Licence Condition: The Network Innovation Allowance or explain where this can be found. Again it assumes a working knowledge of the industry and the funding arrangements.
- 4.5 – the term ‘Network User’ is not defined.
- 4.5 – point 1 the word ‘Project’ in line two is unnecessary. Similarly, point 3, line 5.
- 4.5 – point 2, line two there is a typo ‘nf’. Should be ‘of’.
- 4.7, point 3 – The term ‘Priority Services Register Customers’ is used but not defined. It may be that the term should actually be ‘Priority Service Customers’ but this is not clear and should not be assumed. It may be that they intend these to be separate terms and, if this is the case, a definition of ‘Priority Services Register Customers’ needs to be set out. See also 4.10, point 5.
- 4.11 – Should the terms be ‘Allowable NIA Expenditure’ rather than ‘Allowable NIA **Project** Expenditure’;
  - ‘Unrecoverable NIA Project Expenditure’ rather than ‘Unrecoverable NIA Expenditure’;

- and 'NIA Expenditure' rather than 'NIA **Project** Expenditure'. The terminology is confused in this section and needs to reflect the terms as defined in the definition section.
- 4.13 - Title line should state 'Eligible **NIC** Bid Preparation Costs'
- 4.13 – need to give an explanation of what the 'ISP' is or where the process is set out.
- 4.13 – the term 'Eligible Bid Preparation Costs' is used but I think this should be 'Eligible **NIC** Bid Preparation Costs'. Again this should be confirmed.
- 4.13 – the words '...of the NIC funding requested, whichever is smaller.' need to be added to the end of the clause to reflect the wording in line two.
- 4.14 – the term 'External Funder' is not defined.
- 6.6 – the term 'Network Licensee's Network Revenue' is not defined.
- Definition of Allowable NIA Expenditure – Includes the term 'Bid Preparation Costs' which is not a defined term. Should this be a reference to 'Eligible NIC Bid Preparation Costs'?
- Definition of Related Undertaking – this definition is too wide and should be narrowed by reference to the appropriate legislation i.e. s1162 and s1159 of the Companies Act 2006 or s420 and s421 of the Financial Services and Markets Act.

#### NIC Governance Document

- Chapter 2 – there are a number of references to a 'Collaboration and Learning Portal'. There are definitions of 'Collaboration Portal' and 'Learning Portal' but these appear to be separate i.e. there are 2 separate portals, by grouping the definitions together this is not made clear.
- 2.2 – the term 'Distribution Price Control Review 5' is used. This is not defined and some explanation around the review and its purpose may be helpful to a reader.
- 2.8 – the term 'Smart Grids Forum' is used but not defined.
- 2.9 – point 2 the term 'Project Progress Reports' is used but not defined. Perhaps an explanation of what this is, and where it is set out what is to be included i.e. refer to section 8.17 to 8.21 of the Governance Document.
- 4.8 – point 3 the term 'Transmission System' is used but not defined.
- 4.10 – the term 'Project Solution' is used but not defined.
- 4.23 – the term 'Screening Submission Pro-forma' is used but not defined. See also 4.31.
- Table 4.1 Section "Delivers net financial benefits to existing and/or future customers" – the term 'National Electricity Transmission System' is used but not defined.
- 6.4 – the term 'Royalties' is used but not defined.
- 7.1 – the term 'System Operator' is used but not defined.
- 7.4(ii) – the terms 'Cost Overruns' and 'Shortfalls' are used but are not defined.
- 7.4(vi) – the term 'Eligible Bid Submission Funding' is used but not defined. See also (vii).
- 8.11 point 2 – the term 'Electricity Supply Licence' is used but not defined.
- 8.20 point 5 – the term 'Project Budget' is used but not defined.
- 8.20 point 12 – the term 'Senior Manager' is used but not defined.
- 8.27 – the term 'LCN Fund Projects' is used but not defined.
- 8.48- the term 'Directly Attributable Costs' is used but not defined.
- 8.53 – the term 'Formula Year' is used but not defined.
- Definition of Direct Benefits – the term 'Network Licensees Business Plan' is used but not defined.

- Generally, there are a number of definitions which are expressed as being defined in the NIC Licence Condition or the Electricity Transmission Licence – really these should be pulled through into this document as has been done for the definition of 'Halted Project Revenues'.