

FAO Dora Guzleva
Head of Networks Policy: Local Grids
The Office of Gas and Electricity Markets
9 Millbank
London SW1 3GE

David Oram
Network Innovation Manager Electricity
Transmission
National Grid House C3
Warwick Technology Park
Warwick
CV34 6DA
david.oram@nationalgrid.com

Direct tel +44 (0)7884 475 641
www.nationalgrid.com

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Dear Dora

Consultation on the assessment of benefits from the roll-out of proven innovations through the Innovation Roll-out Mechanism

National Grid Electricity Transmission (NGET) welcomes Ofgem's consultation on methods for assessing benefits that will be delivered from the roll-out of proven innovations under the Innovation Roll-out Mechanism (IRM), and thanks Ofgem for the opportunity to respond.

Proposals that could be eligible for IRM funding are likely to be unique and have different types and scales of cost and benefit. We recommend that the requirements for applications for IRM funding allow for the applicant to focus the benefits case on the pertinent aspects for the innovation being rolled-out.

Question 1: What methodology should licensees, on the basis of robust evidence, use to demonstrate significant carbon and other environmental benefits of each proposed roll-out?

Licensees have different materiality thresholds below which the additional costs of roll-out of a proven innovation is not eligible for funding via the IRM. The approach adopted for demonstrating the benefits of roll-out should be proportionate to the scale of the application.

The assessment process for applications should include 3 stages,:

- 1 Options appraisal. This should clearly identify the nature of the proposal and what alternatives have been considered, including a 'do nothing different' option.

- 2 Scoping assessment. This should identify the environmental, social and economic impacts of the proposed roll-out along with those of the credible alternative options, and their relative significance and importance to stakeholders should be qualitatively assessed. The scoping assessment should demonstrate how materiality was assessed and conclude with a clear, high level statement of the dominant impacts that influence the value of the proposal, identifying those that can be objectively monetised and those that are more subjective. A number of resources are available to organisations to guide identification and assessment of financial and non-financial factors in investment decision making such as those developed by the Princes Trust Accounting for Sustainability Projects <https://www.accountingforsustainability.org/wp-content/uploads/2014/12/A4S-Capex-December-2014v2.pdf>
- 3 The dominant impacts identified at the scoping stage should be considered in more detail and supported, where possible, with a quantitative assessment that reflects the whole life of the investment, taking into account construction, operation and end of life.

Question 2. How should licensees demonstrate that projects will deliver long term value for money to consumers?

The cost of the proposal should be evaluated against the dominant benefits identified in the scoping stage.

Many environmental benefits will accrue over a number of years, delivering environmental and social value that will extend beyond the end of the current regulatory period. Indeed some may show relatively low impact in early years following implementation compared to later in their lifecycle.

Demonstration of impact and benefit across the material factors identified in the scoping stage should be accompanied by a timeline to illustrate how and when benefits are expected to accrue and how they will be realised. The key approach to this will be through lifecycle analysis identifying how impacts or benefits might change over the lifecycle, including construction/implementation, operation and end-of-life phases.

Financial models such as Net Present Value can, and should, be employed where benefits are readily monetised, for example greenhouse gas (GHG) emissions. Recognised tools should be used to demonstrate GHG emissions saved or abated through the lifecycle of the project or asset roll out compared to the credible alternative options. The source of inputs into such tools should be clearly referenced, for example DEFRA conversion factors.

Where objective metrics, such as the price per tonne of GHG, are generally recognised, it would be beneficial for Ofgem to publish benchmark values so that the assessment of one Licensee is readily comparable with that of another.

However, the approach to discounting in conventional financial models will need to be adapted to reflect change in value of benefits: for example the value of a tonne of GHG emissions avoided is projected to increase significantly above the rate of general inflation in future years.

Where readily monetized benefits alone do not adequately represent the overall value of a proposal, the views of stakeholders regarding other benefits should be taken into account.

Benefits that can't be readily monetized should still be assessed in a logical and systemic way for example through the use of balanced score card approaches comparing the relative impacts and benefits of the different options. For example:

	Relative Scale of benefit		
Impact	Option A: IRM proposal	Option B	Option C: Do nothing different
Biodiversity	High	Low	Medium
Visual impact	Low	High	Medium
Resource use	Medium	Low	Low

Stakeholder representatives should be consulted over the relative value that should be assigned to environmental or sustainability benefits that cannot be readily monetized, for example ecosystem services or reduced visual impact.

Where the value attributed by stakeholders to more subjective outcomes is a significant factor in assessing the overall value of the proposal, Licensees should submit a summary of stakeholder views with their IRM application.

Question 3. How should licensees demonstrate that IRM funding is necessary to fund a roll-out?

Licensees should first demonstrate that the proven innovation could not reasonably have been taken into account when developing the well justified business plans that informed their current regulatory settlement (see question 4 below).

Having done so, Licensee should set out the additional costs of rolling out the innovation in the rest of the current regulatory period and demonstrate, by reference to the allowances and incentives available to the Licensee in the remainder of the regulatory period, that the additional cost exceeds the IRM materiality threshold set out in their license.

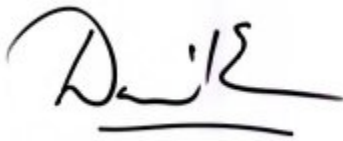
Question 4. How should licensees demonstrate that the proven innovation is not already considered business as usual?

Licensees should demonstrate that the proven innovation could not reasonably have been taken into account when developing the well justified business plans that informed their current regulatory settlement.

Licensees should provide a narrative, with timeline, explaining the state of the innovation in the GB context at the time they were preparing their RIIO business plan, and describe the steps that were required to prove adequately its technical viability for their network and value to consumers to enable them to make an investment recommendation.

We welcome the introduction of the innovation funding mechanism under RIIO, and look forward to working with our stakeholders and customers to deliver significant innovation benefits. Please contact me to discuss any elements of this response.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'D. Oram', with a horizontal line underneath.

David Oram
Network Innovation Manager: Electricity Transmission