

Dear Dora,

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

Deadline to reply: 4th March 2015

I am writing on behalf of SP Transmission, SP Distribution and SP Manweb in response to the above consultation.

We welcome the introduction of the IRM which we see as a complementary incentive and logical extension to the NIA and NIC incentives. We believe that IRM can have a significant role in releasing benefits to consumers and wider stakeholders from the introduction of proven innovations. The incentive should provide funding for licensees to introduce innovations to deliver cost reductions, carbon savings and wider environmental benefits under the following situations:

- where an innovation was not proven at the time that a licensee submitted its investment plan; and/or
- where circumstances have changed since the licensee's investment plan was submitted and a proven innovation is the most efficient and effective means of delivering a solution (a good example would be a significant increase in the amount of renewable generation seeking to connect in a particular area compared to the assumptions within the submitted investment plan).

A successful IRM incentive will ensure that consumers benefit from the introduction of the most innovative practices from a global perspective. The focus should be as wide as possible with licensees looking outside NIA and NIC funded innovations within GB (either their own or other GB licensees NIC/NIA innovations).

We are pleased to submit the following answers to questions regarding the assessment and quantification of the benefits of rolling out proven innovation under the IRM. We have some potential proposals for the 2015 IRM submission for SP Transmission and would welcome the opportunity to discuss in detail with you and your team.

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? Provide as much detail as possible.

IRM funding should facilitate and enable successful demonstration projects and other proven innovations to be scaled for either the licensed area or full GB system deployment.

Carbon and other environmental benefits should be measured using a methodology consistent with business as usual projects. We believe that the RIIO-ED1 Cost Benefit Analysis methodology should be used for 2015 IRM submissions.

Where specific innovations are deployed to facilitate increased levels of renewable generation then the submission should be able to demonstrate this through, for example, contracted MWs, MWs in the application process and increased levels of generator activity.

Question 2: How should licensees demonstrate that projects will deliver long term value for money to consumers? Please provide details to support your answer.

The long term value should be demonstrated by a robust analysis based on the lifetime costs and benefits of the innovative equipment that is to be rolled out. This analysis should highlight risks and sensitivities around key assumptions as appropriate.

Question 3: How should licensees demonstrate that IRM funding is necessary to fund a roll-out? Please provide details to support your answer.

The licensees must demonstrate that the proposed roll-out is not explicitly funded within its agreed investment plan or other funding mechanisms such as TIRG or SWW. We believe that this assessment should be straightforward based on analysis of RIIO plans

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

All innovation will eventually become business as usual and we believe that a successful IRM will be key to ensuring a speedy transition. One of the fundamental tests that should be applied is whether the proposed innovation is being routinely applied by another GB licensee.

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