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Dear Neil

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

Thank you for the opportunity to comment on Ofgem's proposals in this area. I am writing on behalf of each of Northern Powergrid Holdings Company and its two licensed electricity distribution businesses, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc.

We would offer the following comments in response to the questions posed in the consultation document:

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?

Innovation Roll-out Mechanism projects are likely to be diverse. The demonstration of the carbon or environmental benefit is therefore likely to require a bespoke justification. The industry has developed mechanisms for demonstrating carbon and similar benefits as a part of the recent Low Carbon Networks Fund competition process. This allowed for a reasonably broad set of different projects to be justified, but within a comparative framework. A similar mechanism should be used for the justification of the benefits for IRM, backed up by the requirement for the use of high-quality information and data from second or third parties to back up any assertions made.

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

As a part of the development of the Network Innovation Allowance, an extensive piece of work was conducted to develop a benefits guide. This guide, in part, was to allow a value to be put on the environmental and safety benefits of projects where a clear financial case was difficult to make. For the purposes of consistency we suggest that this approach to the valuation of such benefits is also used for the Innovation Roll-out Mechanism.

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In addition Ofgem's own cost-benefit template approach is also available for adoption in this role and may provide an additional option for assessment of value for money.

Long-term benefits may not be as important as benefits in total. We doubt that a very large set of benefits of limited duration would be preferred, from a customer perspective, to a smaller set of benefits over a longer duration. The fact that IRM is for roll-out projects, which by definition should be very low risk, means that discounted cash-flow methodologies for demonstrating overall value could be used, without the interfering factor of having to take account of risk of failure.

A combination of the valuation of benefits with costs and discounted values means that project value should be relatively easy to demonstrate for all projects.

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

In demonstrating the need for IRM licensees need to be able to describe all alternative implementation options considered and why IRM is the preferred solution. In describing the options they should make clear those that could be funded through the business plans, submitted as part of the price control review, and those that may not. IRM can then be justified if the customer benefits significantly in ED1, instead of waiting for ED2 and options are not available for funding from business as usual. In such an analysis evidence of the value of the benefits as well as the timing of them should be presented

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

Where a project is business as usual, there should be examples of that innovation deployed, at volume, outside funded trials. Demonstrating that this is not the case is difficult, although written evidence from all other appropriate licensees that such technology is not deployed should suffice. In addition, where a deployment follows on quickly from an innovation project, this should also be regarded as indicative of a technology not yet representing business as usual.

I hope that you will find these comments helpful.

Yours sincerely

Chris Goodhand
Innovation Manager