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To transmission companies,
distribution companies,
generators, suppliers, shippers,
offshore transmission owners,
customer groups and other
interested parties.

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Consultation on SP Transmission's (SPT's) Innovation Rollout Mechanism (IRM) Submission

We would like your views on a proposal from SP Transmission for funding under the RIIO Innovation Rollout Mechanism.

Background

The IRM is intended to facilitate the rollout of proven innovations, which will provide long-term value for money to customers, in advance of the next price control period. To qualify, rollouts must deliver carbon and/or environmental benefits. We¹ will not approve requests for funding under the IRM where we consider a licensee has already received funding through the price control or where there is an alternative mechanism in the price control that could provide funding for the required investment.

Summary

SPT has applied to use the IRM to deploy a new composite core conductor on parts of its network. SPT states that the alternative is to completely rebuild sections of network. SPT estimates the total cost of the work as £44.5m and is seeking £27.13m from the IRM. SPT note the remaining funding comes from within SPT's existing price control allowance. It proposes starting the work in July 2015 and completing the project in March 2018.

SPT has said that the use of novel conductor technology will deliver environmental benefits because less steel and concrete will be needed compared with rebuilding the line using current methods to deliver higher capacity. It also states that installing the novel conductor on the line is cheaper and will deliver capacity earlier than the current business as usual method.

There are two sets of questions in this consultation. The first set of questions asks respondents to consider whether the submission is eligible. The second set asks respondents to consider the extent to which the proposal delivers against the IRM criteria and whether the rollout will deliver benefits for current and future consumers. We are seeking responses to these questions by 17 July 2015.

Respondents should consider the non-confidential version of SPT's submission to us published alongside this letter before answering the questions below.

¹ The terms "we", "us", "Ofgem" and "the Authority" are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the authority.

Our assessment process

The IRM licence condition² specifies that we should aim to make a decision on whether to approve the funding request under the IRM within four months of the application window closing, ie by 30 September 2015. If we decide the submission is eligible to be funded under the IRM, we will consider the extent to which the proposal meets the evaluation criteria set out in the IRM licence condition. We will take into account responses to this letter in considering these questions. If we consider the proposal meets the criteria set out in the IRM licence condition, we will make IRM funding available through the Price Control Financial Model Annual Iteration Process.

Consultation questions: Eligibility

This section contains five questions. If you do not have views on all of the questions, please share your views on those questions you feel you can answer.

To be considered for funding proposed rollouts under the IRM must fulfil a number of criteria.³ These include delivering carbon and/or wider environmental benefits as well as delivering value for money to customers. As part of our evaluation we are assessing whether the proposed rollout will deliver these benefits as well as whether the rollout is necessary.

Please explain your reasons, and any evidence you have, for each answer.

- **Question 1:** Do you consider that the proposed rollout will facilitate the Government's Carbon Plan,⁴ or deliver wider environmental benefits?
- **Question 2:** Do you consider that the proposed rollout will deliver long term value for money to customers?
- **Question 3:** Do you consider that the rollout will allow the licensee (SPT) to receive commercial benefits from the rollout within the price control period, ie will the rollout lead to cost savings, greater than the cost of the rollout within the price control period?
- **Question 4:** Do you consider the technology that SPT wishes to rollout falls within the definitions of either a *Proven Innovation* or an *Ordinary Business Arrangement* as defined in the IRM licence condition?
- **Question 5:** Do you consider that there is a need for the extra network capacity claimed by SPT?

In determining whether a proposal is eligible for funding under the IRM, we will also assess whether SPT as the licensee has already received funding through the price control, or whether there is an alternative mechanism in the price control that could provide funding for the required investment. We will assess this by reviewing our final proposals⁵ at the end of the last price control review.

Consultation questions: Level of benefits

If we consider the proposed rollout is eligible for funding under the IRM we will consider the extent to which it delivers benefits for current and future consumers. This will inform our final decision on whether to make funding available.

² Special Condition 6E (The Innovation Roll-out Mechanism) of SPT's Electricity Transmission licence.

³ These are set out in the IRM licence condition.

⁴ <https://www.gov.uk/government/publications/the-carbon-plan-reducing-greenhouse-gas-emissions--2>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/rrio-t1-final-proposals-sp-transmission-ltd-and-scottish-hydro-electric-transmission-ltd>

This section contains four questions numbered 6 to 8. If you do not have views on all of the questions, please share your views on those questions you feel you can answer.

→ **Question 6:** To what extent will the proposed rollout facilitate the Carbon Plan?

- Please explain what aspects of the Carbon Plan you consider the proposed rollout will facilitate.
- What is your view of the claims made by SPT regarding the contribution the proposed rollout will make to these aspects of the Carbon Plan?
- Will the proposed rollout deliver benefits more quickly than the business as usual methods used across Great Britain (GB)?

→ **Question 7:** To what extent will the proposed rollout deliver wider environmental benefits?

- Please explain what, if any, environmental benefits you consider the proposed rollout will deliver.
- What is your view of the claims made by SPT regarding the environmental benefits the project will deliver?
- Will the proposed rollout deliver benefits more quickly than the business as usual methods used across GB?

→ **Question 8:** To what extent will the proposed rollout deliver value for money to consumers?

- Please explain whether you consider the cost and scale of the project is justified in relation to the benefits you consider it will deliver.
- What proportion of the potential benefits from the project do you consider will accrue to the network compared to other elements in the energy supply chain?

How to respond to this consultation

This letter contains eight questions for consultation. The response deadline is 17 July 2015. We would also like to hear the views of any interested party in relation to any of the issues discussed in this letter.

Responses to this consultation should be sent, preferably by email to networks.innovation@ofgem.gov.uk, or in writing to:

Neil Copeland
Smarter Grids and Governance,
Ofgem,
3rd Floor,
107 West Regent Street
Glasgow,
G2 2BA

Unless marked confidential, all responses will be published by placing them on our website at www.ofgem.gov.uk. Respondents may request that their response is kept confidential. We shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their responses and if possible include a non-confidential summary of their response.

Next steps

Having considered the responses to this consultation, we intend to publish our decision on the IRM application by 30 September 2015. If we consider the rollout to be ineligible we intend to publish a decision significantly sooner than 30 September 2015.

If you have any queries regarding this letter, please contact Neil Copeland at neil.copeland@ofgem.gov.uk or on 0207 901 7193.

Yours sincerely,

A handwritten signature in blue ink that reads "Andy Burgess".

Andrew Burgess
Associate Partner, Smarter Grids and Governance