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Our ref Your ref
WPD/FNT/RDH -

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Dear Neil,

Reviewing the benefits of the Low Carbon Networks Fund and the governance of the Network Innovation Competition and the Network Innovation Allowance

Thank you for requesting feedback in the above consultation letter dated 17 December 2015. Our response to your questions is as follows:

Question 1: Should we change the NIC and NIA criteria? If so how and why?

The current NIA criteria ensure that the benefits of innovation investment are directly attributed back to network customers. This is a useful safeguard to make sure allowances are well targeted and only used if they have the potential to deliver value.

The NIA criteria are comprehensive enough to cover all aspects of innovation, being much broader than the previous Tier 1 eligibility under LCNF.

The NIC criteria are limited to projects that deliver benefits against the Carbon Plan. This can be a barrier for some solutions, for example systems engineering projects or those designed to optimise network utilisation for all customers. Alignment of criteria with those in NIA may enable more projects to be entered into the competition and ensure best value for customers.

Question 2: Should we give more of an indication of where we consider innovation is required or is that inappropriate?

WPD regularly consults with stakeholders to prioritise areas where innovation is appropriate. Our Innovation Strategy is updated and published annually. The regulator should be assured that the process for developing such innovation strategies is robust rather than directly highlighting particular technologies or solutions for trial.

Question 3: Should the focus of the NIC and NIA be broader and cover the broader energy system?

There are legal and regulatory barriers to funding whole energy system projects through NIA/NIC. Our unsuccessful Clean Energy Balance LCNF Tier 2 competition application (and a complementary NIC application by WWU) in 2013 highlighted a mismatch of cost and benefits between electricity and gas networks. Such transference of cost/benefit between sectors was deemed to be non-compliant with Electricity and Gas Act requirements. There are likely to be barriers to similar projects that attempt to convert energy between vectors including hydrogen, heat, gas and electricity. Broader energy system eligibility rules for energy systems projects may be appropriate, however other funding mechanisms are available such as through the Energy Systems Catapult, Innovate UK or EU.

Question 4: Can we improve the process for deciding on which projects to approve and if so how?

The breadth of projects submitted to the Electricity NIC makes it difficult for Ofgem's panel to have a sufficient level of expertise to assess the applications. The panel are assisted by Ofgem's consultants however this tends to be individuals with specific technical expertise and limited time. Consideration could be given to appointing an expert advisor for each project submission to provide review comments.

Question 5: How can we improve participation in the NIC?

Question 6: Please comment on your experiences if you have worked with licensees when implementing NIC and NIA projects or when transferring innovation into

Not applicable – questions aimed at non-network companies' experiences of working with licensees in NIC projects

Question 7: Are there any other issues we and the independent evaluator should consider as part of the review?

No.

Question 8: To what extent do you consider that the LCN Fund has succeeded?

The multitude of tangible outputs from the IFI and LCNF mechanisms demonstrate the success of innovation funding incentives and allowances. The outputs from WPD's projects are summarised in our Innovation Strategy each year. UK DNOs are now widely heralded as leaders in networks innovation by international observers.

The funding schemes have provided an opportunity to better understand the future requirements of a distribution network based on extensive trials and modelling of future network scenarios. Direct benefits from LCNF projects such as WPD's LV Network Templates have already returned more value to customers than the initial cost.

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Question 9: To what extent do we need to continue incentivising innovation by DNOs?

Specific innovation funding such as NIA and NIC allows DNOs to develop research, development and demonstration programmes that focus on delivering long term value to customers. It often takes many years to develop a concept into a business as usual solution, typically beyond a current regulatory price control period. Specific funding also encourages DNOs to have a broad portfolio of projects covering different activities, technology readiness and risk profiles. Low risk innovations that deliver a much shorter term return are already developed through the standard RIIO framework.

Question 10: Are there any other issues we need to consider as part of the LCN Fund benefits review?

The LCNF scheme provided for DNO protection against the non realisation of anticipated direct benefits. Similar protection is within the NIC governance arrangements, but no longer applies to smaller projects such as those covered by NIA. It would be interesting to assess whether protection such as provided for under LCNF would encourage DNOs to more rapidly deploy innovative solutions.

Should you wish to discuss any aspects of this response please contact Roger Hey, Future Networks Manager (rhey@westernpower.co.uk).

Yours sincerely

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