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25 October 2016

Dear Stacy,

Statutory Consultation under section 11A of the Electricity Act 1989 and section 23 of the Gas Act 1986 on the proposed modification to the Funding Return Mechanism (FRM) set out in the Network Innovation Competition (NIC) and Low Carbon Networks Fund (LCNF) licence conditions.

Electricity North West Limited welcomes the opportunity to respond to the statutory consultation on modification to the Funding Return Mechanism.

Ofgem's support of innovation through the innovation funding mechanisms has enabled us to create and deliver a successful innovation programme through DPCR4, DPCR5 and into RIIO-ED1. We look forward to continuing to deliver benefits to our customers through our portfolio of innovation projects.

The proposed modification to the funding return mechanism (FRM) seeks to clarify how to return money achieved by savings against project budgets to customers. Electricity North West has previously returned money to customers in such circumstances. The proposed modification also looks to cover the return of money if the project has generated revenue other than through Intellectual Property Rights.

Our response to the consultation issued on 1 March 2016 indicated our support of these proposals; we also agree that extending these changes to the LCNF licence condition to address the return of money in cases where the project has delivered more efficiently than expected is useful.

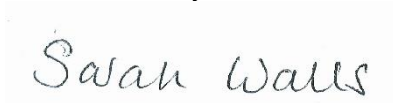
The principle of identifying potential revenue streams within projects (that do not relate to Intellectual Property) and returning this to customers is welcome. However, we are concerned that the approach that Ofgem sets out in its response to BGT(ii) within Schedule 1 could be interpreted to mean that any income associated with 'business as usual' roll out of the innovation after the project has been closed down will also be subject to sharing with customers in line with the % funding of the original project. Such an approach would not be in customers' interests as it might (a) penalise the DNO that develops the technology relative to others that adopt the developed methodology, reducing the incentive to develop new innovations and (b) undermine the business case for totex-funded roll out as the treatment of income would be inconsistent with the treatment of associated costs.

Having discussed our concern with Ofgem, we understand that this was not the intent of the statement. Instead, the intent was to recognise that – for a number of customer funded innovation projects that may result in revenues being received after formal project closure – any revenues received after formal project closure but as a result of activities funded as part of the core innovation project will be shared in line with the project funding basis. We agree that this is a sensible and appropriate approach.

We believe it essential that Ofgem clarifies in its decision document that it does not intend that this approach will be applied to post project roll out of proven innovations.

If you have any questions regarding our response please do not hesitate to contact me or Cara Blockley.

Yours sincerely,

A handwritten signature in cursive script that reads "Sarah Walls". The signature is written in black ink on a light-colored background.

Sarah Walls
Head of Economic Regulation