

To: All holders of an electricity distribution licence

**Electricity Act 1989
Section 11A(2)**

**Notice of statutory consultation on a proposal to modify the standard conditions
of the electricity distribution licence**

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the standard conditions of all electricity distribution licences granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 by inserting Standard Condition 48A (The Electricity Network Innovation Strategy).
2. We are proposing this modification to implement our policy decision made on 31 March 2017 to require network operators regulated through the Revenue=Incentives + Innovation + Outputs (RIIO) price control framework to collaborate on the development of an Electricity Network Innovation Strategy.²
3. The effect of this modification is to require the affected licensees to work together to develop and consult with stakeholders on an Electricity Network Innovation Strategy. Licensees will be required to develop a plan by 31 August 2017 and complete the initial strategy by 31 March 2018. The deadline for the plan is one month later than the date stated in our Network Innovation Review policy decision. We've made this change because of stakeholder feedback that there will be competing demands on the network companies to meet other obligations by 31 July 2017.
4. The proposed modification to the standard licence conditions is set out in the Appendix to this notice. A copy of the proposed modification and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003).
5. Any representations with respect to the proposed licence modification must be made on or before 8 June 2017 to: Anna Kulhavy, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to anna.kulhavy@ofgem.gov.uk.
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
7. If we decide to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Geoffrey Randall
Duly authorised on behalf of the
Gas and Electricity Markets Authority

11 May 2017

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² The policy decision document is available on our website: <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-policy-decision>

Appendix – Draft standard licence condition 48A to be inserted into the Electricity Distribution Standard Licence Conditions

Condition 48A. Electricity Network Innovation Strategy

Introduction

48A.1. The purpose of this condition is to set an obligation on the licensee to work with other parties to develop an Electricity Network Innovation Strategy. This requirement is intended to ensure that Relevant Network Licensees take a joined up approach to innovation, which results in coordinated action on priority areas that offer significant potential benefit, shared learning and the minimising of unnecessary duplication.

48A.2. This condition does not prevent the licensee from undertaking Innovation Projects that are not specifically outlined within the Electricity Network Innovation Strategy.

Part A: Requirement to create and maintain an Electricity Network Innovation Strategy

48A.3. The licensee must develop and maintain an Electricity Network Innovation Strategy and must use all reasonable endeavours to cooperate with all other Relevant Network Licensees in the development of the Electricity Network Innovation Strategy.

48A.4. The Relevant Network Licensees must prepare a plan for the development of the first Electricity Network Innovation Strategy by 31 August 2017. The first Electricity Network Innovation Strategy must be published by 31 March 2018.

48A.5. The licensee must use all reasonable endeavours to work with all other Relevant Network Licensees to ensure the Innovation Strategy is reviewed every two years and where necessary, in the majority view of Relevant Network Licensees, is also updated.

Part B: Electricity Network Innovation Strategy

48A.6. The Electricity Network Innovation Strategy must:

- (a) set out the procedures for updating it (which must include the requirement to consult with Interested Parties in accordance with Part C below and the biennial review referred to in paragraph 48A.5);
- (b) be kept up to date in accordance with the procedures referred to in paragraph 48A.6(a); and
- (c) be readily accessible to the public from the licensee's Website.

48A.7. The Electricity Network Innovation Strategy must include:

- (a) a description of the challenges and uncertainties which the Relevant Network Licensees consider are pertinent to the electricity network over different time periods that could be addressed through innovative projects;
- (b) a description of the challenges which are not currently being addressed through industry projects or plans, including but not limited to projects or plans made by the Relevant Network Licensees and Interested Parties;
- (c) a description of the innovative projects and plans the Relevant Network Licensees intend to make in order to address the challenges referred to in paragraph 48A.7(a)

of this condition, with particular regard to how future Innovation Projects which Relevant Network Licensees will seek to initiate over the period of the strategy will help to address those challenges;

- (d) a description of the innovative projects and plans the Relevant Network Licensees intend to make in relation to the gaps identified in paragraph 48A.7(b) of this condition, with particular regard to how future Innovation Projects which Relevant Network Licensees will seek to initiate over the period of the strategy will help to address those gaps. Consideration should be given to the suitability of the Relevant Network Licensees to carry out the innovative projects and plans. If the Relevant Network Licensees do not intend to carry out innovative projects and plans relating to gap identified in paragraph 48A.7(b), a reason should be provided as part of this description;
- (e) a description of how Relevant Network Licensees will coordinate their activities on Innovation Projects to minimise unnecessary duplication of effort;
- (f) a description of how Relevant Network Licensees will share the learning that they have gained through Innovation Projects; and
- (g) any directions related to the Electricity Network Innovation Strategy issued by the Authority.

Part C: Consultation

48A.8. The licensee must consult Interested Parties prior to publication, or revision, of the Electricity Network Innovation Strategy in cooperation with Relevant Network Licensees and must include a consideration of any representations received in response to the consultation within the Electricity Network Innovation Strategy.

Part D: Interpretation

48A.9. For the purposes of this condition:

Electricity Network Innovation Strategy

means a document published by Relevant Network Licensees that complies with the requirements of this condition.

Innovation Project

means a project funded by the Network Innovation Competition or the Network Innovation Allowance as established by Charge Restriction Conditions 2H and 5A of the Electricity Distribution Licence; Special Conditions 3H and 3I of the Electricity Transmission Licence; and amended Standard Conditions E12 – J11 of the Offshore Electricity Transmission Licence.

Interested Parties

interested parties include, but are not limited to, the Engineering and Physical Sciences Research Council, the Department of Business, Energy and Industrial Strategy, Innovate UK and their successor bodies and

Relevant Network Licensee

holders of an Electricity Transmission Licence or an Electricity Distribution Licence not regulated through the RIIO model.

means the holder of an Electricity Transmission Licence with condition B16 in effect in its licence, or an Electricity Distribution Licence with condition 48A in effect in its licence.