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

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Consultation on RIIO-ED1 Innovation Roll-out Mechanism Submissions

We are consulting on the proposals from SP Energy Networks (SPEN) and UK Power Networks (UKPN) for funding under the RIIO-ED1 Innovation Roll-out Mechanism (IRM). We are seeking your views to this consultation by 25 July 2017.

The IRM is intended to facilitate the roll-out of proven innovations, which will provide long-term value for money to customers, in advance of the next price control period. To qualify, roll-outs must deliver carbon and/or environmental benefits. We will also need to ensure that the proposals are in consumers' interests, represent good value for money, that the proposals are genuinely novel, and could not reasonably be delivered through other means under the ED1 price control. The Authority will not approve requests for funding under the IRM when 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 of proposals to the first RIIO-ED1 IRM window

We've received four submissions from SPEN and UKPN for approximately £79 million additional funding to roll-out new technologies on parts of their networks.

Distribution network group	Project Title	Licensee(s)	Total Project Cost (£m)	Funding requested under IRM
SPEN	Integrated Network Constraint Management for Dumfries & Galloway	SP Distribution	10.7	9.7
SPEN	Holistic Overhead Line Survey Strategy	SP Distribution	10.1	9.5
		SP Manweb	11.2	9.9
SPEN	Enhanced Secondary Substation Monitoring	SP Distribution	26.8	9.7
		SP Manweb	20.5	6.7
UKPN	Low Voltage Network Visibility and Control System	Eastern Power Networks	15.0	11.5
		London Power Networks	14.9	11.0
		South Eastern Power Networks	14.8	11.0

A common theme in three of the submissions is the need for active management of the distribution network in order to respond to challenges caused by an increasing volume of

low-carbon technologies (LCT) on the network such as distributed generation and electric vehicles.¹

Active network management (ANM) is enabled through a combination of advanced monitoring, by installing new technologies on the network, and using that information to improve the way that the networks are utilised.

SPEN and UKPN state that the real time monitoring and ANM will benefit consumers and the environment by ensuring existing network assets are:

- a. Utilised more efficiently, and
- b. Ready to respond with pace to new customer requirements.

SPEN has also submitted a proposal to implement a new asset management system centred on technology and analytics. SPEN expect transitioning from manual surveys to a digitalised approach of overhead line surveys will benefit consumers towards the end of current price control. The benefits will include reductions in foot patrol surveys and vegetation management surveys, as well as an improvement in Customer Interruptions and Customer Minutes Lost.

We've not yet carried out a detailed assessment of the IRM submissions, or formed views on eligibility or the benefit to consumers of these. Further information on all of the proposals can be found in the non-confidential versions of the project submissions published on our website alongside this letter.

Our assessment process

The IRM licence condition² specifies that the Authority may make a decision on whether to approve the funding request under the IRM within four months of the application window closing, i.e. by the end of September 2017. If we are satisfied a submission is eligible for funding under the IRM, we will assess the extent to which the proposal meets the evaluation criteria, other requirements set out in the IRM licence condition, and our duties to protect consumers' interests. We will take into account responses to this letter in considering these questions. If we decide to approve any of the proposals, we will make IRM funding available through the 2017 Price Control Financial Model Annual Iteration Process.

Consultation questions

There are two sets of questions in this consultation. The first set of questions asks respondents their views on whether the submission is eligible. The second set asks respondents to consider the extent to which the proposed roll-out will deliver benefits for current and future consumers compared to the status quo.

If you do not have views on all of the questions, please share your views on those questions you feel you can answer. In your response, please explain your reasons and any supporting evidence you have, and indicate to which of the IRM submissions your answer is referring.

Eligibility

To be eligible for additional funding, the proposed roll-outs under the IRM must fulfil a number of criteria.³ The Authority must be satisfied that the roll-out:

1. will deliver Carbon Benefits or any wider environmental benefits;
2. will provide long-term value for money for electricity consumers;

¹ The challenges are most significant where LCT are geographically concentrated.

² Special Condition CRC 3D (The Innovation Roll-out Mechanism) of electricity distribution licence.

³ These are set out in the IRM licence condition.

3. will not enable the licensee to receive commercial benefits from the roll-out within the remainder of the Price Control Period (for instance where the roll-out of a Proven Innovation will lead to cost savings (including benefits from other incentive mechanisms) equal or greater to than its implementation costs within the Price Control Period; and
4. will only be used to fund the roll-out of a Proven Innovation.

- **Question 1:** Do you consider that any of the proposed roll-out will facilitate the Government's Carbon Plan,⁴ and/or deliver wider environmental benefits?
- **Question 2:** Do you consider that any of the proposed roll-outs will deliver long-term value for money to customers?
- **Question 3:** Do you consider that any of the roll-outs will allow the licensees to receive commercial benefits within the price control period, ie will the roll-out lead to cost savings and/or incentive rewards, greater than the cost of the roll-out within the price control period?
- **Question 4:** Do you consider that the technologies that SPEN and UKPN wish to roll-out fall within the definitions of a *Proven Innovation*⁵ or *Ordinary Business Arrangement*⁶ as defined in the IRM licence condition?

In determining whether a proposal is eligible for funding under the IRM, we will also assess whether:

- it is reasonable to expect the licensees to roll-out the technology anyway as part of business as usual;
- the licensees have already received funding through the price control or if there is an alternative mechanism in the price control that could fund the roll-out.

We will assess this by reviewing our final proposals⁷ at the end of the last price control review.

Level of benefits

If we consider the proposed roll-outs to be eligible for funding under the IRM criteria, we will consider the extent to which the roll-out will deliver benefits for current and future consumers compared to the status quo. This will inform our final decision on whether to make funding available.

- **Question 5:** What are your views on the merits of any of the proposed technology roll-outs?
- To what extent are the proposed roll-outs relevant to current and future challenges in relation to the distribution network?
 - What improvements, if any, do you consider that the proposed technology roll-outs offer compared to the current situation?

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

⁵ A Proven Innovation is defined as meaning an innovation that the licensee can demonstrate has been successfully trialled or demonstrated either as part of its Distribution System or elsewhere.

⁶ An Ordinary Business Arrangement is defined as meaning one or more of the following: (a) a specific piece of existing Network Equipment; (b) an arrangement or application of existing Network Equipment; (c) an operational practice; (d) a commercial arrangement, that, whether singly or in any combination at the time of a Notice given by the licensee under Part C of this condition:

(i) is not (except in the context of a trial) being used by a licensee in an adapted form or in a novel way; or
(ii) is not, in all material respects, something in respect of which another licensee is receiving, or has received, additional funding by virtue of the equivalent condition to this condition in that licensee's licence.

⁷ <https://www.ofgem.gov.uk/publications-and-updates/rrio-ed1-final-determinations-slow-track-electricity-distribution-companies>

<https://www.ofgem.gov.uk/publications-and-updates/decision-fast-track-western-power-distribution>

- **Question 6:** What are your views on the timing of the proposed roll-outs?
 - What would happen if any of the proposed roll-outs didn't occur until the next distribution price control starting in 2023?
 - Does the timing of any of the proposed roll-outs have a significant effect on the expected level of benefits?

- **Question 7:** To what extent will the proposed roll-out facilitate the Carbon Plan?
 - Please explain what aspects of the Carbon Plan you consider the proposed roll-out will facilitate.
 - What is your view of the claims made by the licensees regarding the contribution the proposed roll-out will make to these aspects of the Carbon Plan?
 - Will any of the proposed roll-outs deliver benefits more quickly than the business as usual methods used across Great Britain (GB)?

- **Question 8:** To what extent will the proposed roll-out deliver wider environmental benefits?
 - Please explain what, if any, environmental benefits you consider the proposed roll-outs will deliver.
 - What is your view of the claims made by the licensees regarding the environmental benefits their projects will deliver?
 - Will any of the proposed roll-outs deliver benefits more quickly than the business as usual methods used across GB?

- **Question 9:** To what extent will any of the proposed roll-outs deliver value for money to consumers?
 - Please explain whether you consider the cost and scale of any of the proposed roll-outs is justified in relation to the benefits each will deliver.
 - What proportion of the potential benefits from the proposed roll-outs do you consider will accrue to the network compared to other elements in the energy supply chain?

- **Question 10:** With reference to the IRM licence condition, do you have any significant concerns about funding any of the proposed roll-outs under the IRM? For example, do you consider it is reasonable to expect the licensee to carry out the work anyway as part of business as usual?

How to respond to this consultation

Please send your response to this consultation on or before 25 July 2017, preferably by email, to networks.innovation@ofgem.gov.uk, or in writing to:

Anna Kulhavy,
Ofgem,
107 West Regent Street
Glasgow G2 2BA

Unless marked confidential we will publish all responses by placing them on our website at www.ofgem.gov.uk. Respondents may request to keep their response 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 should put any confidential material in the appendices to their responses and if possible include a non-confidential summary of their response.

Next steps

We will consider responses to this consultation to inform our assessment of the RIIO-ED1 IRM submissions. We will consult SPEN and UKPN on our proposed determination regarding the IRM submissions in August. We will publish our final decision before the end of September 2017.

If you have any queries regarding this letter, please contact Anna Kulhavy at anna.kulhavy@ofgem.gov.uk or on 020 7901 7390.

Yours sincerely,

Geoffrey Randall
Associate Partner, RIIO Networks