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Date: 07 June 2019

### **Consultation on RIIO-ED1 Innovation Roll-out Mechanism Submission**

We are consulting on a proposal from Electricity North West Limited (ENWL) for funding under the RIIO-ED1 Innovation Roll-out Mechanism (IRM). We are seeking your views to this consultation by 5<sup>th</sup> July 2019.

The IRM is intended to facilitate the roll-out of proven innovations, which will provide long-term value for money for customers, in advance of the next price control period.

To qualify, roll-outs must deliver carbon or any wider environmental benefits. We need to ensure that proposals are in consumers' interests, represent good value for money, 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 proposal received in the second RIIO-ED1 IRM window**

In the second RIIO-ED1 IRM window (1-31 May 2019)<sup>1</sup>, we received one submission from a Distribution Network Operator (DNO), ENWL, for approximately £15.09 million additional funding to roll-out new technologies on parts of their network (all costs are in 2012/2013 prices).

<b>DNO</b>	<b>Project Title</b>	<b>Licensee</b>	<b>Total Project Cost (£m)</b>	<b>Funding requested under IRM (£m)</b>
ENWL	Smart Street	ENWL	£15.16	£15.09

The proposal is a response to a predicted increase in the volume of low-carbon technologies (LCTs) on their network, such as from distributed generation and electric vehicles. The proposal aims to increase the efficiency of the specified network area in order to manage additional future demand without the need for additional capacity, and to manage the predicted changes in voltage levels through greater uptake of LCTs.

ENWL has previously completed an 'eta'/'Smart Street' innovation project funded by the Low Carbon Network Fund, aimed at using real-time optimisation software to simultaneously manage high (HV) and low (LV) voltage network assets in response to

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<sup>1</sup> The first RIIO-ED1 IRM window opened on 1 May 2017 and closed on 31 May 2017.

consumer demand. ENWL is now applying to use the IRM to deploy their 'Smart Street' system to 180 distribution substations and their associated low voltage networks.

The proposed roll-out involves a combination of optimisation software using real-time measurement data to manage voltage on the LV network, meshing distribution transformers with On Load Tap Changers, and LV Circuit Breakers and switches, to create an integrated system that allows real-time network reconfiguration.

The key benefits are predicted to be increased energy efficiency savings for customers, reduced carbon emissions, reduced network losses, and increased ability to facilitate the connection of LCTs to the network without the need to build additional capacity.

We have not yet carried out a detailed assessment of the IRM submission, or formed views on eligibility or the benefit to consumers.

Further information on the proposal can be found in the non-confidential version of the project submission published on our website alongside this letter.

### **Our assessment process**

The IRM licence condition<sup>2</sup> 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 2019.

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 the proposal, we will make IRM funding available through the upcoming Annual Iteration Process of the ED1 Price Control Financial Model, which is due to conclude on 30<sup>th</sup> November 2019.

### **Consultation questions**

There are two sets of questions in this consultation. The first set of questions asks respondents for 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 existing 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.

#### ***First set - Eligibility***

To be eligible for additional funding, the proposed roll-out under the IRM must fulfil a number of criteria.<sup>3</sup> 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;
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

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

<sup>3</sup> These are set out in the IRM licence condition.

4. will only be used to fund the roll-out of a Proven Innovation.

- **Question 1:** Do you consider that the proposed roll-out will facilitate the Government's Carbon Plan,<sup>4</sup> or deliver wider environmental benefits?
- **Question 2:** Do you consider that the proposed roll-out will deliver long-term value for money for customers?
- **Question 3:** Do you consider that the roll-out will allow the licensee to receive commercial benefits within the price control period, e.g. 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 technology that ENWL wishes to roll-out fall within the definitions of a *Proven Innovation*<sup>5</sup> or *Ordinary Business Arrangement*<sup>6</sup> as defined in the IRM licence condition?

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

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

### **Second set - Level of benefits**

If we consider the proposed roll-out to be eligible for funding under the IRM criteria, we will consider the extent to which the roll-out will deliver benefits for existing 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 the proposed technology roll-out?
  - To what extent is the proposed roll-out relevant to current and future challenges in relation to the distribution network?
  - What improvements, if any, do you consider that the proposed technology roll-out offers compared to the current situation?
- **Question 6:** What are your views on the timing of the proposed roll-out?
  - What would happen if the proposed roll-out did not occur until the next distribution price control starting in 2023?
  - Does the timing of the proposed roll-out 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.

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

<sup>5</sup> A Proven Innovation is defined as an innovation that the licensee can demonstrate has been successfully trialed or demonstrated either as part of its Distribution System or elsewhere.

<sup>6</sup> An Ordinary Business Arrangement is defined as 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; or (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.

- What is your view of the claims made by the licensee regarding the contribution the proposed roll-out will make to these aspects of the Carbon Plan?
- Will the proposed roll-out 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-out will deliver.
- What is your view of the claims made by the licensee regarding the environmental benefits their project will deliver?
- Will the proposed roll-out deliver benefits more quickly than the business-as-usual methods used across GB?

→ **Question 9:** To what extent will the proposed roll-out deliver value for money for electricity consumers?

- Please explain whether you consider the cost and scale of the proposed roll-out is justified in relation to the benefits it will deliver.
- What proportion of the potential benefits from the proposed roll-out 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 the proposed roll-out 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

Responses are required by 5<sup>th</sup> July 2019 and should be sent to:

Victoria Low  
 Senior Manager  
 Electricity Distribution Networks  
 Ofgem  
 10 South Colonnade  
 Canary Wharf  
 London  
 E14 4PU

Email: [Victoria.Low@ofgem.gov.uk](mailto:Victoria.Low@ofgem.gov.uk)

Unless marked confidential we will publish all responses by placing them on our website at [www.ofgem.gov.uk](http://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.

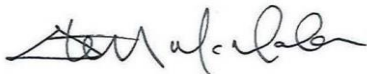
Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality. Respondents should put any confidential material in the appendices to their responses and if possible include a non-confidential summary of their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

## **Next steps**

We will consider responses to this consultation in our assessment of the RIIO-ED1 IRM submission. We will consult ENWL on our proposed determination regarding the IRM submission in August 2019. We will publish our final decision before the end of September 2019.

If you have any queries regarding this letter, please contact Victoria Low at [Victoria.Low@ofgem.gov.uk](mailto:Victoria.Low@ofgem.gov.uk) or on 0203 263 2773.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Steve McMahon', written in a cursive style.

**Steve McMahon**  
**Deputy Director, Electricity Distribution and Cross Sector Policy**