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Thomas Mackenzie
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Dear Thomas,

Open letter consultation on the proposed modification of Part C of “the Network Innovation Competition” licence condition – ‘The Funding Return Mechanism’ in all the licences with the Network Innovation Competition licence condition in force

Scottish and Southern Energy Power Distribution (SSEPD) welcome the opportunity to comment on Ofgem’s proposed changes to Part C of “the Network Innovation Competition (NIC)” licence condition. Whilst we support the changes in principle, believing them to be logical and returning benefit to the customer, we have a couple of points that we would like to address.

Determining project underspend

SSEPD is currently undertaking a number of innovation projects funded or part-funded by the NIC. As with everything we do, these projects are managed to ensure an efficient delivery, thus aiming to provide maximum benefit to customers. We understand that previous projects have already returned unspent NIC funding to customers and agree that a clarification will benefit all interested parties. However, we believe that the licence requires further clarifications in addition to the proposed modifications, particularly with regards to how unspent funds are determined.

Project funding is made up of contributions from the licensee and contributions from the NIC Funding Mechanism plus any interest estimated to accrue over the project period. Additionally, other interested parties have the opportunity to contribute towards the funding. The various sources that make up the total project funding must be considered before any underspend is simply returned to the customer. The proposed licence modification states that Returned Project Revenues are “revenues received by the licensee from the Transmission System Operator/System Operator” and revenues that the Authority determines have not been spent may be returned to customers. However, it is unclear how the Authority intends to define the share of unspent revenue related to the contributions from the TSO/SO, compared to the share of unspent project revenue related to the contributions from the licensee or third parties. Since the licence states that only revenue to be returned to customers is that funded by the TSO/SO it is crucial that the process is clearly stated in the licence or accompanying guidance document.

Return of revenues earned

SSEPD welcomes the notion of revenue generation as we currently have projects that are expected to earn revenue. The proposed licence modification suggests that the Authority may determine the revenues that are payable to customers, returned to the licensee or distributed to other partners. Without working knowledge of the individual projects, the Authority alone may not be in a position to make the most efficient decision of distributing the funds. With regard to the occasions where the Authority wishes to determine the allocation of revenue, we propose an alternative approach where the Authority in conjunction with the responsible licensee makes an informed decision of how to best allocate revenues earned. For revenues earned during the funding period we suggest that these remain with the project and are reinvested. Without the possibility to affect the revenue direction the incentive for licensees to earn revenue is limited. We feel that the projects may be taken further due to the reinvestment of revenues earned and provide greater levels of innovation leading to greater benefit to customers throughout the UK as well as potentially reducing overall spend and increasing the return to interested parties at the end of the project.

In addition to our comments above, whilst considering the proposed modification of Part C of “the Network Innovation Competition” licence condition – ‘The Funding Return Mechanism’ in both our transmission and distribution licences, concerns over the clarity of the overall Funding Return Mechanism have emerged. These concerns relate to how the Funding Return is determined in 3l.7/5A.7 as well as in the proposed sections 3l.11/5A.11, which is explained above. We would therefore ask Ofgem to consider consulting on Part C of “the Network Innovation Competition” licence condition – ‘The Funding Return Mechanism’ as a whole.

If you wish to discuss further our comments in this letter please don’t hesitate to contact me.

Yours sincerely,

Wenche Tobiasson

Networks Regulation