



Scottish & Southern
Electricity Networks

Neil Copeland
Ofgem
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06 February 2017

Dear Neil,

The Network Innovation Review Consultation:

Thank you for the opportunity to comment on the proposed changes to the Network Innovation Allowance (NIA) and Network Innovation Competition (NIC). We have included detailed responses to the questions contained in the consultation in the appendix below.

We are in agreement with the majority of the suggested changes. However we disagree substantially with two of them. We believe the removal of the Successful Delivery Reward (SDR) could alter the projects which network companies undertake, focusing more on those with a lower degree of risk. This could slow the rate of innovation in Great Britain and affect the speed of the transition to a low carbon economy.

Similarly, by introducing the concept of Project Deliverable, where specific project outputs are linked proportionately to the requested funding, the rate of innovation will be slowed further. The risk of having project funds clawed back as a result of a subjective assessment of the delivery of portions of the project can act as disincentive to bringing forward projects with potentially higher consumer / industry benefits which carry additional uncertainty over the outcome and delivery.

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With regard to the proposed changes to the Intellectual Property Arrangements and the increased scrutiny of the NIA project eligibility we believe that we have some ideas and processes that may be of use in addressing these.

If you would like to discuss these topics or have any other questions please do not hesitate to contact me at ross.bibby@sse.com

Yours sincerely

Ross Bibby
Regulation, Networks

Appendix 1:

1 - Proposals for delivering greater value for money

Question 1: What are your views on our proposals to introduce a requirement for the network companies to jointly develop industry-wide innovation strategies . If you agree, should companies retain their own strategies, and in addition should there be a single system strategy, or one for gas and another for electricity? How often should the strategy be updated?

We agree that there may be benefits in developing an overarching industry wide innovation strategy but believe that it is important that each company is able to develop the requirements of their individual network areas and meet the particular needs of their customers and stakeholders through their own innovation strategy. An industry wide strategy should give the opportunity to share knowledge, avoid duplication and allow for better liaison with the wider innovation community. We would be more than happy to actively participate in the development of an industry wide strategy; potentially this could be facilitated by one of the existing industry innovation forums such as the ENA.

Whilst, there are some common challenges between the gas and electricity industries, each faces its own particular set of challenges for example, in electricity distribution, the potential transition to DSO. Therefore, we believe that each industry should retain a separate strategy for the time being.

If adopted, a two year review period would be appropriate for an industry wide strategy. Given the nature of change within the sector at the moment, any longer would risk the strategy becoming outdated, any shorter would not give sufficient time for the learning from ongoing projects to be incorporated into the strategy. Therefore, we believe that a two year review period is sensible.

Question 2: What are your views on our proposals to help facilitate increased involvement of third parties in the NIC via the network companies?

We have long recognised that third party involvement in the NIC and, previously, LCNF Tier 2 projects can bring significant benefits. The My Electric Avenue project was the first occasion where a third party organisation, EATL Ltd, successfully delivered a significant LCNF project. Similarly, many of our other projects such as Northern Isles New Energy Solutions (NINES) and New Thames Valley Vision (NTVV) have benefitted from significant third party

involvement. Therefore, we are generally supportive of Ofgem's intention to increase third party involvement in the NIC.

We believe that having a call for third party ideas has the potential to be beneficial and it is our intention to issue a call for ideas as part of our project selection process for the 2017 NIC. However, care must be taken to ensure that any selection process complies with procurement legislation and results in the development of a suitably robust supply chain.

Whilst we are happy to provide detailed feedback to any parties who respond to a call, we are concerned about making this feedback public. Based on previous experience, we believe that it would be more constructive if feedback was provided in a manner which was subject to the normal commercial confidentiality rules. This would avoid the risk of network companies becoming involved in lengthy public dialogue with third parties over the appropriateness or otherwise of their ideas for a NIC project. We would be happy to state our decision in a public forum after giving confidential feedback to the third party applicant. The industry wide innovation strategy combined with the revised NIC Governance arrangements should provide third parties with sufficient guidance to ensure that they are promoting ideas which are suitable for the NIC.

The increase in the number of submissions from two to four will allow greater flexibility to develop a wider range of projects.

Question 3: What are your views on providing direct access for third parties to the NIC?

We believe that the changes proposed to the existing arrangements are a more appropriate way of facilitating greater access to the NIC for third parties in partnership with networks companies.

Question 4: What are your views on our proposals to remove the Successful Delivery Reward and the provision to recover Bid Preparation Costs?

Both the consultation document for this Network Innovation Review and the Call for Evidence on Smart, Flexible Networks established the principle that innovation will be an integral part of the transition to a low carbon economy at lowest cost to customers. DNOs will be at the forefront of the majority of innovation across the industry, either leading it or collaborating with third party innovators.

For example, under the current regulatory framework for innovation, DNOs undertake projects that deliver direct benefits to the customers, both within their own DSA and, as a result of dissemination, all GB customers. We recognise that NIC projects can produce benefits for networks companies; however these will generally require further investment by the network company to complete the transition to BaU in order to fully realise any benefits.

The removal of the opportunity for the networks companies to recoup their 10% contribution to the project through demonstrating successful delivery (SDR) could stifle interest in riskier innovations, slowing the rate of progress of smarter network development. As an example, our LEAN project would not have been undertaken under such a framework.

Furthermore, the introduction of the Project Deliverables reverse incentive could further stifle innovation as networks focus on only bringing forward less risky projects on which they can better ensure delivery.

We feel that that there ought to be some form of incentive or reward for networks companies that develop and deliver good quality NIC projects, bringing benefits to customers and the wider electricity system.

The ability to recover bid preparation costs allows networks companies to commit resources and engage appropriate external expertise to ensure that projects are well developed prior to submission. We would like to see this retained.

The NIC Full Submission process is a challenging and intensive process extending over a prolonged period and includes two bilateral meetings with Ofgem and their Expert Panel. Whilst we have developed a good understanding of the operation of the process we feel that it could be improved. At present we feel that we receive no significant feedback or comment on our proposal until the final stages, typically at the bilateral meeting. We would welcome the opportunity to have more dialogue with Ofgem at an earlier stage in the process. This would allow the opportunity to address any concerns and adjust the scope of the project accordingly. This would help ensure the development of better quality projects and also minimise the potential for wasted effort in developing elements of the project which are not likely to be funded. We feel that is particularly important if Ofgem is looking to increase third party involvement in the process, some of whom may be less familiar with the NIC process.

2- Proposal for future funding level of the electricity NIC

Question 1: What are your views on the rationale for reducing the level of electricity NIC funding pot?

In general we are in agreement with Ofgem's rationale for reducing the level of funding for the NIC pot.

Question 2: What are your views on the proposed funding level of the electricity NIC?

We feel that the proposed level is appropriate.

3 Other proposals for governance arrangements

Question 1: Do you agree with our proposals to clarify the circumstances we do and do not expect change requests are submitted to us?

- **If you agree, do you think our proposed draft explanation of material changes is clear?**

We welcome Ofgem's intention to make the delivery of ongoing NIC and NIA projects less onerous. From our experience from delivering multiple Tier 2 and NIC projects, it will be beneficial to be able to make minor adjustments to both programme and budget without having to prepare a detailed change request. This will allow our delivery teams to focus on the delivery of the project and the achieving key learning outcomes.

The document specifically states this will be applicable to ongoing NIC projects. We would like to see these proposed changes applied to our ongoing LCNF Tier 2 projects. We support the introduction of an external auditor to provide assurance that the project outputs have been delivered. We would expect to see the costs for this being allowed for in the Project costs.

We would disagree with the proposal for future NIC projects to link the funding to the individual project outcomes. Experience has shown us that the learning outputs in a project are interrelated and are not mutually exclusive. Therefore, there is not a linear relationship between the level of funding and the learning outputs. In most of our recent NIC projects we have included review points and stage gates at key points within the project programme to ensure that the project will still deliver the anticipated benefits. This has formalised the review process to protect customers. We feel this would be a more appropriate mechanism to manage project spending.

- **If you think alternative drafting would achieve this more effectively please provide this drafting.**

The drafting is clear and will help in determining if something is a material change. We would like to see this level of flexibility extended to some of the other project parameters. For example, in the number of proposed physical installations of a particular technology or the number of customers who will participate in a trial.

Question 2: Do you have any feedback on our proposal to publish a plain English guide to our default intellectual property (IP) requirements?

We would support Ofgem's proposal to publish a plain English guide to the default IP requirements. This will be particularly timely, given the move to increase the level of third party participation in the NIC. However, the need to publish a plain English guide to the default IP requirements suggests there currently exists an element of ambiguity as to how the rules should be interpreted. We would suggest, alongside the production of a plain English guide, an amendment or redrafting of the existing rules to provide greater clarity in this area.

We are keen to be involved in a discussion on improving the process by which IP requirements can be better dealt with for the transition from project to BaU as we believe this is an area that requires some focus.

Question 3: Do you have any views on our proposals to improve the visibility of the NIA projects? What are your suggestions for a proportionate way to get assurance that the NIA is being used by network companies in an appropriate way?

In general we are in broad agreement with Ofgem's proposals for making the NIA projects more visible, with increased reporting requirements. From our experience the most successful BaU deployments draw on learning from across the portfolio of innovation projects, therefore, there is often not an obvious direct correlation between an individual NIA project and a BaU deployment. We would suggest that the reporting requirements are flexible enough to recognise this point.

We believe that we have a robust internal authorisation process that must be completed before undertaking any innovation projects. We would be happy to discuss this process with Ofgem and industry.

Question 4: Do you have any comments on any of our other proposals?

We would like clarity on the provision of project data to third parties. For future projects we will be able to ensure that we have adequate provisions in place to let us share the data at the end of the trial project. However, depending upon the data gathering agreements already in place for existing projects it may not be possible to share this data.

For example, if the specific consent we have is for the duration of the project, then it would not be possible to use this data after the project has been closed unless we receive further consent from the customer. Therefore, we would like to retain the right to refuse access to data when we feel we do not have permission to share it or are unable to anonymise it appropriately.