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*Date*

25<sup>th</sup> January 2017

Dear Neil,

### **The network innovation review: our consultation proposals – WPD Response**

It is my pleasure to enclose a copy of the WPD response to your recent consultation proposals.

#### 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 an industry-wide innovation strategy?**

- **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 support the concept of producing an industry wide strategy. The strategy document could be produced relatively simply through the consolidation of individual DNO Innovation Strategy papers. The joint strategy would highlight areas of commonality, where regional differences exist (and why) and allow for a gap analysis against a Smart grid Architecture framework. We consider that separate strategies for electricity and gas sectors would be most appropriate.

The WPD Innovation Strategy is updated and published in February of each year. Other DNOs have different update cycles and release dates which may mean some alignment is required. The joint strategy could be updated on an annual or less frequent basis depending on stakeholder wishes.

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

WPD already runs an annual call for NIC proposals which supplement our internal ideas. We therefore support the concept of third party involvement but question the need for it to be a mandatory requirement.

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

We do not see the need for direct access given the significant interest in our annual NIC call. Should there be enough interest from third parties we would have no objection.

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

The SDRC reward provides a strong incentive to fully deliver the learning outcomes and benefits from larger innovation projects. Removal of the reward would remove the financial, but not the reputational incentive and would therefore potentially have little impact on overall quality of delivery for projects led by Network Licensees.

The NIC application process is significantly more rigorous than similar innovation funding mechanisms. Most national and EU grant schemes require bids to go to little more detail than that prepared for the ISP. They then award project funding but have in place a stage gate for a fully worked up project plan to be presented prior to access to the full funding amount. The level of detail at the stage gate is similar to that prepared for the FSP. Whilst the cost of preparing a full project submission may not be material for a Network Licensee or a large third party organisation it is likely to be a barrier to smaller companies and SMEs. It would therefore seem appropriate to retain a bid preparation cost allowance within NIA. This would subsidise the development of the detailed FSP from the ISP stage.

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?**

We support the rationale for reducing the pot.

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

We support the proposed levels for 2017-2021. In 2021-2023 the funding amount will drop due to T2 commencing. This could coincide with additional focus on NIC rather than NIA for projects which complete beyond 2023.

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

Yes we agree. The draft explanation is clear.

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

We welcome moves by Ofgem to simplify their default IP provisions in order to make them clearer to third parties.

**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?**

We welcome additional involvement of Ofgem in the definition of project objectives and encourage them to engage with us to a much greater extent. The current role is focused on a compliance role. It is likely that project learning relevant to future regulatory policy decisions is missed.

Our NIA projects are already highly visible with details of objectives, delivery schedule and learning outcomes on our dedicated WPD Innovation website. All direct requests by stakeholders for additional project insight are responded. We hold regular dissemination events at a project or programme level as is appropriate. Events are advertised on our website and the smarter networks. They are also shared on our social media channels and emailed to stakeholders registered on our website.

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

***NIC alternate bank account*** – we have no objection to this proposal.

***Merge the ongoing NIC and NIA projects reports***

It would be logical to include a short summary of NIC project progress in an annual report. Our Innovation Strategy provides similar information about project progress to that in the NIA summary and the Environment & Innovation Report. Each is produced annually but at different times with significant duplication of reporting. We would welcome the consolidation of these Innovation reporting requirements. We intend to continue the publication of individual six monthly project reports for our major projects.

**Remove the need in the NIC and NIA for customer engagement and data protection plans** – We support this proposal.

**Cross sector projects in the NIC**

We have no objection to this proposal but feel that the NIC is not the most appropriate mechanism for cross sector projects due to the legislative restrictions on transfer of cost and benefits.

**Sharing of NIC and NIA learning [data]**

WPD already has processes in place to share data with third party organisations. Our data sharing agreements protect customers interests by restricting the purpose the data can be used for (no commercial gain without a return to DNO customers), the format is provided (to protect personal customer data) and who can have access to it (on security grounds).

### **Rollout of NIC and NIA projects into BAU**

Solutions developed under Innovation Projects are rarely rolled out to BAU without further adjustment and modification. As with any R&D portfolio, it is usual for learning to be consolidated at a programme level from multiple projects, which then leads to new BAU policies or technologies. Any additional reporting needs identified should be within the RIGs rather than further standalone reports. In most cases existing ED1 output measures should be sufficient to show the benefits from innovation rollout.

Should you have any questions please contact Roger Hey, Future Networks Manager (rhey@westernpower.co.uk).

Yours sincerely

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