

Electricity Transmission Innovation Roll-out Mechanism submission guidance

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| This guidance should be used by licensees intending to seek funding under the Electricity Transmission Innovation Roll-out Mechanism | From | Ofgem |
| | To | Licensees |
| | Date | 04 May 2018 |

1. Introduction

- 1.1. Before applying to use the Innovation Roll-out Mechanism (IRM), licensees should read the IRM provisions set out in Special Condition 6E (the IRM condition). If there is any inconsistency between this document and the IRM licence condition relevant to the licensee, then the licence condition takes precedence.
- 1.2. The criteria for assessing applications are set out in Special Condition 6E. All applications must be made by serving a notice to the Authority containing the relevant information as set out in Special Condition 6E of the Licence. The licensee should use the pro forma referred to in sub-paragraph 3.1.
- 1.3. This document is not a governance document and the licence takes precedence. However, where this guidance says that the licensee must do something then this requirement exists within the licence. Where the guidance says the licensee should, or is expected to do something, the reference is not to a requirement of the licence but to matters which we may take into account in determining whether or not the conditions of the licence have been met. This document does not provide an exhaustive description of such matters.

[Part 1: Introduction](#)

[Part 2 Proposing a Relevant Adjustment to Ofgem: Application process – explaining the timings for applications.](#)

[Part 3: Pro forma guidance – describing the content that needs to be provided in licensee’s application.](#)

[Part 4: Award notification – explaining how Ofgem will make its decisions regarding funding.](#)

[Appendix](#)

2. Proposing a Relevant Adjustment¹ to the Authority

- 2.1. The licensee should propose a Relevant Adjustment by providing the Authority with a notice, under Part C of the IRM condition, during one of two application windows.

For the RIIO-ET1 price control:

- the first application window opens on 1 May 2015 and closes on 31 May 2015; and,
- the second application window opens on 1 May 2018 and closes on 31 May 2018.

¹ Capitalised terms in this document are either defined within this document or the relevant licensee’s licence.

- 2.2. The licensee should use the pro forma referred to in sub-paragraph 3.1.
- 2.3. Part A of Special Condition 6E includes the qualifying criteria , against which we will assess applications for funding. Any decision taken by the Authority will reflect its assessment of the submission against these criteria. [Section 4, in Part 3](#) of this document, provides guidance on how the Authority will assess the licensee’s submission(s) against each of the criteria and the information that should be provided to inform our assessment.
- 2.4. In addition to the criteria set out in Part B conditions 6E.8 and 6E.9 of the IRM condition, the notice served by the licensee on the Authority must, in all cases, include all the information outlined under Part D of the licence condition.
- 2.5. Ofgem may request a preliminary meeting ahead of the submission deadline to discuss any application which the licensee is expecting to make.
- 2.6. Ofgem also expects, where necessary, to request one or more meetings with the licensee to discuss the content of its submission(s), and may ask for further supplementary information to be provided. The failure of the licensee to provide adequate information to allow Ofgem to complete its assessment would result in an application being rejected.
- 2.7. Ofgem, may consider appointing consultants to review the application and may ask licensees to provide additional evidence to help us to formulate our recommendation to the Authority (or, where the Authority’s decision making power delegated, the relevant decision maker). Any appointed consultants may also request further communication with the licensee regarding the content of submissions.

3. Pro forma guidance

- 3.1. This part is set out as follows:

[Section 1: Application Summary](#)

[Section 2: Application Description](#)

[Section 3: Application business case – why IRM funding is necessary for rollout](#)

[Section 4: Qualifying Criteria](#)

[Section 5: Regulatory issues](#)

[Section 6: Appendices](#)

- 3.2. Please use the default font (Verdana size 10) when completing the pro forma. It is up to the licensee to decide how much information to include under each section. The overall length of the submission (including appendices) should be proportional to the overall size of the project portfolio.

Section 1: Application Summary

- 3.3. **Application title:** Please give the submission a title for future reference and to distinguish it from any other applications.
- 3.4. **Estimated total cost:** This is the amount, 2009/10 prices, that the licensee expects to spend on the whole roll-out (innovation roll-out costs must meet the materiality threshold amount under Special Condition 6E.8).

- 3.5. **Total funding request:** This is the amount being requested for funding under the IRM.
- 3.6. **Start date/ end date and date of Relevant Adjustment:** The start and end of the project/scheme taking into account the dates from which it is proposed that the Relevant Adjustment would have effect (“the adjustment date”) and the Regulatory Years to which the Relevant Adjustment would apply.
- 3.7. **Application executive summary:** This section should outline the issue or improvement that the roll-out is designed to target. It should clearly identify the Proven Innovation and its impact.

Section 2: Application Description

Building on the application summary, this section should provide a more detailed high level description of the roll-out. This should be presented in a manner that enables someone with limited experience of electricity transmission networks to understand what the licensee intended to roll-out and should focus on:

- the issue or improvement that the roll-out of the Proven Innovation will address/make;
- the Proven Innovation that the licensee plans to roll-out to resolve this issue;
- the criteria that would need to be met to adopt the Proven Innovation into business as usual and the viability of the Proven Innovation over the long-term, once funding through the mechanism ends; and,
- the consequences, positive or negative, of the roll-out for consumers.

This section should also include a technical description which complements the high level description and provides greater depth at a more expert level.

Section 3: Application business case – why IRM funding is necessary for rollout

The Authority will only provide funding where we it is IRM funding is required to implement the roll-out before the next price control review. The licensee should explain why its existing price control allowance will not allow it to implement the proposed roll-out without additional IRM funding.

The licensee should also explain why the innovation it proposes to roll out could not have been considered when it developed its original business plan. The licensee should not simply state that the proposed Innovation was not funded within its original plan.

The licensee should present a clear business case justifying the merits of undertaking the roll-out and should set out how the roll-out links to changes it wants to make to its business in the long term.

In addition, this section should also include:

- i.* an analysis of how the total costs are estimated, and the potential inaccuracies in this figure (supplementary information can be provided in the appendices);
- ii.* how the licensee will recover any granted funding through transmission Use of System charges; and,
- iii.* how the licensee will ensure that the timing of apportioning total costs will be appropriately reflected in transmission/networks charges and that only costs incurred during the relevant price control period will be recovered.

Section 4: Evaluation Criteria

We set out below in more (although not exhaustive) detail how the Authority will assess the submission against the evaluation criteria. A submission will have to provide sufficient information to convince the Authority that each of the evaluation criteria has been satisfied. There will be a high threshold for the award of any funding, and licensees will need to provide a convincing business case and robust information against each of the following criteria.

The things the Authority will consider will be inclusive of but not limited to the following and licensees will need to demonstrate that the roll-out:

a) Will deliver additional carbon, environmental or any other wider benefits

The Authority will assess whether the application has clearly demonstrated the additional carbon, environmental or wider benefits against the following criteria:

i. Carbon Benefits:

- how the roll-out will make a contribution to the Government's most up to date strategy for reducing greenhouse gas emissions;
- the application should explain how the innovation will facilitate the Government's plan to transition to a low carbon economy and how the innovation will deliver additional benefits in greater volume and/or faster than the most efficient alternative currently in use in GB; and,
- whether the application includes qualitative explanation and estimated quantification of the carbon benefits.

Or

ii. Environmental benefits:

- whether the roll-out will deliver wider additional environmental benefits to customers with reference to calculations and explanation of the rationale applied by the licensee when calculating the forecasted environmental benefits, details of which should be included in the application; and,
- Whether a qualitative explanation and estimated quantification of the environmental benefits is included in the application.

b) Will provide long-term value for money for energy consumers

The Authority will assess whether the application explains how the scheme provides long term value for energy consumers against the following criteria:

i. Costs & benefits

The licensee should set out an explanation of the business case for the investment. It should include:

- a description of the potential additional benefits that are expected from the innovation, including estimates of the financial returns;
- the timeline expected for these additional benefits to materialise;
- an explanation of the costs of the project over the period;
- any benchmark information, explaining how the costs and benefits affect the licensee and its customers;
- the usage and pricing assumptions that are set out the business case;
- justification of the scale/cost of the roll-out with reference to the additional benefits that are expected to be captured; and,

- details of the expected proportion of the additional benefits that will accrue to the network operator, as opposed to other parts of the energy supply chain and of the evidence used to derive the proportion of expected additional benefits.

We expect licensees to submit CBAs to justify all proposed roll-outs. The analysis and evidence provided should be proportionate to the expenditure and Relevant Adjustments proposed.

The benefit of submitting a CBA model is that it assists the Authority in understanding the costs and benefits of a proposal, along with other alternative options that might be used to deliver the same outputs.

This guidance aims to help ensure that licensees employ a consistent framework in line with the latest guidance we have issued on how to conduct CBA. Licensees should use the latest version of the RIIO-CBA Tool and associated guidance as part of their justification for all proposed roll-outs.

Licensees can choose to carry out a CBA at the following levels:

- Asset category/class;
- Project level

At the asset category/class level it may be useful to group CBA analysis where the same/similar characteristics are displayed. Where projects within expenditure categories are homogenous in terms of the costs and benefits involved, we expect these projects to be considered as part of a single CBA. Schemes where costs and benefits are specific to the scheme or project being proposed, may require consideration under a separate CBA model.

Where CBAs are referenced in the worksheet guidance below, figures for costs and benefits should be derived from an up-to-date version of the licensees completed CBA Tool for that particular solution or scheme. CBAs should be undertaken as and when any decision support tool would be used for the licensee's own investment purposes or business decisions, for example when making or changing a policy, or when evaluating options for a particular scheme.

Licensees are expected to take reasonable steps to ensure CBAs are kept up to date to account for:

- new or updated information that is materially different from the assumptions in the most recent RIIO-CBA tool; or,
- any other material change to a driver or input in the RIIO-CBA Tool.

Ex-post evaluation of the project – How does the licensee plan to assess whether the innovation has been successful, including:

- the process that will be employed to ensure that the roll-out is delivered at a competitive cost; and,
- once the roll-out has been implemented, how it will be demonstrated that the innovation has been successful.

c) 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 Rollout of a Proven Innovation will lead to cost savings (including benefits from other incentives) equal to or greater than its implementation costs within the Price Control Period)

With reference to the following criteria, the licensee must evidence why the licensee will not receive any commercial benefits from the innovation.

Under licence condition 6E.6(c), the licensee should explain:

i. Costs

- the financial impacts of the proposed roll out, and whether funding will cause greater/lesser costs to be incurred under the current RIIO incentive packages;
- the implications of the proposed roll out on any other areas of the licensee's businesses;
- the measures the licensee will employ to minimise the possibility of cost overruns (or shortfalls resulting in indirect additional benefits);
- how the licensee will ensure that only those costs incurred up to the maximum funding allowance will be passed through to network/ transmission charges; and,
- the relationship between the total amount requested for funding and the total cost of the roll-out.

ii. Ex-post evaluation of additional commercial benefits

- how the cost that is incurred under the IRM can be managed and reported to Ofgem (for example a separate account that manages funding for each application).

d) Will not be used to fund any of the ordinary business arrangements of the licensee

The Authority will assess whether the licensee has evidenced that the roll-out will not fund any ordinary business arrangements. The licensee should supply the following information to facilitate the Authority's assessment:

i. Innovation roll-out costs

- an explanation of how roll-out funding will be kept separate from business-as-usual expenditure; and,

ii. Ex-post evaluation of funding

- a description of the means by which costs associated with the roll-out and use of any funding will be tracked.

Consistent with Special Condition 6E to receive funding for any application, the licensee must also demonstrate that the roll-out:

e) Involves Proven Innovation

The IRM is specifically targeted at the roll-out of Proven Innovations that are not within the Ordinary Business Arrangements of the licensee. The licensee should demonstrate that the roll-out it is seeking funding for is novel, and not within the definition of an Ordinary Business Arrangement. This is to prevent licensees from receiving additional funding for investment that should already be undertaken.

The Authority will assess whether the application is for a Proven Innovation and requires support from the IRM and the following should be considered when providing this evidence:

i. Funding requirement – Ordinary Business Arrangements

- whether the roll-out is innovative and is not viable under business-as-usual operations within the current RIIO-ET1 price control;
- whether the roll-out can only be undertaken with the support of the IRM, including reference to the specific risks e.g. commercial, operational, or regulatory associated with the roll-out;

ii. Technology Readiness level – Evidence

f) is ready to be rolled-out with any funding provided being used in the price control period.

The Authority will assess whether the innovation is ready to be rolled-out and whether funding will be for the RIIO price control period including with reference to the following :

i. Project plan

- a detailed project plan, including timeframes and evidence that these can be achieved;
- the resources (human, IT etc) that will deliver the roll-out, which should be of a sufficient size and quality to ensure its delivery

ii. Risk

- appropriate risk mitigation processes, including: a risk register, risk management and mitigation plans, and contingency plans.

Section 5: Regulatory issues

The licensee must explain whether it believes the proposed roll-out will require;

- a derogation or any other decision (from the Authority) under any relevant licence provision; or,
- changes to regulatory arrangements.

In addition, the licensee should also raise any potential negative impacts on customers, and any financial or logistical implications for generators and suppliers that may result from the proposed roll-out. The licensee should also provide details of any consultations or discussions with customers regarding the roll-out.

Any expected requirement for a derogation or change to regulatory arrangements will be taken into account by the Authority when deciding on whether to approve funding for any applications.

Section 6: Appendices

In the event that technical detail of a type not provided for in the pro forma is necessary, licensees should submit this in appendices, listing the titles and a very brief summary of the content.

The licensee is free to include any further supplementary information it wishes in the appendices. Below are some examples of what could be included in the appendices:

- any diagrams to help explain the technical detail of the roll-out;
- a project organogram; and,
- further detail on the methodology that the licensee has used to calculate the costs.

4. Award and Notification

4.1. The Authority's determination of a Relevant Adjustment and determination of revisions to the IRM value are set out under the Part E of Special Condition 6E. The determination by the Authority of revisions to IRM values is set out under Part F of Special Condition 6E.

Appendix A

Technology Readiness Level (TRL): This is the measure used to assess the maturity of evolving technologies. The TRL measure is graded on a scale from 1 to 9 (see below). The terms 'proven' and 'late stage' are used to refer to innovations that are understood to be at Technology Readiness Level 9.

- TRL 1: Pure research that is theoretical or experimental work undertaken to acquire new scientific or technical knowledge for its own sake rather than directed towards an application;
- TRL 2-3: Applied research driven by a desire to broaden scientific and technical knowledge for application on the network, related to an identified problem. It typically includes investigating the underlying foundation of phenomena and observable fact;
- TRL 4-6: Development activities with a more commercial application including technology validation and or demonstration in a working environment;
- TRL 7-8: Full scale demonstration in a working environment to test and improve technologies so they are ready for commercial deployment;
- TRL 9: Application of technology in its final form, i.e. the technology has been proven.