

**Consultation for the RIIO-ED1 Draft Determination
(issued 30th July 2014)**

SP Energy Networks Response - Annex 3

Response to assessment of Innovation Strategies

26th September 2014

**Please address any queries to: Jim McOmish
Head of RIIO-ED1 Programme
SP Energy Networks at**



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Strategies 26th September 2014**

riioed1consultation@spenergynetworks.com

1. SP Energy Networks response to RIIO-ED1 Draft Determination assessment of innovation strategies

1.1. We welcome the opportunity to comment on Ofgem's slow track RIIO ED1 draft determination – Assessment of re-submitted Innovation Strategies –published on 30th July 2014. The main elements of our response are contained in the SP Energy Networks Executive Summary document. We have provided a general response to the assessment of innovation strategies which covers both questions posed by Ofgem.

2. Question 1: Do you agree with our assessment of each DNO's innovation strategy?
Question 2: Do you agree with our draft determination of the NIA for each DNO?

2.1. Following the submission of our RIIO-ED1 fast track innovation strategy submission and the initial feedback, we updated our strategy and believe we have accommodated and where possible exceed all of the comments made in the fast track decision document. We are disappointed with the current assessment because we have responded directly to the points that were raised yet we do not appear to have been given credit for them. We are of the view that the assessment is being made relative to other DNOs strategies rather than against the criteria that was set out by Ofgem in the RIIO-ED1 strategy decision document.

2.2. We have taken this view because some of the feedback that has been made is now directed to areas of our innovation strategy which we were previously credited as standing out compared to other DNOs. For example in the fast track assessment recognition was given to the fact that we highlighted the consequences of innovation not occurring, yet the slow track assessment criticises this same area as it is not from the perspective of the customer. As this was not highlighted in the fast track review, we deliberately did not update this section of the document as it was previously referred to as a positive perspective. Similarly, we were credited with "SPEN includes a clear innovation road map, listing seven areas of focus and includes deliverables linked to RIIO-ED1 outputs." Due to this clear mapping this was not revised, yet the feedback is now that "while SPEN identifies the challenges it expects to face, it does not detail how these link to the deliverables it proposes" which appears to contradict the assessment of the same aspects of the document.

2.3. In our view, we have accommodated the feedback that was provided in the fast track decision document and in a number of areas exceeded the minimum criteria. We have sought to provide a succinct and clear strategy that allows the flexibility to adapt as new challenges emerge and deliberately did not make changes that we regarded as being strengths. Ofgem appears to have shifted its evaluation criteria and is now favouring detailed innovation plans rather than a strategic strategy document that addresses the original criteria.

2.4. The consequences of only allowing the proposed allowance of 0.5% of revenue would result in a focus on short term priorities rather than the longer term issues which will arise beyond the ED1 period as we outlined in our innovation strategy. This level of allowance is inconsistent with the feedback we received directly from our stakeholders

and customers who demonstrated a willingness to pay for a higher level for innovation to allow consideration of some of the longer term challenges.

- 2.5. Throughout our business plan we have demonstrated our commitment to innovation and included significant levels. Given the inconsistency in the feedback of the slow track assessment, we would encourage Ofgem to reconsider the allowance level that has been to ensure a consistent approach with the information that we have previously been provided.