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Dear Neil,

Decision and further consultation on the design of the Network Innovation Competition (ref 113/11)

In response to your document of 2 September 2011, I am commenting on the decision and responding to the questions that you include in the further consultation.

We recognise the decision made by Ofgem to enable involvement in innovation projects for non-network companies through collaboration with network partners. The reasoning set out in the document to create measures to facilitate and encourage such participation is an appropriate and proportionate solution. We are largely in agreement with the design proposals presented by Ofgem. However we do not agree with the proposal to limit the rewards available for delivery of successful projects to the recovery of costs. By excluding the potential for network companies to earn a return on innovation projects we consider that there will be a lack of incentive for companies to bring forward highly innovative ideas and this will ultimately disadvantage customers.

Responses to all questions are provided below. Comments on incentivising innovation through an appropriate reward structure are covered in response to question 6.

Question 1: Do you agree with our proposed two stage evaluation process and evaluation criteria?

Yes. We concur that the Low Carbon Networks (LCN) Fund experience has demonstrated that the screening and full submission stages are effective. Also, the use of the existing LCN Fund evaluation criteria is sensible. Applying additional weighting for small and medium enterprise non-network companies should achieve the stated aim of encouraging development of the supply chain.

Question 2: Do you agree with our proposals for facilitating non-network company participation in the NIC?

We agree with the Ofgem preferred solution to require the establishment of a collaboration platform. It could be a useful development of the existing framework established in the electricity distribution sector to host an annual conference. We also agree that allowing non-network companies direct access to the Initial Screening Process (ISP) stage is inappropriate for the reasons stated by Ofgem. We note Ofgem suggests (in para 2.26) that data on the interaction of a network company's use of the collaboration platform would inform a challenge as opposed to lead directly to the forming of a conclusion. We agree that the data should be used to inform a dialogue as opposed to be used in a deterministic manner.

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Question 3: Do you agree that the transmission companies should raise the funding for the NIC, and that it should be borne by customers according to their network usage?

Yes, the solution appears appropriate.

Question 4: Should network companies be funded to cover some or all of the preparation costs for submissions to the NIC? If so, is the Network Innovation Allowance (NIA) the best way to achieve this?

Yes, covering preparation costs is important. Use of a Network Innovation Allowance (NIA) is the best method to achieve the aim. We note that the detail of this is yet to be developed. The LCN Fund again provides a suitable model that could be emulated.

Question 5: Do you agree with our approach to learning and intellectual property (IP) generated by the NIC? If not, please indicate how these arrangements could be improved.

Yes, we agree with the concept of having default intellectual property (IP) conditions and allowing projects to request variations on a case-specific basis. Our experience in the LCN Fund suggests that variations should be expected by Ofgem.

Question 6: Do you agree with our proposals to offer a successful delivery reward and protection against cost overruns?

We agree with the principle of rewarding successful delivery by paying the 10% subject to the completion of agreed milestones. We disagree that any return above and beyond 100% cost recovery is unnecessary. If companies perform well and deliver high quality learning, the available rewards should include additional rewards for the best projects in addition to the recovery of at-risk costs. In order to incentivise innovation adequately it is important that network companies are able to earn a return on projects that deliver the best learning for the sector.

Question 7: Do you agree with our proposal not to have an ex-post delivery reward or specific reward for commercial innovation?

We also agree that the reward for commercial innovation should be the same as for technical innovation. Therefore we agree that it should also be able to attract an ex-post award. The rationale is as expressed in the answer to question 6 above.

I hope you find these comments useful. If you have any questions arising from this response please do not hesitate to make contact.

Yours sincerely



Jim Cardwell
Head of Regulation & Strategy