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Dear Neil

Consultation on the design of the Network Innovation Competition

National Grid owns and operates the high voltage electricity transmission system in England and Wales and operates the Scottish high voltage system. National Grid also owns and operates the gas transmission system throughout Great Britain and, through its low pressure gas distribution business, distributes gas in the heart of England to approximately eleven million businesses, schools and homes. In addition, National Grid owns and operates substantial electricity and gas assets in the US, operating in the states of New England and New York.

We would like to take this opportunity to comment on the above referenced consultation Ofgem have issued and provide our comments on the specific questions raised.

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

We agree that a 2 stage process is worthwhile. The first stage will ensure the proposal is consistent with the aims of the scheme and provide support to the proposer to build a full proposal submission. We believe the expert panel would be best placed to carry out this first stage assessment, that way consistency is provided throughout the process. We do not believe this extra step would be too onerous for the expert panel.

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

In principle we support the concept of creating a collaboration platform, however many of the activities it proposes to include are already covered by other channels. For example we have collated and widely made available lists of our business technology challenges that we are looking for innovative solutions for¹ and we are often approached by companies with interesting and valuable ideas that we always review and respond to.

Our only concern is the volume of requests that may come through this process and the subsequent responsibility of Ofgem to review and assess responses. By their nature, requests and responses will be subjective without a clear right or wrong and formal assessment of them will therefore be difficult to carry out. We do agree with Ofgem's objectives for the platform, which we believe are to ensure that non-network companies are given adequate opportunity to raise proposals and to ensure that those

¹ For example, as part of our RIIO - T1 submission we have published our innovation strategy which includes details of future challenge areas for us: <http://www.talkingnetworkstx.com/>

proposals are given appropriate assessment and response. We believe it may be less onerous for Ofgem to run the process by exception, i.e. encourage non network companies to raise suggestions through the platform (if not directly) and then only review particular cases if a non-network company raises a concern.

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?

We agree that collection of the funding by transmission companies via use of system charges (in electricity) and NTS transportation charges (in gas) would be an efficient means to collect revenue.

If adopted, we propose that our respective commercial and charging managers meet to agree the precise mechanism to ensure there are no timing risks or other risks borne by the transmission companies in managing the collection process. We have detailed schedules that set out when we issue draft / indicative and final charges, we would need to discuss and agree with Ofgem on how these will align with the NIC process.

We agree that the costs should be borne by network users according to usage as this would be the most expedient means for recovery. Attempting to allocate costs to different parties based on a projected split of where benefits would accrue would be very difficult to implement. On the whole we believe NIC projects are likely to benefit the industry and society at large rather than any particular section.

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?

We believe network companies should be funded to cover the costs of preparing submissions to the NIC. Costs for this could be included either in the NIC or NIA, our preference, for expediency would be to include them within the NIA. We believe the amount within the NIA that can be spent on proposal submission should be capped at 10%, which is based on the assumption that our NIA is funded at 1% of revenues.

We would further suggest that costs for successful proposal submissions are added to the overall project costs and recovered through the NIC arrangements. Successful bidders will therefore retain greater headroom within their NIA to progress other projects.

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.

We do have some concerns around the treatment of IP on NIC funded projects. We agree in principle with the position put forward by Ofgem, that as customers are funding 90% of the project costs, then they should ensure royalty free usage of the benefits achieved. However as the market for technology development for clean technologies is fierce and global, this may not be achievable.

Some technology providers will be looking to protect IP they have developed for other markets and industry applications. Rapid technology commercialisation only occurs where the value of the IP accrues to the technology developer. A scenario could occur where a company would be disadvantaged by winning NIC funding which could restrict further earnings against competitors.

Our recommendation would be to develop a mechanism whereby:

- Project developers retain the IP for solutions developed on NIC projects in order to provide the incentive for commercialisation.
- Application of that IP to UK network customers is applied without IP restrictions or further royalty fees.
- Technology developers protect the IP for use in other countries and non-network applications

This would seem a pragmatic comprised approach where UK customers do not bear any further costs and successful technology providers have the opportunity to apply their technology elsewhere for further commercial gain.

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

We agree with the proposals laid out in sections 2.40 to 2.47 including the removal of the ex-post discretionary award.

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

As above, we agree with the proposals around 'risks and rewards'.

We would also like to take this opportunity to raise with Ofgem the following points around the NIC development:

- We are strongly in favour of an accelerated timescale to commence projects under NIC as soon as possible, preferably in April 2013 which we believe is achievable and realistic. Our suggestion would be that the process is developed such that the expert panel is ready to review and select successful projects in April 2013. That way project benefits would accrue sooner and potentially make a notable contribution to the UK's 2020 carbon reduction targets. We would propose that funding for proposal development and submission would come from existing IFI schemes. We believe governance for the competition could be quickly established building on the already successful LCNF and IFI programmes, we would advocate using the established NIC working group and ENA to achieve this. We recognise Ofgem's concerns regarding the timetable for recovery of costs via the revenue mechanisms in year one of RIIO but would note that mechanisms currently exist where a Licensee incurs costs in the current year and is able to recover such costs in the subsequent year. We would ask that Ofgem considers this suggestion and confirms the expected timescale for the first projects to be commenced under NIC.
- Paragraph 2.13 proposes extra weighting to proposals that partner with small and medium third parties. While we can see the aim of this suggestion, we believe proposals should be judged purely on merit and in how well they meet the aims of the competition. The inclusion of small and medium companies will hopefully manifest itself in the quality of the proposals and therefore shouldn't need a weighting in itself.

We would be happy to expand on any of the points we have raised.

Yours sincerely

[By e-mail]

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