

Anna Rossington
Distribution Policy
Ofgem
London
SW1P 3GE

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Dear Anna,

DECISION AND FURTHER CONSULTATION ON THE DESIGN OF THE NETWORK INNOVATION COMPETITION

Thank you for the opportunity to comment on the above consultation NGN is supportive of Ofgem's proposals to introduce the Network Innovation Competition (NIC) and Network Innovation Allowance (NIA). RIIO-GD1 will cover an important period (2013-21) in achieving the UK's 2050 carbon reduction targets critically network companies will have a key role in innovating, trialling and proving low carbon energy technologies so that they can be rolled out in the volumes required to deliver the 2050 targets. NGN believes both the NIC and NIA will assist network companies to produce the required innovation during RIIO-GD1 especially as much of this work will not necessarily be captured as "business as usual".


Specifically on gas distribution as you are aware biomethane (or biogas) has been identified by DECC in its Pathways Analysis¹ as an important source of low carbon heat and a key contributor to the UK's 2050 carbon reduction targets. NGN is leading the industry with its work on connection arrangements and technologies for biomethane plants, this year NGN made a connection offer to a plant at Quarrington in County Durham that is likely to be the first operational commercial biomethane plant in the UK. NGN's pioneering role was recently recognised by Ofgem in the 2010/11 Discretionary Reward Scheme where NGN received an award for its work on biomethane connections. In GDPCR 1 NGN has successfully used the Innovation Funding Initiative (IFI) to facilitate some of its research and development on biomethane connections e.g. trialling upwards compression, quality monitoring technology "test bed" etc. Much of NGN's work is collaborative with biomethane developers, GDNs and other stakeholders, NGN is keen to ensure that the results of its work help the industry to get biomethane injection as a commercially viable and proven technology in the UK.

With this context in mind we welcome Ofgem's proposals with respect to the NIC we note that Ofgem has used the Low Carbon Network (LCN) Fund in electricity distribution, as the blueprint for much of the NIC and we agree with Ofgem that this is appropriate given the positive results to date under the LCN Fund. NGN's innovation strategy is an important part of its RIIO-GD1 business plan submission, here we set out how NGN is poised build on its excellent track record and facilitate innovation in low carbon technologies throughout RIIO-GD1 utilising both the NIC and NIA. A key part of NGN's strategy is enabling collaboration with non network parties to ensure we capture all potential ideas and innovations we are presently looking at number of initiatives to achieve this.

¹ <http://www.decc.gov.uk/en/content/cms/tackling/2050/2050.aspx>

Answers to the specific questions posed in the consultation are set out in the attached appendix, please don't hesitate to contact me if you would like any clarification of any aspect of this letter. This response can be treated as non confidential. .

Yours sincerely

A handwritten signature in black ink, appearing to read 'Haren Thillainathan', with a horizontal line underneath.

Haren Thillainathan
Regulation Manager

APPENDIX 1

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

Yes in principle this seems to be a sensible approach, we will reserve final judgement until we see the details in the NIC governance document in particular to ensure that the requirements at the ISP stage are sufficient to ensure entries at this stage are truly "high level",

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

Yes in principle this approach seems fine, as Ofgem note collaboration has not been hindered in the LCN without the presence of "collaboration platforms" Ofgem should bear this in mind when assessing companies with respect to the NIC. Network companies should be able to demonstrate transparency and accessibility to non network companies with very simple initiatives such as phonelines and micro-sites.

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 it is appropriate to recover the NIC funding from transmission companies' allowed revenues.

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 we believe it is appropriate to recover the costs of preparation for the reasons Ofgem give, this is recognised in other industries where the costs of bids or tenders are also funded e.g. sea bed rights auctions, franchise auctions etc. Using the NIA has the advantage of auditability and transparency to allow Ofgem to monitor what costs are being recovered. For avoidance of doubt we assume such costs should include the ISP stage and the second stage.

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.

This is one aspect Ofgem may want consider further it is conceivable that collaborating non-network companies may often be the party securing royalties and IP. Given that many of the technologies may be "niche" the main role of the network companies may be to provide areas of their networks for specialist companies to come in a trial their innovations. In such scenarios network companies may strike a deal whereby they retain free or discounted access to the technology if proven whilst the non network company retains the IP in particular outside the UK or in other industries, this is likely to be the incentive for such companies to collaborate. We understand Ofgem's rationale for "clawing back" royalties for consumers but this may act as a disincentive for non network companies in particular SMEs. All NIC submissions will have to demonstrate how the learning will be disseminated throughout the industry which as Ofgem note is the key objective under the LCN rules. Presumably successful submissions would have to demonstrate that such information dissemination is unhindered by any IP/royalty arrangements.

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

Yes

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

Yes