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18th October 2011

Wales & West Utilities response to Ofgem decision and further consultation on the design of the Network Innovation Competition

Dear Neil,

Wales & West Utilities Limited (WWU) is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover 1/6th of Great Britain and deliver to over 2.5 million supply points. WWU is the only Licensed Operator that focuses solely on Gas Distribution in Great Britain.

Wales & West Utilities is currently in the process of writing its business plan for submission by 30th November 2011 to Ofgem for the RIIO-GD1 price control period 2013-2021.

As a Gas Transporter, Wales & West Utilities understand the importance of innovation for the next price control period, RIIO GD1, and beyond. We have therefore ensured that we have been involved in the Innovation working group discussions leading up to this consultation.

Responses to Questions

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

The two stage evaluation seems a sensible solution to ensure that preparation costs for a submission are not wasted. The deadlines for the outline proposals and the formal panel events will need to be clearly documented, and a reasonable time must be factored in to allow the development of a full project submission following approval of the outline proposal.

We would also suggest that a number of windows are available during the year for the Initial Screening Process (ISP) rather than one event which would then prevent rework of the proposal or an alternative proposal being made by the network company in that year.

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Coedkernew, Newport NP10 8FZ
Registered in England and Wales: No. 5046791

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

We have previously responded that third parties should only be able to be involved in the competition where they are a part of project with a network operator.

We agree that input from third parties will be key to groundbreaking innovation, and therefore support the use of collaborative platform. We have already held discussions with the Energy Innovation centre in Cheshire to do exactly this, and have agreed to commence a trial next year. We will be supplying a list of areas where we are looking to innovate in line with our Business Plan submission. The EIC already have a network of contacts in the UK and worldwide. The EIC will, then host a forum whereby vetted ideas from SMEs and individuals will be posted and we will respond on the initial proposal, and take forward those proposals which meet our objectives.

The EIC can then provide independent feedback to Ofgem on the participation by each network operator, and the number of projects being progressed.

Where a network company does not wish to partner with the EIC, they should demonstrate that they have processes in place to engage with third parties and to demonstrate that each proposal received has been considered and responded to.

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 support the funding of the NIC through existing transportation charging methodologies i.e. based upon system usage, with the transmission company collecting the additional transportation charge. Funds for NIC projects would then be transferred to each network company or retained by the transmission company for their own projects.

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?

The funding of the initial work and preparation of a NIC project should be funded through the NIA up to a capped amount of 10% of the NIA per annum. This approach will remove some of the risk to the network companies who are working within a regulatory framework which is focused around achieving outputs at the lowest cost.

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 recognise the need to share learning from the NIC projects to other network companies and relevant third parties. This can be in the form of a yearly conference which can give and overview of the project. Network companies can then follow this up with forums which go into further detail for those interested in that topic.

This sharing of learning has a cost in terms of venues, materials and resources from the network. These costs should be built into the project submissions.

The issue is with third parties who may wish to protect their IP. It will be important when engaging with third parties that this issue is resolved prior to submission of projects.

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

Whilst some projects may have an immediate benefit to the network company, others if delivered may go against other elements of the business plan for that price control period.

For example, new storage to facilitate gas entry may have a capital cost covered by the distributed gas connections, but the network then incurs additional opex in monitoring the performance of that equipment. The proposed 10% reward on projects therefore offers an incentive to implement innovation in a short timeframe.

Similarly, the protection from project overruns is welcome. However, large scale projects may deviate from the original plan once they are underway. The original plan may need to be modified or additional scope may be added. If this delivers real benefits and added learning, then the reward mechanism should not automatically be removed.

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

We agree that many of the projects submissions will involve an element of commercial innovation (and possibly regulatory innovation) both in the project trial and for future roll out and hence be covered by the project reward and protection mechanisms.

We cannot foresee where a project just built around commercial innovation would meet the criteria for the NIC and that commercial innovation is more likely to be captured and rewarded under the NIA.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S Edwards'.

Steve Edwards
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