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Dear Dora

Re: Update and further consultation on the design features of the Network Innovation Competition (dated 4th January 2012)

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 consultation Ofgem have issued and provide our comments on the specific questions raised.

Treatment of those network licensees that will not be regulated through RIIO price controls:

- (i) **Appetite for entry:** As a licensed network company that will be regulated under RIIO price control settlements, we have no comments to make regarding this point.
- (ii) **Potential benefits:** We believe both licensed and non-RIIO licensed companies can bring benefits to the NIC and we welcome and encourage their participation. We however believe that proposals are best led by those network companies governed by RIIO, which will ensure that proposals meet the aim of the competition, and allows for simpler cost recovery mechanisms. We don't believe there is merit in creating three 'groups' with different arrangements, namely licensed companies covered by RIIO, licensed companies not covered by RIIO and third parties. Many third parties can bring as much value to the NIC as licensed companies and therefore we suggest that special conditions for licensed companies not governed by RIIO are unnecessary.
- (iii) **Meeting the evaluation criteria:** We agree with the objectives and criteria for the NIC as previously set out, both RIIO and non-RIIO licensees will need to comply with that criteria. Network companies governed by RIIO are best placed to develop proposals and lead subsequent projects to deliver these objectives. Other network licensees will be able to make significant contribution to some of those objectives, however it is difficult to see how they could meet the criteria in isolation. If the NIC is extended to cover the role and activities of non-RIIO network licensees (eg OFTO) then the size of the fund should be increased also. We believe the size of the fund as it currently stands is inadequate to meet the government's ambitious challenges for a low carbon economy. As the NIC is effectively customer funded, benefits should flow back to them through subsequent regulatory arrangements, where projects are

carried out by non RIIO licensees, we are less clear how the return of benefits to customers will take place.

- (iv) **Potential Barriers:** The main barriers we can see relate to the difficulty in establishing the governance to accommodate the particular role and arrangements for non-RIIO network licensees. This could be overcome with a more complicated governance structure and a dilution of the evaluation criteria. This approach would appear to be disproportionate to the potential value that can be gained. As the arrangements currently stand, non-RIIO network licensees can collaborate with RIIO licensees and be explicit in the value they bring to the NIC allowing the RIIO licensee to administer the costs through established cost recovery mechanisms. Like all third parties, if any feel as though they are being unfairly discriminated against, there is recourse through the appeal process previously outlined by Ofgem.
- (v) **Funding bid submission costs:** There are probably a number of ways in which funding could be implemented for non-RIIO network licence holders and we agree that incentives for non-RIIO network licensees to spend funds efficiently would need to be created. We believe that establishing both of these will be time consuming and the resulting complexity and implications would outweigh any potential benefits. RIIO network licensees have arrangements for both of these items, a non-RIIO network licensee participating with a RIIO licensee would be covered by their arrangements.
- (vi) **Halting projects:** We agree and refer to the point made above.

On the specific question of **'Do you agree with a sliding cap of between 5 and 10 per cent of the NIA to fund bid submission costs for RIIO network licences?'** We broadly agree with the suggested mechanism, however we would suggest that this is reviewed after the second year to check that the cap on the funding of submissions is not restricting some proposals from coming forward. Some of the more innovative ideas for projects may need a significant concept development stage to prepare the proposals sufficiently enough for submission.

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

Yours sincerely

[By E-mail]

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