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Dear Dora,

Consultation on funding the cost of preparing submissions for the Network Innovation Competition (NIC) and the governance of the Network Innovation Allowance (NIA).

1. Thank you for the opportunity to respond to Ofgem's latest consultation, funding the cost of preparing submissions for NIC and governance of NIA. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage. Our response is structured using the questions within the consultation document.
2. We are keen to ensure the networks are able to innovate, having partnered with Northern Powergrid in the LCNF Customer-Led Network Revolution project and with Scotia Gas Networks for the biomethane-to-grid plant at Didcot. We also want to ensure the projects are well managed, genuinely innovative and therefore do not waste consumers' money.

General Comments

3. We believe that Ofgem are broadly striking the right balance for the NIC and NIA project funding and governance. However we feel that some criteria are ambiguous and Ofgem's scrutiny of the NIA projects needs improvement to ensure consumers are not paying for business as usual projects, such as commercial projects that would normally be undertaken without the requirement for additional funding.
4. The Network Innovation Allowance could give the GDN's an additional £30m per annum, along with the Network Innovation Competition of £20m; this is an extra £2.30 per customer per year, with no guarantee of future savings or innovative change. We would expect Ofgem to scrutinise the Networks' plans, particularly in the early years of GD1 to ensure the GDN's are striking the right balance and proving they can manage innovation projects, as they have had limited experience in the past.

In Response to your Questions

5. Question 1: Do you agree with a fixed annual allowance for bid costs for all licensees and an annual cap per bidding group of £175k or 5% of annual NIC funding request, whichever

amount is the smaller? If not please provide evidence to justify an alternative level of cap. Yes we agree with the cap, Ofgem will need to regularly review whether the 5% level or £175k remains appropriate throughout the price control periods.

6. Question 2: We welcome views from stakeholders on whether the funding for bid preparation costs should be funded from the existing funding set aside for the funding the NIC, or alternatively, should it be raised in addition to the annual NIC allowance? The existing funding should be used to fund the preparation costs to minimise the burden on consumers and ensure the efficiency of spend by the Networks.
7. Question 3: Do you agree with the proposed high level eligibility criteria? If you do not agree then please explain why. New commercial arrangements should not be NIA/NIC projects on their own. Innovative commercial arrangements should be part of a business's plans and not reliant on additional funding. The first gate criteria seem very ambiguous and could allow wasteful expenditure of consumers' money.
8. Question 4: Do you agree with our proposed approach to funding projects with non-financial benefits? If you do not agree then please explain why. Yes, providing those projects which improve the Networks performance against incentives are not double counted. If NIA / NIC funding has improved their incentive performance then this is reflected in the incentive payments, so consumers are not effectively paying twice.
9. Question 5: Do you agree with our proposal that licensees should self certify projects against the eligibility criteria? If you do not agree then please explain why. No, as up to £30m will be available for the GDN's each year there needs to be regulatory scrutiny over the projects and the pre project reports should be made available via the Ofgem website for further industry review. We also have concern over NWOs' using the funding to help their performance against incentives and request Ofgem check the NWOs' reports and post project information. We would expect as a minimum that Ofgem reviews all NIA projects under GD1 /ED1 for the first few years to ensure the quality of submissions and all criteria are met.
10. Question 6: Do you agree with our proposal that licensees should register projects with Ofgem before they begin? If you do not agree then please explain why. Yes, to ensure all projects are innovative, meet all the criteria and all parties have access to the knowledge and lessons learnt.
11. Question 7: Do you agree that in the three sets of circumstances, described above, licensees should require Ofgem's permission before registering the project? If you do not agree then please explain why? Yes we agree. Innovation is not an established concept with the network businesses, therefore all projects should be assessed by Ofgem, particularly if not all criteria are clearly met.
12. Question 8: Do you agree with our proposal to include an annual cap on internal expenditure? If you do not agree then please explain why. Yes, otherwise the project should be fulfilled internally as business as usual.
13. Question 9: What proportion of a licensee's NIA do you consider would be an efficient level of internal expenditure? Please include evidence and justification of your view. We have no opinion on the correct level for all projects, therefore 15% seems reasonable.

14. Question 11: Do you agree with our proposal for sharing the NIA annual reports? In addition, what other means are there of disseminating this learning to all interested parties? [Yes and we would like to see events aimed at specific stakeholder groups, i.e. suppliers and other third parties, possibly less technical events which discuss the consumer benefits alongside the findings and knowledge gained.](#)
15. Question 12: Would an annual NIA conference be a useful tool for disseminating the knowledge gained from NIA projects? Why? [Yes as it brings the expertise together to discuss openly the projects and facilitates question / answer sessions which further develops understanding.](#)
16. Question 13: Do you agree with our proposals requiring licensees to share the learning from NIA projects? If you do not agree then please explain why. [Yes the whole purpose of the NIA / NIC is to improve the innovation of all the networks, therefore sharing knowledge is vital.](#)
17. Question 14: Do you agree with our proposed approach on IPR? [Yes, Ofgem's IPR proposals seem reasonable.](#)
18. In summary, we broadly support Ofgem's criteria which aim to protect consumers' interests, balanced with incentives for investment in innovative products, processes and contracts. We expect Ofgem to review all the NIA projects to ensure the Network Owners are being truly innovative and spending their additional revenue on research and development. Ofgem's reviews should continue until the industry is comfortable that the Networks have gained significant experience in R&D / innovation and delivered the expected benefits to consumers. The criteria for projects need to be less ambiguous and not allow for purely commercial projects, nor allow for double charges to consumers; through the NIA funding and higher incentive payments in future years.
19. We hope you find the comments useful and we would be happy to discuss further if helpful.

Yours sincerely,

Rochelle Hudson
Network Regulation Manager
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[Via email]