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Dear Neil

Informal consultation on the Network Innovation Competition (NIC) and Network Innovation Allowance (NIA) governance documents (128/12)

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. This response is provided on behalf of National Grid in this capacity.

We welcome the ongoing work in this area to ensure innovation is a key principle of RIIO and the opportunity to respond to this consultation. Attached to this cover letter are the response tables containing our comments on the Network Innovation Allowance (NIA) and Network Innovation Competition (NIC) governance documents. Our key points are highlighted below:

- We have concerns over the proposals to assess project benefits against ex ante funding:
 - The underlying RIIO principle is that the benefits of any successfully implemented innovation are shared with customers through the RIIO sharing factors and therefore the benefit does not just accrue to the licensee
 - The potential to assess benefits of successful projects against ex ante funding is a new policy item that has not been discussed in detail. We would welcome further discussions at an Innovation Working Group to understand both the rationale for this and how Ofgem anticipates this working
 - We do not receive detail of our allowances to the level of granularity that would allow a comparison of benefits of successful innovations against ex ante funding and therefore do not understand how this assessment would actually be carried out. A comparison against the forecast expenditure in our business plans is not appropriate as this does not reflect our allowances.
- We retain our previously expressed concerns about the ability to transfer current IFI projects into the NIA under the new registration scheme and criteria. We have sent case studies to illustrate the issues as part of the October Innovation Working Group meeting actions. We

would like to suggest a meeting with yourself or another Ofgem Innovation Working Group member to work through these case studies.

- We welcome the updated drafting in relation to Intellectual Property Rights which is much simpler than previous versions. We do however seek clarification on a number of legal points to ensure that the arrangements are workable with suppliers in the future. We would welcome further discussions on this issue.
- We have evolving concerns about the interaction of the innovation arrangements with the System Operator function. We understand that the Innovation Roll Out Mechanism (IRM) will not be available to the Gas or Electricity System Operators, although the ESO will potentially be able to use the discretionary reward scheme to reward the roll out of beneficial innovations. It would therefore be beneficial for the GSO to be able to apply for IRM funding in order to incentivise the exploration of innovation solutions and fund further development and rollout of techniques currently in research where there are long payback periods.

If you would like to clarify or discuss any of the points above, we would be happy to facilitate this. I look forward to our respective teams continuing to work together to develop mechanisms that will drive a focus on innovation in the RIIO period.

Yours sincerely

[By email]

Paul Whittaker
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