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Your ref

Our Ref

Date

21 November 2012

Contact / Extension

Martin Hill
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Dear Neil,

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

Thank you for the opportunity to comment on the drafting of the Network Innovation Competition (NIC) and Network Innovation Allowance (NIA) published on 10 October 2012. We feel that the collaborative approach that has been taken to drafting the governance and the lessons learned from LCNF has aided the development of these documents.

We still have a number of reservations around the governance, in particular the principles being applied to customer engagement as being particularly onerous in our view. These risk creating a barrier to the trialling of innovative energy efficiency and intellectual property rights which may deter SMEs from participation in projects. I have detailed our views and proposals on these topics below and also attach detailed comments in the suggested template.

Customer protection

Our view is that the requirements in relation to domestic/micro-business customer engagement are the primary barrier to innovative energy efficiency solutions being demonstrated under the LCNF and this will also be the case in the NIA and NIC. As a DNO group, SP Energy Networks are trialling energy efficiency as a component of our Tier 2 'Flexible Networks for a Low Carbon Future' project within the I&C community as this does not have the same hurdles in place regarding communication strategies requiring approval. We believe that a review of this approach is required to remove what is currently a disincentive for network operators to engage with domestic customers on LCNF projects.

We believe that a much lighter touch from Ofgem is required in relation to interacting with Relevant Customers. As a network operator we have incentives in place to ensure we maintain the highest standards of customer service. SP Energy Networks already engage with customers on a regular basis as a result of interruptions to supply, new connections, installation of equipment in customer's property as well as a variety of other circumstances. We do not believe that the NIC or NIA should require any detailed requirements which are over and above what we already undertake in relation to the

detail which we need to outline in advance of engagement. A particular challenge which has emerged as a result of our experience of the LCNF is that the nature of an innovation project means there is inherently a degree of uncertainty in what we are undertaking and providing such a detailed level of information can actually be counterproductive and could create delays to projects. In discussions with other DNOs we are aware of significant amounts of material being required to be produced to fulfill the governance requirements which is time consuming and of no further benefit to the customer. In some instances, the amount of material that has to be provided has dissuaded the customer from cooperating.

A similar principle also applies to the Data Protection requirements of both governance documents. Network operators already have access to customers' data which is subject to the data protection act and are required to comply by law with this. We believe that the additional requirements in relation to data protection also act as a barrier to engaging with customers in projects, including those which could trial innovative energy efficiency.

We fully agree with the obligations in relation to sales and marketing activity being prohibited and having regard to the smart meter roll out and would expect these to be retained for customer engagement, and that data protection should be based on a "privacy by design" approach.

IPR Arrangements

Whilst we can see the perspective that has been taken on the treatment of IPR, we continue to have concerns that the detailed arrangements are likely to disincentivise participation by SMEs and other smaller solution providers. The requirement to grant non-exclusive access to Relevant Background IPR is likely to undermine SMEs as this is potentially the only property that they have as a small organization and granting such access would be counterproductive to their business model. At the same time, we recognize that it is probably less feasible that a two tier IPR arrangement would be practicable for SMEs and larger organizations.

Given the importance of collaboration in these projects, and that the aim of these projects is to create new solutions, we do not think that this should be overlooked. The current requirements relating to IPR also risk creating large legal costs which could greatly outweigh any benefits of such an approach in order to implement the necessary arrangements and protect any IPR which is generated.

We would propose a more flexible approach which is proportionate to the scale of the foreseeable benefit which may be generated. For example, if the foreground IPR is likely to only generate a small financial benefit which is not commensurate with the cost of managing and implementing the IPR arrangements, these should not require to be managed in the same way as IPR which has a larger financial benefit.

Barriers to demonstrating innovative energy efficiency solutions

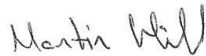
We do not believe that the current drafting of the governance has any direct barriers to allowing network operators to trial novel energy efficiency solutions. As detailed above, this is already an area where SP Energy Networks have been the first DNO to deploy such a solution as we recognise the benefit that a reduction in electricity demand will

also have the benefit of reducing the need for reinforcement of the network. Indirectly, however, the current requirements in relation to detailing customer protection measures and data protection make such solutions less attractive. We would reiterate the points we have made above as a potential barrier to energy efficiency and other direct engagement solutions as being demonstrated through the NIC and NIA.

Conclusion

We hope that these comments and our attached feedback on the drafting is of assistance in finalising the NIC and NIA governance and look forward to working with Ofgem as these evolve over time. If you have any further questions regarding our response, please do not hesitate to contact me for further information.

Kind regards

A handwritten signature in black ink that reads "Martin Hill". The signature is written in a cursive, slightly slanted style.

Martin Hill