

Dora Guzeleva  
Head of Networks Policy: Local Grids  
Ofgem  
9 Millbank  
London  
SW1P 3GE

98 Aketon Road  
Castleford  
West Yorkshire  
WF10 5DS

20 November 2012

Dear Dora,

### **Informal Consultation on the Network Innovation Competition and Network Innovation Allowance Governance Documents**

I am writing to you on behalf of Northern Powergrid Holdings Company and its wholly owned electricity distribution licensees Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc. This letter provides our response to Ofgem's recent consultation on the drafting of the Network Innovation Competition (NIC) and the Network Innovation Allowance (NIA) governance.

We note, and appreciate, the opportunity that we have already had, both as an individual organisation and as licensees as a whole, to contribute to the background principles and drafting of the governance documents through the Innovation Working Group.

The NIC governance is closely related to the LCNF second tier governance and we are satisfied with the arrangements and drafting.

On NIA issues, we have a general comment about intellectual property, but generally believe that the recently discussed approach now seems realistic and viable but that it might be prudent to keep this under regular review. We have further comments about project registration and project change. We also believe that a necessary category of expenditure, currently permitted under Incentives for Innovation (IFI), is missing from the NIA.

Our specific responses raised by the consultation are provided below.

#### **Intellectual Property**

As drafted we believe that there remains a risk that organisations or individuals holding pre-existing background IP which, through further investment, could be developed into relevant foreground IP and products might be encouraged to seek investment from outside of the industry or outside of Great Britain. For such individuals quite often their only asset is this background IP and this tends to overwhelmingly colour their view of any contractual arrangements for further development. The principles and drafting for IP that we are currently considering may now be sufficiently broad but this needs to be kept under review.

The last ten years of the IFI activities have shown us that the benefit that the network operators, and therefore their customers, are likely to get from innovation is through the application of innovative techniques and technologies. This benefit far outweighs any potential financial benefit arising from the direct exploitation of underlying intellectual property rights and it is important ensure that the responsibilities outlined in the drafting of the governance is balanced to reflect this reality and that the way in which the governance work supports this.

### **Project Registration**

There is an implicit assumption within the drafting, particularly section 3.29, that an innovation project is always a piece of self-contained and coherent work with a defined start and end point. This is not always the case and the “fuzzy front end” of innovation is widely recognised by both practitioners and in the literature. It is sometimes only with the benefit of hindsight that it becomes clear that, on the back of some investigative work, that a project has been initiated. To recognise this we believe that the drafting should recognise this characteristic of innovation projects and allow a small percentage of project spending, say 5%, to be undertaken before a project is effectively registered and therefore be deemed to have started.

Furthermore some projects have feasibility, design or preparation costs associated with them. It would seem unreasonable to disallow such costs but this would seem to be the result of the wording of section 3.29. This would also be addressed by allowing a small percentage of spending before project registration or may be addressed by allowing such expenditure to be separately claimed. This is discussed further below on the subject of expenditure.

### **NIA Project Changes**

Referring to section 3.32 of the NIA governance, the inability to change objectives and success criteria once a project is registered is inappropriate for low technology readiness level projects. Such projects are by their very nature divergent and subject to re-definition as new options are realised or old options are tested and found wanting. The way around this would be to very broadly define objectives and success criteria but this would reduce the informative nature of the public registration. We believe it to be much better from a dissemination point of view to allow changes of objectives and success criteria but ensuring that a full history of those changes is available.

### **Eligible Expenditure**

The eligible expenditure arrangements, laid out in section 4 of the NIA governance, are based on those of the current low carbon network fund second tier. These arrangements were designed for the delivery of self-contained project designs. This differs from IFI where, outside of any specific project, we fund legitimate, directly relevant activities that effectively form part of the innovation management overhead for the portfolio of projects. This includes things such as costs associated with general innovation dissemination, the investigation of potential projects which do not necessarily result in actual projects and the preparation of project plans. This means that not all expenditure is directly attributable to individual projects. We have a specific category of general expenditure, detailed in the annual IFI report, which forms part of our allowance claim. This does not appear to have been addressed at all in the current NIA governance document and this looks to be significant omission.

I hope you find these comments useful. If you have any questions arising from this response please do not hesitate to make contact.

Yours sincerely

Chris Goodhand