

Reviewing the benefits of the Low Carbon Networks Fund and the governance of the Network Innovation Competition and the Network Innovation Allowance

Question 1: Should we change the NIC and NIA criteria? If so how and why?

NIC would benefit from having its scope expanded to cover a wider spectrum of project benefits. As it stands, NIC projects are limited to benefits against the carbon plan.

It is understood that NIA has a broader range of project benefits as identified in the NIA network benefits guide. Alignment of NIA and NIC project benefits would increase diversity and social benefits.

In addition, it may be useful to consider whether the criteria need to be amended to enable more whole system projects to be funded. These projects require input from parties across the value chain, are riskier and have benefits spread out across networks, retail and wholesale parties. Learning from such projects would be invaluable as parties consider roles and responsibilities in a more flexible energy market. The current criteria and process can be seen to favour less ambitious projects focussed on a specific aspect of network operation.

Question 2: Should we give more of an indication of where we consider innovation is required or is that inappropriate?

ENA take a broad view across the industry, including innovation being carried out on the continent and further afield. As such, we feel that the work that is carried out by the network operators is relevant and can be seen to be at the forefront in global innovation in many areas.

ENA believe that by keeping open communication with Ofgem, our members can prioritise and adapt to new industry challenges on both markets and wider market priorities.

Indication of areas of innovation that network operators should focus on are gained through contact with a wide range of stakeholders, from SMEs to DECC and as such network operators have the first-hand experience of where benefit and savings are being delivered. Potential joint projects and link up with other key industry parties could be suggested for wider whole systems projects

Question 3: Should the focus of the NIC and NIA be broader and cover the broader energy system?

We would welcome mechanisms or changes in regulation and law for network operators to be able to broaden the focus of NIC and NIA across the whole energy system. Cross sector (Gas-Electricity) projects, such as the WPD/WWU project – Clean Energy Balance, is an example of a type of project that could be allowed.

Question 4: Can we improve the process for deciding on which projects to approve and if so how?

Technical Experts

A review of the technical expertise that is used by Ofgem should be carried out, as often a narrow but deep understanding in a particular area is not necessarily warranted or required when making a decision on the technical merits of a project.

Clarification Questions

Rather than clarification questions, perhaps clarification discussions could take place. This would assist both network operator and Ofgem's understanding of potential issues or misunderstandings that each have.

Question 5: How can we improve participation in the NIC?

Network operators have a broad range of partners that have participated and continue to participate in their innovation projects. The process of developing these partnerships is constantly being improved upon as can be seen from the success of the LCNI conference.

As well as the conference, other avenues of collaboration are available to network operators, such as the Energy Innovation Centre, ENA's collaboration portal and existing contacts within academia.

Question 6: Please comment on your experiences if you have worked with licensees when implementing NIC and NIA projects or when transferring innovation into business as usual.

N/A

Question 7: Are there any other issues we and the independent evaluator should consider as part of the review?

Intellectual Property Rights

Further review should be carried out on the handling of IPR from both the practical issues of recording and holding IPR and the efficiencies associated with the best party to exploit it. The implications for network licensees taking responsibility for IPR ownership are not trivial and there are not insignificant costs associated with this.

IP should not default directly to the network operator, rather at the start of a project, the party responsible for holding, registering and maximising IP should be identified in the registration document (NIA). This would be the default registration condition and any deviation from this requiring approval from Ofgem.

Question 8: To what extent do you consider that the LCN Fund has succeeded?

It is important to recognise that the success of LCNF was largely down to the amount of work that was carried out under the Innovation Funding Incentive (IFI). IFI had the flexibility to lay the building blocks of solid innovation, with the Low Carbon Network Fund using these building blocks to create well-constructed demonstration projects that had a foundation built upon well researched innovation and in this sense LCNF has succeeded.

LCNF has invested in a broad range of innovation work and delivered savings to the customer. Real examples of this include the development and proving of Active Network Management which can be seen by its rollout across GB network operators and the successful launch of the ANM good practice guide.

To continue this success, it is imperative that network operators are allowed the flexibility to pursue high risk/low TRL projects that will further the UK's dominant position as an innovation leader and continue to deliver real benefits to the customer.

Question 9: To what extent do we need to continue incentivising innovation by DNOs?

The various innovation funding streams that have been in place over the 15+ years have enabled the network operators to understand and adapt to the change in the energy system. Without the broad portfolio of projects, there is little chance that the network operators would be in the position they are now; being able to deliver higher quality customer service, increased quality of supply whilst at the same time reducing costs.

To be able to meet future changing energy systems, one that includes increased flexibility, greater interaction with their customers and meeting environmental goals, it is imperative that innovation funding is continued.

DNO innovation projects have proven valuable and delivered real savings to customers. Business plans prepared by companies for RIIO-ED1 included £641m of savings for customers as a result of innovation. This represented an excellent return to customers on the funding provided. It would be premature to stop funding DNO projects as there is still opportunity to deliver further value and savings to the customer, particularly as there are a number of new challenges for network companies and the wider system to face with increasing renewable generation and storage.

Question 10: Are there any other issues we need to consider as part of the LCN Fund benefits review?

NIA - Data Protection Strategy (DPS) and Customer Engagement Plans (CEP)

ENA have the opinion that there could be an improvement in two areas; NIA - Data Protection Strategy (DPS) and Customer Engagement Plans (CEP). As it stands, the NIA governance document stipulates that:-

“The Network Licensee must submit to the Authority, at least two months prior to initiating any form of engagement with a Relevant Customer, a Customer Engagement Plan of how it, or any of its Project Partners, will engage with, or impact upon, Relevant Customers as part of the Project”

- *This requirement restricts licensees (or project partners) and in doing so creates a number of issues Risk to the project being delivered due to the delay in engagement with customers.*
- *Cash flow problems for SME partners in the delay between submitting a project and waiting for approval from the authority.*

We would ask that Ofgem amend the NIA governance document to provide a guaranteed timescale of response to the licensee, regarding their acceptance of DPS and CEP.