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Dear Neil

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

National Grid Gas Distribution (NGGD) welcomes Ofgem's consultation on the governance of the NIC and NIA. Our responses to the specific consultation questions are set out below

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

NGGD is of the view that the NIA and NIC criteria are well suited to the selection of innovation projects that the business considers for innovation funding and, therefore, there is no need to change. We specifically appreciate the broad spectrum of criteria that allows projects to demonstrate a balance of financial, carbon and cost benefit. The certainty around the governance and criteria for both the NIA and NIC has allowed NGGD to develop a mature innovation portfolio over the past three years and we look to continue to build upon this over the remaining RIIO-GD1 period.

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

NGGD is open to views on innovative opportunities and innovation needs from all stakeholders, including Ofgem, SMEs, academia and other industry partners. We look to ensure innovative thinking is a key part of the business culture and are always open to considering opportunities highlighted by stakeholders and suppliers that will deliver value to consumers.

At the current time we don't see that further guidance from Ofgem on specific subject matter is required. The changes and challenges faced by our networks to improve for our customers and stakeholders does influence our innovation priorities. Therefore, we do need to be flexible to ensure innovation can become something that is a business as usual activity and owned by the networks and our people.

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

To deliver a low carbon economy for UK plc, and to ensure least cost for all energy customers, there is a need to consider the broader energy system and how both gas and electricity networks will deliver energy to customers. It is likely that to address the energy tri-lemma innovation will be required across the broader energy system, covering all energy vectors: electricity, gas, heating, transport as well as energy efficiency.

Energy consumers are affected by all of these vectors in one way or another, either directly or indirectly. NGGD suggest that changing the wording of the NIA and NIC governance documents to replace 'network customer' with 'GB energy consumer' would be beneficial. However, we do understand that this may require a broader discussion on whether this requires further legislative changes to facilitate such a change.

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

NGGD feel the overall structure for the NIC with initial screening, the full submission and expert panel interviews works well. The NIC expert panel interviews give the opportunity for rigorous challenge and debate around key issues and NGGD appreciates the diversity of expertise of members of the expert panel and acknowledges the valuable contribution of the panel in evaluating proposals. It is important for the expertise and experience of the panel to be well balanced across innovation, risk, network knowledge and business experience.

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

NGGD is of the view that third parties developing and delivering NIC projects without the participation of a relevant network company would not improve the overall level of customer benefit delivered by the NIC. The compulsory funding contribution from the lead network licensee is an effective way to ensure that projects are focused on issues of relevance to the networks and the implementation of innovations demonstrated through the NIC into the network companies' practices, is essential for realising potential benefits. This would likely be significantly hampered if the relevant networks have not been involved.

Our portfolio of projects includes a broad range of partners. To raise awareness and understanding of our network challenges, we publish information about them annually in our NIA Summary Report, and using the Energy Innovation Centre to socialise our challenges to SME's. We have good engagement from partners and we are open to proposals from all quarters for innovation projects that are relevant to the challenges we face including: the ENA Smarter

Networks Portal, our own innovation website, the LCNI conference, and through regular industry and stakeholder engagement.

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.

NGGD collaborates with other licensees on a number of NIA and NIC projects, and engages with the other licensees through groups such as the Energy Network Association Gas Futures Group, as well through direct bilateral contact.

NGGD participates fully in the Energy Network Association Gas Innovation Governance Group, which over the past twelve months has held knowledge transfer workshops at each of the licensed gas networks premises. The group also publishes a quarterly newsletter giving updates on NIA/ NIC activity to internal and external stakeholders.

We recommend that during the review of the NIC governance, consideration is given to appropriate ways of managing financial transparency of NIC projects in way that allows a suitable amount of flexibility for the lead network licensee as projects evolve. For example: the requirement whereby written consent from Ofgem is required if costs between different categories (Labour, Contractors etc) change by more than 10% whether or not this has an impact on overall budget: this increases the regulatory burden on NIC project participants with no discernible benefit for consumers.

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

The default Intellectual Property Rights (IPR) position for NIA and NIC funded projects provides a clear route for ensuring that energy consumers taking on the financial risks associated with the development of solutions to address network problems don't pay again to realise the benefit of those solutions, and receive a commensurate share of the potential broader financial benefits. It also removes a potential blocker to benefits being realised across all relevant licensed networks and not just those directly involved in a particular project. The implications for network licensees in taking responsibility for IPR ownership on behalf of energy consumers are not trivial and we would like to see the costs associated with doing so explicitly covered under the scope of the NIA funding.

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

No response.

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

No response

We hope the information provided is useful and please do not hesitate to contact me to discuss any elements of this response.

Yours Sincerely

SENT BY EMAIL

Tony Nixon
Strategy and Innovation Manager