

FAO Thomas MacKenzie
Ofgem 9 Millbank
London
SW1P 3GE

David Oram
Network Innovation Manager: Electricity
Transmission
National Grid House
Warwick Technology Park
Warwick
CV34 6DA
david.oram@nationalgrid.com

Direct tel +44 (0)7884 475 641
www.nationalgrid.com

Date 24th March 2016

Dear Thomas

Consultation on the proposed modification of Part C of the Network Innovation Competition licence condition – ‘The Funding Return Mechanism’ in all the licenses with the Network Innovation Competition licence condition in force.

National Grid Electricity Transmission (NGET) owns the high voltage Transmission network in England and Wales and is the System Operator for all of Great Britain. National Grid Gas Transmission (NGGT) is the owner and System Operator of the high pressure gas network for all of Great Britain. National Grid Gas Distribution (NGGD) owns the gas distribution network in North London, East of England, West Midlands and the North West of England.

This response to Ofgem’s consultation on the ‘The Funding Return Mechanism’ is made on behalf of NGET, NGGT and NGGD.

Innovation has a vital role to play in the future of the gas and electricity networks. National Grid is encouraged by the recognition of this by OFGEM through the innovation stimulus in place under the RIIO regulatory framework; the Network Innovation Allowance (NIA) and Network Innovation Competition (NIC).

We welcome the opportunity to provide input into the current consultation on the proposed introduction of a funding return mechanism in the NIC licence condition.

National Grid agrees in principle with the introduction of a funding return mechanism to clarify the treatment of unspent NIC funding and revenues earned from NIC projects other than through Royalty Income.

The primary aim of the NIC is to stimulate the RIIO regulated network licensees to undertake innovative development and demonstration projects that are characterized by a risk profile that shareholders in a regulated network would otherwise be unwilling to fund. The return of unspent NIC funding is recognised by National Grid as appropriate and in consumer's interests. Clarifying how this is to be managed is welcomed.

We believe that the majority of NIC projects are unlikely to generate revenue through routes other than exploitation of Intellectual Property Rights. However, as the evidence provided in the consultation letter related to City CNG and OSEAIT demonstrates, licencees will identify ways in which additional value for consumers can be created.

We believe the following suggestions to be helpful in minimising uncertainty from proposed Funding Return Mechanism that could hinder the original intentions of the NIC or deter licencees and their partners from exploring all routes to providing value to consumers from NIC projects.

- The terms 'revenues earned' and 'relevant revenues' in proposed clauses 31.15 b) and c) respectively should be clearly defined. It will be particularly important for project partners ensure that this excludes revenue earned by them. The interaction between background IPR, foreground IPR and future developments outside of the NIA/ NIC mechanisms could all impact on the 'relevant revenues' and the identification of which revenues are deemed directly attributable could be complex.
- The licensees and Ofgem should identify relevant revenues that are clearly foreseeable at the time of the NIC bid evaluation. The initial Project Direction from the Authority should set out the nature of any proposed arrangements for the treatment of clearly foreseeable revenues. An ex-post treatment of relevant revenues would create additional uncertainty and deter innovation that could otherwise be of great value to consumers. We suggest that an industry workshop to discuss examples and options for the Funding Return methodology would be very useful before any changes are made to the licence.
- The return of unspent NIC funding has a natural limit as it will never exceed the amount of NIC funding. Consideration should be given to the amount of relevant revenue and the appropriate time period over which relevant revenues are returned so that consumers continue to benefit most from NIC projects aimed at reducing current future cost of the energy networks on bills.

We look forward to continuing to work with our stakeholders and customers to deliver significant innovation benefits. We hope that the information provided is useful for you. Please do not hesitate to contact us to discuss any elements of this response.

Yours Sincerely

P.P. T. Kashap.

David Oram
Network Innovation Manager: Electricity Transmission

Tamsin Kashap
Network Innovation Manager: Gas Transmission

Tony Nixon
RIIO Strategy and Innovation Manager: Gas Distribution

