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Date 3<sup>rd</sup> October 2016

Dear Stacy

**Statutory Consultation under section 11A of the Electricity Act 1989 and section 23 of the Gas Act 1986 on the proposed modification to the Funding Return Mechanism (FRM) set out in the Network Innovation Competition (NIC) and Low Carbon Networks Fund (LCNF) licence conditions**

National Grid Electricity Transmission (NGET) owns and maintains the high voltage Transmission network in England and Wales and is the Electricity System Operator for all of Great Britain.

Innovation has a vital role to play in the future of the energy networks. National Grid is encouraged that this is recognised 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 respond to the statutory consultation on the proposed modifications to Special Conditions 3I and 1A of NGET's electricity transmission license to extend the scope of the NIC funding return mechanism.

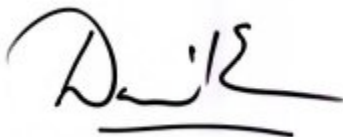
The primary aim of the NIC is to stimulate the RIIO regulated network licensees to undertake innovative development and demonstration projects, which are speculative in nature, and are characterized by a risk profile or levels of uncertainty that shareholders in a regulated network would otherwise be unwilling to fund.

NGET believes that the extension of the NIC funding return mechanism will provide benefit to our customers and electricity consumers.

We support the Authority's decision to clarify that revenues earned from NIC projects other than through Royalty Income will be defined in the Project Direction at the outset of the project. We welcome confirmation from the Authority that it does not intend to use this mechanism to return revenue streams retrospectively.

We look forward to continuing to work with our stakeholders and customers to deliver significant benefits through innovation. 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

A handwritten signature in black ink, appearing to read 'D. Oram', with a horizontal line underneath the signature.

David Oram  
Network Innovation Manager: Electricity Transmission