



ABB Limited
Daresbury Park
Daresbury
Warrington
Cheshire
WA4 4BT
United Kingdom

6th February 2017

Tel: +44 (0)1925 741111
Fax: +44 (0)1925 741212

Direct line: 07711 597466

Dear Sir/Madam,

Consultation Response: The network innovation review: our consultation proposals

We are pleased to provide our response to the consultation on changes Ofgem are proposing to the Network Innovation Allowance and the Networks Innovation Competitions.

ABB is a leader in power and automation technologies that enable utility, industry, transport and infrastructure customers to improve their performance while lowering environmental impact. The ABB Group of companies operates in roughly 100 countries and employs about 135,000 people, including around 3,200 in the UK.

We provide a number of products, systems and solutions across the energy, transport and manufacturing sectors. Much of our business is focused on the combined challenges of improving energy efficiency, increasing network flexibility and facilitating the development of a sustainable low carbon energy system. Our business offering is diverse and includes a full range of transmission and distribution solutions providing flexibility and including; battery storage systems, building automation systems, network management and optimisation software, network and microgrid control solutions, power electronics solutions to maintain power quality and stability and EV charging systems.

Should you have any questions or clarification requirements please do not hesitate to contact me using the contact details above or my email: dai.richards@gb.abb.com

Yours faithfully,

Dai Richards
Country Communications Manager
ABB Ltd.

3. Proposals for delivering greater value for money

Question 1: What are your views on our proposals to introduce a requirement for the network companies to jointly develop an industry-wide innovation strategy?

A: If you agree, should companies retain their own strategies, and in addition should there be a single system strategy, or one for gas and another for electricity?

ABB fully supports the proposed requirement for network companies to collaborate in developing an industry wide energy system strategy. ABB's belief is that there should be a single combined overarching energy system strategy combining electricity and gas that focus on the topology of the energy networks and attempt to maximise low carbon Distributed Energy Resources (DER). Whilst gas and electricity utility companies may choose to have their own internal strategies, this wider industry level strategy should set precedents and form the core of companies' internal plans.

As part of the high-level strategy, companies should be incentivised to show the levels of low carbon technology they are including in the overall network, not just the facilitation of the connection of low carbon DER. Companies should also be rewarded for connecting a greater amount of low carbon DER in a period defined by the overarching strategy. This incentive system would help the uptake of low carbon DER in the overall system and create a better environment for the fostering of a modular network in the long term.

Individual company strategies should also be maintained, as regional and local requirements will vary significantly. Involving local and regional stakeholder organisations, such as local authorities and LEPs, in the development of company strategies would also be beneficial.

B: How often should the strategy be updated?

A five-year high-level energy strategy should be put in place to give a long term view of the overall energy networks and markets, and allow stakeholders and potential market players to plan ahead to a greater extent than they are currently able to do. This would help to stimulate innovation, as stakeholders are given more information as to what energy system requirements will be. Alongside this high-level energy strategy there should also be separate two year strategies for the gas and electricity industries, which directly support the five year strategy. Questions should be asked of stakeholders as to what they would like to see in these strategies, and Ofgem should ensure that these two sub-strategies line up with the overall energy strategy. The advantage of having a multi-tiered strategy is the flexibility it delivers in the short term, but with clear goals remaining over the longer five-year period.

Both the two and five-year strategies should take cues from National Grid's System Operability Framework and Future Energy Scenarios process. This framework and associated processes identifies issues within the network and invites stakeholders to deliver solutions, resulting in a streamlined set of targets and deliverables for stakeholders to plan around. Creating each of the three strategies in this model will drive targeted cost effective innovation, as stakeholders will be able to fund projects dealing with specific defined issues over set periods.

Question 2: What are your views on our proposals to help facilitate increased involvement of third parties in the NIC via the network companies?

ABB welcomes Ofgem's proposal on widening the involvement of third parties in the NIC process. Through our extensive work on UK and international power grids and the experience this affords us in the sector, the company recommends that the UK better facilitates disruptive technologies from third parties that can help drive down costs to consumers and lower the output of carbon emissions.

In order to foster an environment where this can take place, third parties need to be better incentivised. This means creating level playing fields, where third parties are able to compete on an equal footing with others to supply technologies and skills. In order to secure this, a transparent evaluation of the innovative technologies needs to take place, with an independent expert panel screening ideas at both the start and end of the process. This would result in a fundamental widening of the ideas pool, but allow the relevant bodies to retain overall control of the system. Without the incentive of a level playing field and independent assessment of innovative proposals, third parties may not want to enter the market, meaning that disruptive technologies will never realise their true commercial potential.

Question 3: What are your views on providing direct access for third parties to the NIC?

ABB welcomes the expansion of those able to directly access the NIC, as long as clear incentives for doing so are also put in place for the host DNO. There must also be assurances that deployment of successful innovative technologies to 'businesses as usual' will occur in line with standard procedure.

Question 4: What are your views on our proposals to remove the Successful Delivery Reward and the provision to recover Bid Preparation Costs?

Removing the SDR and the ability to recover bid preparation costs are likely to discourage potential stakeholders and third parties from submitting. Whilst the document seeks to present this change as an incentive for better quality bids, ABB believes that it will decrease the number of companies competing for projects, thereby reducing the quality of their proposals. Without a significant financial incentive, companies may choose to innovate less.

The same can be said for the removal of the provision which allows companies to recover Bid Preparation Costs. Financial security for firms producing innovative technology is imperative, and by removing the ability to recover bid preparation costs companies will again be less likely to innovate and provide solutions to existing issues. ABB would welcome Ofgem looking again at this proposal to ensure that the industry remains competitive and produces high quality solutions.

4. Proposal for future funding level of the electricity NIC

Question 1: What are your views on the rationale for reducing the level of electricity NIC funding pot?

ABB supports the aim of increasing the level of innovation introduced through NIC. The measures aimed at providing direct access for third parties should increase the level of innovation and the number of beneficial projects proposed. We therefore feel that the current underutilisation of the funds may not continue. Our preference would be to maintain the availability of funds at the current level, until the impact of the proposed changes can be assessed. In general any barriers to the deployment of innovative solutions that reduce overall network costs should be minimised.

Question 2: What are your views on the proposed funding level of the electricity NIC?

The current funding levels for the electricity NIC are sufficient, and ABB does not believe it is an issue that needs addressing. Instead, there should be a focus on improving the quality and innovation found in submissions. The consultation document provides some incentives for DNOs to align and drive down costs in this fashion, but more focus should still be put on innovation in order to achieve this goal. Keeping funding levels the same will provide more benefit to the end user, especially if Ofgem can encourage greater levels of innovation within the current system.

5. Other proposals for governance arrangements

Question 3: Do you have any views on our proposals to improve the visibility of the NIA projects? What are your suggestions for a proportionate way to get assurance that the NIA is being used by network companies in an appropriate way?

Visibility of NIA projects is very important for the industry, and as such ABB welcomes Ofgem's proposals. The value in many NIA projects is found primarily in sharing their results. This allows for examples of best practice to be shared across the industry, driving down costs to the consumer and for business. Sharing results also helps future innovation for the system as a whole, as all stakeholders and third parties can see what is working effectively and base future research on those projects. It is also worth noting that DNOs currently receive funding for projects that have limited current visibility. By increasing transparency, Ofgem can ensure that a better quality of service is provided as more stakeholders and third parties are able to share a view and target innovation.

Response ends