

Neil Copeland  
Ofgem  
Third Floor  
107 West Regent Street  
Glasgow  
G2 2BA

25<sup>th</sup> January 2017

Dear Neil,

**Network Innovation Review: Response to Consultation**

Thank you for giving us the opportunity to respond to your proposals for changes to the NIA and NIC.

APP is a technology company that has developed a process that converts household waste into a high quality synthesis gas that can be converted into advanced biofuels such as BioSNG - a low carbon, grid-quality substitute for natural gas. We have collaborated with National Grid Gas Distribution on two gas NIC competition projects to build a pilot plant and then a commercial plant to develop and demonstrate BioSNG production. We have also worked on several NIA projects that explore the production of renewable gases.

We would like to draw on our experience of working on NIC and NIA projects to respond to some of the questions in the consultation.

**Chapter 3, 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?**

In our view this would reduce innovation rather than encourage it and create an unnecessary and expensive layer of bureaucracy. In particular it seems extremely challenging for gas and electricity companies to agree a single system strategy when their commercial interests are not aligned. Similarly, even in relation to the gas networks alone, the transmission and distribution companies will have different priorities. An industry-wide innovation strategy may result in truly innovative ideas being overlooked in favour of pursuing accepted ideas.

A key feature of innovation is a higher risk of failure than carrying on business as usual. It is important to be willing to try a number of new ideas in the knowledge that only some of them will deliver significant benefits. The process of agreeing a strategy will result in good ideas being discarded to focus on the ones preferred by a committee. There are significant benefits in having a plurality of approaches that outweigh the benefits of following the consensus.

The issue identified in the consultation is that learning is not shared across the industry and that there is a risk of duplication. In our experience this is not the case. We work closely with National Grid Gas

Distribution but are also collaborating with Wales & West Utilities on the BioSNG demonstration project. We have also held events and produced documentation to share the learning from both of our NIC projects with Northern Gas Networks and SGN. Similarly we have attended events held by GDNs sharing the results of their NIA and NIC projects. Overall, we have been extremely impressed with how innovation is shared across the industry.

Our view is that all of the GDNs have innovation strategies in place and discuss this strategy openly with relevant bodies. There is no need to introduce new obligations in order to encourage them to develop strategies, particularly when those obligations are likely to reduce innovation.

**Chapter 3 Question 2: What are your views on our proposals to help facilitate increased involvement of third parties in the NIC via the network companies?**

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

Our experience is that the Gas Distribution Networks are very open to new ideas and are happy to evaluate them. We have found both National Grid Gas Distribution and Wales & West Utilities to be very good partners in our NIC projects.

The purpose of the gas NIC and NIA is to deliver environmental benefits, cost reduction and security of supply to UK gas consumers. These will only be achieved with the involvement of the GDNs because they have the knowledge and experience to properly evaluate new ideas and will eventually be responsible for delivering the innovation. This is why we think that it is important to require the GDNs to be involved in NIC and NIA projects.

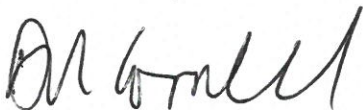
There is a significant amount of funding from Government for energy related innovation. This is administered by a large number of bodies, including Innovate, and is available to all bidders. The NIC and NIA processes offers different routes to funding innovation which encourage diverse approaches, increasing the overall level of innovation. It would be counterproductive to try to change NIC and NIA to make them more like other innovation funding.

The proposal to require companies to issue a call for ideas has merit and is likely to increase the overall level of innovation. Similarly, allowing network companies to submit additional NIC submissions led by third parties can only improve the quality of proposals. We would support both proposals.

We have not commented on the questions set out in the other chapters of the consultation.

We hope that these responses are helpful. We would be pleased to answer any questions you may have.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andy Cornell'.

Andy Cornell

Director of Finance