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Dear Neil,

The network innovation review: our consultation proposals

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

We welcome the proposals to ensure network innovation funding delivers greater value to customers. In particular, we welcome initiatives to increase the involvement of third parties in the NIC, the scrutiny of NIA projects and the return of NIA funding for those projects that do not fully align with the governance arrangements of that mechanism to customers.

Arrangements would be improved further by embedding stakeholder involvement in the development of the specific projects to be progressed. Stakeholders' views should be used to help determine the relative priority of innovation initiatives and, ultimately, the potential innovations which are of greatest value to consumers. We recommend a requirement is placed on the network companies to formally consult stakeholders when developing specific projects to be progressed via the NIA, NIC and the Innovation Rollout Mechanism and also to consult stakeholders on any changes to their individual innovation strategies. For NIA projects networks should be required to consult at least annually on the proposed programme of work and NIC submissions should also be subject to stakeholder consultation.

We hope you find these comments helpful. Answers to the consultation questions are attached. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning
Head of Network Regulation, Forecasting and Settlements

Answers to consultation questions:

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?

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? How often should the strategy be updated?

The introduction of this strategy should not preclude the network companies from retaining and delivering their own innovation strategies. Each company's strategy should complement the strategic initiatives in the *Industry Innovation Strategy* but prioritise local requirements. Each company developed its strategy following consultation with stakeholders and the assessment of the level of NIA companies are permitted to receive was based on the quality of each company's strategy. Network companies should be expected to consult their local stakeholders on changes to local strategies so as to ensure commitments in their innovation strategies are delivered and local priorities are addressed.

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?

The proposed 'call for ideas' would provide third parties with an additional route to becoming involved in the NIC. Initiatives such as increasing the number of projects that can be progressed to the full submission stage by network companies should also facilitate increased involvement.

Chapter 3 Question 4: What are your views on our proposals to remove the Successful Delivery Reward and the provision to recover Bid Preparation Costs?

We agree with these proposals. The removal of the Successful Delivery Reward is appropriate because network companies should not be rewarded simply for adopting good project management practices when delivering innovation projects. We expect network companies to embed best practice in the delivery of all projects, whether innovation-related or not, and to ensure expenditure is incurred efficiently. Further, it is not appropriate for this financial incentive to be offered because network companies generally benefit from the learning from well-executed projects (via the TOTEX incentive):

Indeed, the findings of the LCNF evaluation report that show a significant proportion of the benefits from innovation projects flows to network companies.¹

Networks should not be able to receive both the Successful Delivery Reward and efficiency savings arising from innovation funding.

We also agree with the removal of the provision to recover Bid Preparation Costs because it may result in the progression of projects that are more strategically targeted. In combination, these proposals should deliver better value for money for customers.

¹ Consultation document paragraph 3.28.

Chapter 4 Question 1: What are your views on the rationale for reducing the level of electricity NIC funding pot?

Chapter 4 Question 2: What are your views on the proposed funding level of the electricity NIC?

We support reducing the overall funding pot for the electricity NIC from £90 million to £70 million. We agree the reduction can lead to increased competition for funding which, in turn, may lead to better quality projects being proposed and funded. We also agree the reduction is consistent with the policy intent of a time-limited innovation stimulus.

Chapter 5 Question 2: Do you have any feedback on our proposal to publish a plain English guide to our default intellectual property (IP) requirements?

The publication of a plain English guide to default intellectual property requirements may be a means of mitigating the undesirable occurrence of different interpretations being derived and which may not represent customers' best interests. Where alternative interpretations of the existing guidance have been adopted that do not align with its intent, steps should be taken to ensure no customer detriment arises.

Chapter 5 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?

Proposals such as the requirement for better reporting will improve the visibility of projects (whether they are in progress or have been completed) after they have been started. However, we believe stakeholders should play an up-front role in developing the specific projects to be pursued by the network companies so they reflect those innovations that stakeholders place greatest value on. We suggest a requirement on network companies to seek stakeholders' views when developing projects would help to achieve this goal.

Greater assurance that NIA expenditure is fully aligned with the intent of that mechanism is required. As such, we support the proposals to ensure better compliance with the NIA governance document and the return of funding to customers for those projects which do not align with the intent of the mechanism. It might also be helpful if a framework for a 'smaller' project, which is meant to be progressed via the NIA, is defined and network companies are required to seek regulatory approval for those projects which do not fit within that framework. This is an extension of the current approach to intellectual property rights.

Chapter 5 Question 4: Do you have any comments on any of our other proposals?

We do not agree with the proposal to remove the requirement for customer engagement plans. Licensees are currently required to submit these plans when a project *"...involves any interaction with a Relevant Customer or a Relevant Customer's premises, or any impact on or engagement with Relevant Customers (eg through charging or contractual arrangements*

or supply interruptions)...². We believe regulatory oversight is still required to ensure the engagement with and impact on customers is appropriate and licensees and project partners have developed strategies to prevent undesirable effect on those customers. As such, we recommend this requirement is not removed.

² For example, *The Electricity Network Innovation Allowance Governance Document*, para 4.6 (https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/elec_nia_-_final_clean.pdf)