The network innovation review: Ofgem consultation proposals - Energy Networks Association Response

Background

Please find below the response from Energy Networks Association to the Call for Evidence from Ofgem "The network innovation review: our consultation proposals".

About ENA and our members

Energy Networks Association (ENA) represents the "wires and pipes" transmission and distribution network operators for gas and electricity in the UK and Ireland. Our members control and maintain the critical national infrastructure that delivers these vital services into customers' homes and businesses.

Network companies recognise the importance of collaboration to ensure that the findings from innovation projects deliver benefits to all UK consumers. This process of collaboration is facilitated by Energy Networks Association and its members in a number of ways, including through the annual LCNI Conference and the Smarter Networks Portal which provides a comprehensive account of all smart grid projects funded through the LCNF and RIIO funding streams.

Introduction

ENA has brought together a collective view of our members to respond this this consultation. This response sets out some key common principles, points and areas of focus for ENA and the networks industry. The response sets out those areas where there is broad agreement between members.

Chapter 3 - Proposals for delivering greater value for money

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

Electricity network operators generally support a requirement to jointly develop an industry-wide innovation strategy for electricity. A joint strategy should not impose material restrictions on innovation projects that are not outlined within it. It is noted that many member companies already have similar innovation goals. A joint strategy would highlight these areas of commonality, where regional differences exist (and why) and allow for a gap analysis against a Smart Grid Architecture framework.

Gas network operators are generally satisfied that the existing requirement for individual licensees to be responsible for their own strategies is sufficient. They note existing collaboration on innovation projects, through joint bids on a bilateral basis and through the Gas Innovation Governance Group facilitated by ENA. Through the Low Carbon Networks and Innovation Conference, learning from gas and electricity innovation projects is disseminated to a wide audience. Gas Network Licensees' Annual NIA Summaries demonstrate that their strategies are evolving and remain relevant.

Electricity and gas operators in general do not support a joint gas and electricity wide innovation strategy. It should be noted however that ENA is currently working on a strategy to ensure that cross-sector learning is shared and disseminated between the gas and electricity sectors. This is in line with the Government's wider industrial strategy.

3.1.1 • **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?**

Network operators generally agree that they should retain their own strategies, but are of the opinion that there should be separate strategies for gas and electricity if Ofgem take the approach of having a single strategy for each sector. As mentioned, electricity operators support the idea of a joint electricity strategy, gas operators would like to retain their individual strategies.

3.1.2 • **How often should the strategy be updated?**

Network operators believe that any industry-wide innovation strategy should be updated every four years; this will allow time for innovation projects to be set up and completed, with the feedback inputting into the updated strategy. It should be noted that Network Operators' innovation strategies are updated on different cycles and release dates which may mean some alignment is required.

Network operators wish to seek clarification on the driver for the October submission date. There is a belief that this submission deadline falling just before the December deadline for NIC project submissions may have a detrimental impact upon the NIC award process.

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

Network operators do already run annual calls for third party NIC proposals, have been successful in developing innovative projects under both NIA and NIC involving third parties, and are open to increased third party participation. They do however wish to be involved in this process and question the need for it to be a mandatory requirement. Calls for ideas from third parties should be left to individual licensees rather than a joint industry approach.

ENA is currently redeveloping the NI Collaboration Portal. Once launched it is hoped that this portal will facilitate increased involvement from third parties on both NIA and NIC projects.

3.3 **What are you views on providing direct access for third parties to the NIC?**

It is difficult to see how this would work in practice as the third party would need access to a network to develop and test their idea and this would require network involvement. Particularly in the case of the gas networks where restrictions imposed by the safety case legislation would mean it would be impossible for a third party to carry out work without network involvement. Network operators believe that licensees should be defining third party led projects.

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

Network Operators believe that removing the Successful Delivery Reward and the recovery of Bid Preparation Costs would not lead to an increase in the value for money that consumers get from the NIC. The Successful Delivery Reward helps to support the business case for the larger innovation projects.

The NIC application process is significantly more rigorous than similar innovation funding mechanisms. The removal of Bid Preparation Costs will create a need for bid preparation NIA projects; this will result in the extending of project application timelines out to 18 months, and longer project lifecycles.   The Ofgem report cites funding examples such as Horizon2020, however it is noted that the bid requirements/effort for these schemes are far less, and hence the Bid Preparation Costs are not as high.   The removal of the Successful Delivery Reward is also likely to encourage the selection of projects that have a direct financial benefit to the network above those that have predominantly non-financial benefits (e.g. the minimisation of environmental impacts).

Chapter 4 - Proposal for future funding level of the electricity NIC

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

Distribution Network Operators support the rationale for the reduction in the size of the NIC funding pot.

4.2   What are your views on the proposed funding level of the electricity NIC?

Network Operators support the proposed levels for 2017-2021. In 2021-2023 the funding amount will drop due to T2 commencing. This could coincide with additional focus on NIC rather than NIA for projects which complete beyond 2023.

Chapter 5 - Other proposals for governance arrangements

5.1   Do you agree with our proposals to clarify the circumstances we do and do not expect change requests are submitted to us?

Network Operators believe that changes to reporting requirements shouldn't be overly onerous. Network Operators do agree on the exclusions detailed.

An independent internal auditor would be more efficient than using external auditors to verify outcome delivery. They would be more informed, knowledgeable and would incur less cost than an external resource. The costs of audits would need to be included in the NIC bid and rules surrounding this and the necessary reporting would need to be set out in governance.

5.2 **Do you have any feedback on our proposal to publish a plain English guide to our default intellectual property (IP) requirements?**

Network Operators welcome moves by Ofgem to simplify their default IP provisions in order to make them clearer to third parties. It should however be emphasized that the default should not be changed, and that the plain English guide for IP is not a governance requirement, and remains only a guide.

5.3 **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?**
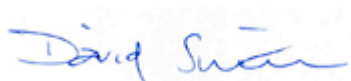
Network Operators welcome additional involvement of Ofgem in the definition of project objectives and encourage them to engage with us. The current role is focused on a compliance role. It is likely that project learning relevant to future regulatory policy decisions is missed.

NIA projects are already highly visible with details of objectives, delivery schedule and learning outcomes, and dissemination events, on both the Smarter Networks Portal and Network Operators' own innovation webpages. All direct requests by stakeholders for additional project insight are responded to.

5.4 **Do you have any comments on any of our other proposals?**

Network Operators believe that the proposed additional reporting and auditing requirements could be time consuming without adding value to process. NIC projects are already under-utilised and making the process more onerous would only exacerbate this trend. Any changes should ensure improvement whilst not losing sight of the fact that the framework is already providing value for money for customers.

David Smith

Chief Executive