
Response to views on changes Ofgem are proposing to the Network Innovation Allowance and the Networks Innovation Competitions

WRc's is an SME and established innovation leader who works with its clients to develop and implement valued solutions. WRc is an employee-controlled organisation which operates across different sectors including water, environment, waste and resources and gas. Its strategic priorities are delivering exceptional service through technical excellence, achieving revenue growth and improving profitability for clients.

Our comments take into account the experience we have had working with technology developers, regulators, universities, and utilities in the water sector as well as sub-contractors of NIA projects and as a 3rd party NIC ideas provider in the gas sector.

1. 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?

We believe an industry-wide innovation strategy as a requirement would not bring greater value for money to consumers; it would be an expensive exercise which might not get the desired outcome. It is our experience that getting agreement from a very large group of stakeholders with different views has always shown to be expensive, very time consuming and tends to dilute or divert responsibilities, especially in this case where to get to a desired outcome there are different directions of travel.

We believe that coordination should continue between companies to make sure that there is not duplication of effort and we have seen good practice examples lead by The Gas Innovation Governance Group (GIGG)

Our view is that UK government should continue to set targets and policy and let companies and their partners identify alternatives and develop their own strategies which are usually determined by different local factors, such as demography, local needs, type of industries they serve, availability of resource and type of assets hold.

We do recognise the benefits of sharing knowledge and consideration could be given to an overseeing entity which looks at the broader regulated Utility Sector and identifies where there are synergies between the different innovation strategies.

We believe that consumers would benefit greatly if more rigour and consistency is put on how the individual strategies are developed and reviewed which is briefly described under paragraph 3.5

How regular the strategy should be updated should be determined by the factors which might change the direction of travel and these are definitely different between gas and electricity.

Margarita Cabrera T: +44 (0) 1793 865005 Fax: +44 (0) 1793 865001

Email: margarita.cabrera@wrcplc.co.uk

Ref: Ofgem17-CON-01

Page 1 of 4

30 January 2017



© WRc plc 2017

- **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?**

We do not agree so offer no further comment.

- **How often should the strategy be updated?**

We do not agree so offer no further comment.

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

Increasing third party involvement would be beneficial as diversity will bring fresh thinking and new skills to the sector. We welcome both proposals under section 3.16 to require network companies to issue a call for ideas annually and increase the number of projects that each company can put forward as full submissions. However, we are aware of the effort required by all parties to pull together a full submission and this should be encouraged through continuing with the provisions to recover bid preparation costs (Q4).

Holding these calls centrally on the Ofgem website would encourage third party engagement and facilitate coordination of efforts.

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

Providing direct access to third parties might increase the number of proposals and the areas of application; however getting innovation into business as usual is critical to realise benefits and we envisage involvement of a network company is critical to both run any demonstration project and pass benefits to consumers.

Working with a network company also provides access to NIA funds which could be used to test hypothesis before a demonstration project is possible.

In the case of 'disruptive innovations' which benefit the customer and not the network companies; consideration should be given to change legislation and/or give guidance of relevant funding channels.

We wonder if there might be an opportunity for a trial period for third party entries with an allocated budget to assess the effectiveness of this change.

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

We cannot comment on the 10 % contribution to project costs as there is no evidence to support either way however we do not understand the rationale in paragraph 3.34 on how networks putting more of their own money at risk will encourage them to produce more strategically targeted bids

With regard to the provision to recover bid preparation costs, we believe that allowing companies to recover bid preparation costs ensures that adequate attention is paid to the development stage and facilitates partners engagement. If the reward is removed this cost will be reflected elsewhere and consumers will not receive the benefit.

The planning stage is critical for the success of any enterprise and if the level of effort could be guaranteed we are convinced that the quality of the proposals will continue to improve. We believe that a cap on the level of effort expected would enhance value for money to consumers.

2. 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?

Our understanding is that consumers are charged just for the projects awarded regardless of the size of the pot. We don't see any benefit of reducing the funding pot, it is our experience that if the intention is to increase the quality of the projects been proposed, it would be more effective to invest the funds at the developmental stage.

Additionally, if the proposal to increase 3rd party involvement is welcomed; cutting the funds now would not be a timely decision, 3rd party involvement needs to be incentivised and funded to be successful too.

We have taken part in many bids/competitions and reductions in funds have never encouraged us to prepare more bids or a better quality of proposals, quite the opposite, the chances of success become slimmer.

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

There is not any evidence that a reduction of £70 million would be beneficial to consumers, especially if the NIC competition is to be opened to third parties.

3. Other proposals for governance arrangements

Question 1: Do you agree with our proposals to clarify the circumstances we do and do not expect change requests are submitted to us?

We agree it would be helpful to clarify the circumstances when consultation to Ofgem is needed or not.

- **If you agree, do you think our proposed draft explanation of material changes is clear?**

The proposed draft is still ambiguous as clarification would be needed to what "reasonably" means, it might be more helpful to talk about the level of the impact the change would have on the project outputs.

- **If you think alternative drafting would achieve this more effectively please provide this drafting.**

More knowledge would be needed on the type of changes proposed to be able to provide a sensible draft.

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

The proposal to publish a plain English guide to the default intellectual property IP requirements is welcomed.

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?

Issue	Views
Merge the ongoing NIC and NIA projects reports	We agree that increasing visibility of a central document would be beneficial. It could avoid duplication and provide a sense of unity and direction.
Remove the need in the NIC and NIA for customer engagement and data protection plans	We disagree with the proposal. Customer engagement plans can be key elements in the successful delivery of a NIC project. It is important that these are included in NIC bids and subject to challenge. In the past Licensees have significantly strengthened these in response to challenge and this has led to a greater likelihood of a successful outcome.
Cross sector projects in the NIC	No comment. Our understanding was that the separation was needed to make sure that consumers who pay for electricity only would not need to fund projects which might not benefit them.
Sharing of NIC and NIA learning	We agree that data from trial should be shared as a valuable source of knowledge, however having systems in place to share it and relevant information on how the data was gathered might be expensive. More consideration should be given to the cost associated to do this and how this should be funded.
Rollout of NIC and NIA projects into BAU	Appropriate recommendations from Ofgem would need to make sure that beneficial projects are implemented.
NIA governance compliance	We disagree with the proposal. We believe that the effort should not focus on the registration process but on the outcomes. If there are projects where Ofgem is concerned then an action is needed on these. This would avoid any not eligible project being registered later rather than adding bureaucracy to the eligible projects as well.

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

No further comments.