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29 March 2016.

Dear Tom,

Consultation on the proposed modification of Part C of “the Network Innovation Competition” licence condition – the ‘Funding Return Mechanism’

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.

Large-scale trials funded by the Network Innovation Competition (NIC) may result in long-term environmental benefits and network expenditure savings for customers. We support the return of revenue generated from any additional income stream because customers are required to fund the projects. As such, we broadly support the proposed introduction of Returned Project Revenues. However, we recommend:

- **DNOs should not be permitted earn additional ‘unregulated’ revenue from projects deployed to avoid transmission Triads.**
- **The approach to Returned Royalty Income is adopted for Returned Project Revenues.**

Each of these points is discussed below.

Triad Avoidance:

Some customer-funded innovation projects were undertaken to test the feasibility of deploying energy storage devices on electricity distribution networks. We note some DNOs are investigating whether they may also operate those storage devices during Triad periods in exchange for Triad payments. Based on the proposal to introduce Returned Project Revenues, customers would receive a proportion of the revenue generated from Triad avoidance.

DNOs should not be permitted to earn any additional ‘unregulated’ revenue from projects deployed to avoid transmission Triads. The Triads regime effectively involves payments being made to parties to reduce demand during periods of greatest demand. Triad payments are wholly funded by customers (through TNUoS charges) and so DNOs (or any user) running storage to Triad avoid increases the TNUoS liability of all users. This disbenefit is theoretically balanced by the benefit customers receive from Triad avoidance if reduced demand during peak periods results in reduced reinforcement expenditure in the long term. However, if customers are also funding the actions required to facilitate Triad avoidance, either through innovation funding or through the IQI sharing factor, the situation is no longer balanced and customers will be worse off.

Customers will always be financially worse off in the scenario in which there is no reduction in Transmission reinforcement since they have paid for the innovation project and have also funded the Triad payments to DNOs but receive only a proportion of the revenue generated from Triad avoidance. Furthermore, DNOs deploying customer funded storage devices for Triad avoidance payments may result in a distortion in the development of the market for the provision of these services thereby causing further customer detriment.

The Returned Royalty Income approach

Customers currently benefit from profits generated by intellectual property rights, as set out in the respective NIC License conditions and Governance documents. In particular, no limitation has been placed on the period over which customers will share these profits. We recommend similar arrangements are implemented for Returned Project Revenue.

We hope you find our comments helpful. Please contact me if you have any questions.

Yours sincerely

Andy Manning
Head of Network Regulation, Forecasting and Settlements