

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

DNV GL – Oil & Gas
Holywell Park
Ashby Road
Loughborough
LE11 3GR

Tel: +44 1509 282000
Fax: +44 1509 233119
GB 916 352 136

Date: 2017-02-04
Our reference:
Your reference:

Dear Neil

The network innovation review: DNV GL's response

DNV GL welcome's Ofgem's network innovation review, and concurs with the desire to improve the efficiency and effectiveness of the NIC and NIA schemes in achieving their objectives. We also welcome the opportunity to respond to this consultation round in writing, following the working group meeting in London on 11th January 2017.

DNV GL has been involved in innovation on the gas networks for over forty years, with one of our UK businesses having roots as the research and development division of British Gas Corporation. Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. We are currently a partner on two NIC projects: with SGN on Real Time Networks, and with National Grid Gas Distribution on Future Billing Methodology. We have also delivered many projects under the NIA scheme.

Below we set out responses to questions posed by Ofgem in the paper "The network innovation review: our consultation proposals".

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

a. 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?

b. How often should the strategy be updated?

There remains considerable uncertainty in how, and in what direction, the energy industry will transform to meet the 2050 climate change targets. What is indisputable is that considerable innovation and disruption will be required. There is merit in trying to reduce this uncertainty with a coherent plan of action. However, there are also considerable risks with the proposal. These include:

- That the strategy produced may be insufficiently clear and ambitious due to the varied stakeholders involved in its preparation;

- That it may be interpreted prescriptively by the network operators, and that it will lead to a loss of agility, and so limit the scope of innovation projects that are funded; and
- That it will lead to a hiatus of innovation in the period before first publication while network operators wait to see in what direction the industry is driven.

On balance, DNV GL does not support the proposal for an industry-wide strategy at this time, as we do not believe it will lead to significant benefits for the consumer when weighted against these risks.

An alternative approach would be for Ofgem to commission a report on the NIC and NIA programmes that will include a review and summary of the work carried out to date under relevant themes, and will seek to identify the gaps that could be filled through further innovation projects. There is a need to bring together the results of the various NIC and NIA projects and to identify the needs for further work, however this should not be in the form of a strategy. Ofgem should consider publishing all NIA and NIC final reports/deliverables/data, together with the network operator's own innovation strategies, in order to facilitate future analysis of opportunities by the industry.

Furthermore, the network operators have several forums that provide the opportunity to jointly share and discuss innovation strategies and tactics for greater deployment of technology to benefit relevant stakeholders. One such example is the Energy Networks Association Gas Innovation Group.

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

DNV GL supports the proposal for a single combined call for proposals for the NIC by network operators. We believe this is likely to increase transparency and the number collaborative projects proposed, and will facilitate stakeholder engagement and feedback.

DNV GL supports the proposal for network operators to provide feedback on NIC ideas, but we do not support the suggestion that this feedback (or the idea proposals themselves) should be published publicly. While transparency is important, there may be commercially valuable material, including the idea itself, contained in an unsuccessful idea submission which should be kept confidential to the owner. Moreover, feedback made in public is unlikely to be fully candid and so will potentially be of limited use.

DNV GL supports raising the number of projects that can be submitted by each network operator from two to four.

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

DNV GL believes that network operators should be at the centre of NIC in-order to maximise the adoption and implementation of innovations. Third party access has the potential to widen the gap between a good idea, and the ability and ease by which a network operator can adopt it into its business as usual, and demonstrate transferable benefits quickly and effectively. The attention should, therefore, be towards ensuring strong NIC engagement by

the GDNs and use of the available funds towards innovations that can demonstrate clear and measurable benefits.

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

DNV GL does not support the removal of the Successful Delivery Reward. We believe that this will reduce the number of innovation projects commissioned by the network operators, without increasing their quality, ultimately leading to reduced benefits to the consumer. Removal of the Successful Delivery Reward may also lead to increased financial pressure on potential project partners and the supply chain to fill the gap, which will inevitably make many innovation projects (for example, those not involving the qualification of a new product) uneconomic to proceed; again, this will reduce the net benefit to the consumer.

DNV GL does not support the removal of provision to recover Bid Preparation Costs. We believe this could be prohibitive to the quality and range of submissions due to the increased commercial risk and burden on companies. Additionally, the overlap between the submission required for the NIC and a normal commercial proposal is quite small. Moreover, in our experience, the recoverable Bid Preparation Costs only represent a fraction of the costs that are expended to make a submission to the NIC. Taken together, we believe these factors justify the present scheme of cost recovery. Notwithstanding this, Ofgem should consider increasing the fund available for Bid Preparation Costs if it chooses to increase the number of bids allowed from two to four.

Yours sincerely
for GL Industrial Services UK Ltd

Dr Martin J. Maple
Innovation Manager

Mobile: +44 78 0771 9227
Direct: +44 20 3816 5209
martin.maple@dnvgl.com