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Dear Geoff

## **The network innovation review: our consultation proposals**

This response to Ofgem's consultation is made on behalf of National Grid Gas Transmission (NGGT). NGGT is the owner and system operator of the high pressure gas network for all of Great Britain.

With the introduction of the NIA and NIC, Ofgem have demonstrated thought leadership, amongst economic regulators, delivering enhanced value to consumers through network innovation stimuli. We believe now is a good opportunity to take stock of the innovation schemes and the review of the electricity LCNF schemes provides useful input. However, the challenges and opportunities within the gas sector are significantly different to electricity and we don't believe that the Ofgem proposals will drive better outcomes for consumers within the gas sector. We would support a specific review of the gas schemes to provide robust evidence to underpin any changes, but in the meantime, based on our experiences and research, we have made some initial suggestions that we hope you find useful.

### **Section 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?**

Over the course of the RIIO period to date, the gas networks have transformed how they collaborate, with the Gas Innovation Governance Group (GIGG) being the focal point for driving collaborative projects and other activities such as the GIGG newsletter, group presentations at industry events and joint sessions at the Low Carbon Networks and Innovation conference. The GIGG is looking to take this to the next level during 2017 with a commitment to other industry engagement events, centered on innovative solutions to the common challenges the networks

face. This collaborative style, resulting from the principles that underpin the NIA and NIC drives innovation in approach as well as innovation through projects.

As a collaboration group, GIGG has changed and developed significantly from the previous innovation incentive regimes. Whilst the reports on the LCNF scheme are a useful input to the debate, the needs of gas customers would be better served by a review of how the current innovation schemes are working in the gas sector. Ofgem could look to promote an output based approach that underpins the customer value generated through the innovation schemes. For example, creating an incentive such as an innovation stakeholder incentive to encourage collaboration and increase third party involvement. If the innovation incentives become output orientated, rather than rule based, these outputs (e.g. embedding new learning or value delivered) can be linked to the customer benefits that the innovation delivers. This could also be used as part of any assessment for innovation funding under RII0 T2.

The strategic focus on innovation for the GB energy system is critical however other outputs such as network safety and asset health are also a key part of a balanced portfolio and essential to delivering customer value. These outputs are more difficult to address in a system wide strategy.

**Section 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?**

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

Within NGGT we have recently conducted a stakeholder survey. The focus for our partners is to see innovation outputs become business as usual, and demonstrating value is at the forefront of this. Access to the funding is not something we have understood to be an issue from talking to our partners.

For the past three years NGGT have conducted a call for ideas as part of our NIC submission process and in each year we have received approximately 10 ideas from external partners. A key aspect of the process is evaluating the idea in the wider context of what is required for a successful NIC bid. This often means working closely with a potential partner to develop aspects of an idea so that it is suitable for publication as an initial screening proposal. A public declaration of ideas and feedback could deter the ideas that could offer the most customer value.

Based our experience, NIC projects led by third parties would not be a model we would support. The direct involvement and investment of the network is essential to drive the direction of any innovation project, successfully embed new learning within the network organisations and realise maximum value for customers.

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

Removal of the bid preparation costs will likely impact on our ability to deliver NIC bids, and potentially the quality of any bids. The requirements in terms of time and process for NIC are significantly different to other funding mechanisms. We don't feel this will assist in the overall objective to increase participation in the NIC.

The removal of the SDR would not alter our participation in the NIC. However, if a network licensee no longer has the opportunity to recover their 10% contribution this may alter the selection of projects submitted for the NIC. For example, projects which offer customer benefits, but no direct network benefits may no longer be prioritised.

**Section 5 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 are supportive of the changes to clarify the circumstances for submitting change controls.

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

In principle this is a good idea, but generally the issue is within the legal drafting and therefore Ofgem should also consider providing sample legal text alongside any plain English text.

**Section 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?**

We support a clearer explanation of why projects are eligible. All NGGT NIA projects are subject to approval through a monthly sanction committee that consists of representatives from across the NGGT business. Approved projects are subsequently presented to the Gas Transmission Investment Committee, chaired by the Director of Gas Transmission Owner (GTO).

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

We are supportive of a joint assessment of cross sector NIC projects however we would like to see this go further to enable one decision, rather than potentially approval by one panel but not the other.

In conclusion, the NIA and NIC mechanisms we believe are working well for gas consumers with networks delivering within individual innovation strategies, collaborating on wider issues and stimulating diverse supplier engagement. Within NGGT we have a clear focus on implementation into business as usual and tracking the value our projects. The consultation proposals seem broadly focused on prescriptive measure to improve the functioning of the NIA and NIC based on the experience of the LCNF. We do not think this approach and reference point are appropriate for the gas sector and believe an incentive or output based approach akin to the core RIIO framework would deliver greater value to gas consumers

We would welcome further opportunity to share our thoughts and proposals with you, so please do not hesitate to contact us.

Yours Sincerely



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