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Ofgem
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Dear Neil,

Network Innovation Review – Consultation Proposals

Thank you for the opportunity to comment on these proposals. Our response is non-confidential.

Attached are our detailed responses to the individual questions based on our experience of bidding in all 4 years of the gas NIC. We have experienced success, failure, partial success and been part of a successful collaborative bid under the existing competition rules. As such we have a fairly rounded view and would be happy to share this perspective in more detail than is possible under a written response such as this.

We support a number of the proposals included in the consultation but don't see that an industry wide innovation strategy will deliver any practical benefits. We also haven't experienced some of the problems in the gas sector that the LCNF appears to have experienced regarding duplication and information dissemination so don't believe that a strategy is necessary to overcome these problems.

Please do not hesitate to contact myself or Richard Hynes-Cooper our Head of Innovation if you wish to discuss any aspect of our response.

Yours sincerely



Stephen Parker
Regulation Director

APPENDIX A

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

NGN is not convinced that this will deliver any practical benefit. Indeed it could inhibit the free flow of ideas and the fleet of foot nature that true innovation sometimes needs. It may also produce more homogenous innovation approaches across companies which again we see as detrimental.

More collaborative projects and working can be encouraged through the existing NIC process by attaching significantly more weight in the assessment process to projects which have multiple network partners. Our experience as being part of a successful collaborative bid with NGGD in 2016 with the HyDeploy project is that little weight is given to network collaboration and that the positive publicity generated with a successful bid focusses solely on the lead network partner.

We have not seen the report from the consultants nor have any of these proposals been discussed with NGN previously but we would be interested to understand where the concerns have arisen in relation to unnecessary duplication and information dissemination. Certainly in our experience regarding the gas NIC and NIA arrangements we have not seen any unnecessary duplication and the level of cooperation and sharing amongst the gas transporters has been good. Whilst there are always ways to improve in these areas we are not convinced that an industry wide innovation strategy will contribute to making any such improvement.

We believe the approach adopted for RIIO-GD1 based on individual company innovation strategies with funding linked to the quality of those strategies was the right one. NGN has maintained an innovation strategy, this is updated annually to take account of the current operating environment, any threats or opportunities that are emerging and learning from previous projects and other networks.

What are your views on our proposals to help facilitate increased involvement of third parties in the NIC via the Network Companies?

We certainly agree with the principle that greater third party involvement will increase the pool of technology and ideas. The proposals to have an annual call for ideas and increase the number of projects that can be submitted under the NIC we fully support.

Gas transporters already have a significant amount of third party involvement across their NIC and NIA portfolios, but there are quite a number of "regulars" in the mix. At NGN we are making increasing use of the Energy Innovation Centre (EIC) to broaden the range of partners in our NIA portfolio. The EIC have been an invaluable partner and efficient conduit in securing access to new and exciting third parties, they have used their links to over 2000 SME's to find partners for us to develop innovative solutions to a number of our problems. The proposal of an annual call for ideas should be a good platform for seeking to broaden the scope for NIC projects and third party partners.

Consideration should be given to making this be more dynamic and instead of an annual call for ideas, innovators have the opportunity to post ideas on the ENA portal allowing GDN's to review and contact on an ongoing basis. The gas transporters innovation group could respond to any of those innovators that have had an idea posted for 3 months without it being "Picked Up".

We don't think it is necessary for Ofgem to specify that this should be a joint or individual network call for ideas. It should be left to individual networks to determine their preferred approach.

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

Legally this is not possible at this time. 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.

Networks operate under licence conditions and as such their NIC and NIA activities can be audited, reviewed and if necessary they can be subject to enforcement action to protect customers' interest. For this control to be in place for third parties a contract would need to be drawn up to facilitate this and arrangements put in place of monitor performance against the contract. We consider this would place a significant burden on Ofgem's resources. We therefore believe third parties should work through innovation funding bodies (such as Innovate UK) as they are set up to operate with non-regulated entities. Ofgem through Innovation Link could help direct third parties to the most appropriate funding stream.

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

These appear to be simple cost cutting measures. We agree this will probably lead to fewer bids and if those are of better quality then this may be beneficial. Given the NIC has not been fully subscribed to date we are not convinced this will be the case. We also understand that relative to other funding mechanisms the NIC has a higher administrative burden for bidders.

The removal of the SDR and the ability to recover bid costs would not have restricted our willingness to enter the NIC. Our concern though is the removal is 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. emissions reductions).

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

We support the proposed change and believe the definition is workable. Clearly this can be kept under review and modified based on how it works in practice.

An independent internal auditor 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. There are precedents in the gas transporter licence for this in relation to using internal auditors for the data assurance required under condition A55 and the connections guaranteed standards under D10.

We assume the costs of the audit would need to be included in the NIC bid and rules surrounding this and the necessary reporting would need to be set out in the guidance document. For example if the project was to take a number of years with some specific outputs being delivered in the early years we would want these signed off by the auditor at the time rather than waiting until the end of the project. These would be identified in the project progress reports

Do you have any feedback on our proposal to publish a plain English guide to our default IP requirements?

We support this idea.

Do you have any views on our proposals to improve 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?

The proposals seem reasonable.

Visibility of the projects we feel is sufficient for what we need, gas transporters share ideas with each other, the projects are discussed at the monthly GIGG meeting and where necessary this detail is further explored at follow up visits to other gas transporters. In a number of cases gas transporters look to work in collaboration with other gas transporters so spend time talking through the potential projects with each other.

Do you have comments on any of our other proposals?

The successful roll out of innovation into business as usual is possibly the greatest challenge in the innovation project cycle. Within NGN we have significantly increased our effort and resources to ensure this happens since the start of the RIIO-GD1. We also recognise the benefit of learning from the work carried out by other gas transporters and there a number of instances where we have adopted solutions developed by other gas transporters. Making this more visible through the annual reporting we agree would be helpful for Ofgem and other stakeholders.