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5th February 2017

Dear Neil,

Network Innovation Review: Response to Consultation

We welcome the opportunity to respond to this consultation. Progressive Energy is an established independent UK clean energy company focusing on deployment of emergent technologies and associated project development and implementation. Our specialist areas include conversion of biomass resources to renewable gas using advanced conversion technologies, hydrogen production, and a long track record of Carbon Capture and Storage developments having developed projects submitted under both the UK competitions as well as the NER300 programme.

We have worked closely with the Gas Distribution Network operators over the last 8 years, with a particular focus on low carbon innovation. This has included collaboration on three successful Network Innovation Competition (NIC) applications primarily with National Grid Gas Distribution but also including Wales and West Utilities and Northern Gas Networks.

Our experience of the NIC process has been very positive. We have seen innovative areas of real strategic interest to the GDNs being taken from early feasibility through to physical demonstration at scale. It has catalysed funding from other sources to leverage consumer funds to take projects through some of the most notoriously difficult phase of delivery prior to commercial operation.

The rigorous NIC process has been challenging, but necessarily so, ensuring that proposals are well conceived and developed to deliver best outcomes and value to the consumer. The combination of experts and consumer champions from outside the industry along with industry technical advisors making up the selection panel process is well conceived and delivered.

More widely, the process of ingraining innovation within the RIIO process has clearly led to successful delivery across both the electricity and gas sectors. This is not easy to achieve in regulated sectors, where innovation is necessarily a wide-reaching process where ideas need to be pursued and sifted. Discussions with counterparties in other regulated sectors, such as water, indicate that OFGEM has been particularly successful in its NIA/NIC strategy, and provides a model which should be replicated.

Our responses below relate primarily to the questions posed in chapter three.

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?

One of the real benefits of the NIC process is that the terms of reference for the competition are sufficiently broad that customer focused innovation can be delivered in any area of environmental benefit, cost reduction or security of supply. Almost inevitably any 'strategy' would be 'of a particular time' and



'locked-in' for a period. Innovation is live and adaptable and needs to be so. Good innovation would be missed with a defined strategy.

Therefore, we do not recommend any pre-defined strategy, either overarching between gas and electricity, by sector or even by company.

However, we do recognise that collaboration should be encouraged. Helping GDNs/DSOs to develop common areas of interest is helpful, as is valuing collaborative bids. There will always be a tension here in a competitive selection process. Ideally participants should group around good innovative ideas collaboratively so there isn't duplication or division. The expert panel should then be evaluating and prioritising different project types or concepts from a pool of high calibre projects.

As an aside, there may be cases where projects cross the bounds of electricity and gas; where this happens, the system should be able to evaluate this in a joined-up way. Often the most interesting innovation happens at interfaces and process constraints shouldn't stifle this.

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

Continuing to involve third parties in projects is extremely important. Often the best innovation comes from those who are not encumbered by the important daily operational responsibilities of the GDN/DSOs. All the NIC projects we have been involved in have involved multiple parties, and often more than one GDN/DSO. Furthermore, some have involved very significant leveraging of NIC funds through third parties substantially increasing value for money, but also entraining wider stakeholders with an interest in successful delivery and deployment.

The GDNs/DSOs are already succeeding in drawing in third parties, as can be seen from the NIC Proposals. The individual network companies should be encouraged to continue to do this, but introduction of a bureaucratic NIC process may not be helpful. It could be time consuming, and challenging to achieve against the ISP/Bid cycle. The bid document already requires the bidder to explain how a project was selected, and the panel is able to probe this; GDN/DSOs who have well developed approaches are in a stronger position. This existing strategy is able to drive up standards without micro-managing.

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

Even excellent innovation is meaningless if it isn't deployed. Therefore, it is imperative that the outcome of any successful project is deployed on the networks. Given that is the case, it is vital that the GDNs and DSOs are active participants and champions of projects from the outset. Therefore, it should continue to be a project requirement that there is at least one GDN/DSO in any project. Given that is the case then they should continue to provide the Compulsory Contribution (See below, and noting the NIC IP arrangements, expecting this from industry would be challenging).

In our experience, GDNs are open to ideas and are inclusive in considering ideas and innovation from different sources. Encouraging GDN/DSOs to continue to develop strong, long term networks of innovative collaborators across the industry is important to engender innovation. It would certainly be better for OFGEM to continue to work on fostering this, rather than allow projects which don't have GDN/DSO participation, which arguably would be more likely to lead to redundant innovation.



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

Successful Delivery Reward

The SDRC approach provides an important mechanism for the selection panel and OFGEM to set clear milestones through the life of the project. By drawing them out as separate requirements and including them in the Project Direction they become a very valuable tool for both OFGEM and the delivery consortium. Dropping these would be a retrograde step; most funding bodies would require such milestones – even if they felt that the proposers could manage this themselves.

By linking these milestones to financial benefit, they are given particular importance, and therefore drive good project delivery, in a way that other funding bodies do not.

The current approach is well conceived, balancing 'carrot' and 'stick' effectively. By insisting that the GDNs have to put up their own funds for the project, which is not funded under RIIO, they are strongly incentivised to try and recover this by delivering effectively. This is particularly important where projects relate to long term strategic outcomes for the network as a whole, which is where much of the focus is currently.

Bid Preparation costs

There are a number of reasons why the current arrangements with regard to bid preparation should be retained:

- The OFGEM selection process is extremely rigorous, including an ISP, followed by very comprehensive bid document preparation, then 2 expert panel interviews, opportunity for extensive clarification questions and potentially re-bid. From initial concept to first release of primary project funds is a process of around 15 months. Most other funding bodies don't have anything like this level of process or rigour, which is valuable and important in delivering good quality outcomes.
- NIC projects are collaborative and network focused; those best equipped to do the work may not always have a long term strategic or economic gain from a successful project, particularly when measured against such a long application process. This is particularly so in the many cases where the innovation comes from smaller, lithe companies.
- Additionally, in the NIC process, there are important and unique requirements regarding intellectual property ownership and availability to others. This is completely different from other innovation funds such as Innovate where the innovators retain the IP and are actively encouraged to protect it for themselves.
- Rightly, some of the areas for innovation are about pushing the industry forward by providing evidence to support changes to regulation. In these cases, whilst the GDNs may have a long-term interest, this would be difficult to fund from their own funds (this applies to both the bid preparation, but also the projects more widely).

For all these reasons, the ability for GDNs to fund bid preparation through the NIA process is extremely important. Without bid preparation funding, there is a very strong risk that the very innovators OFGEM is looking to further draw into the process may be unwilling to participate. This is counter to one of the key objectives of this consultation.



Other comments

Based on experience as a bidder, and also appreciating the challenges for the evaluators, there is a need to review and streamline the form of the NIC Bid document itself. This is not a criticism, but an opportunity after a number of years to improve and refine:

- The principle of a 50 page document with appendices and an overall limit of 100 pages is good and should be maintained; brevity is valuable.
- However, as currently structured, it doesn't provide a clear overview of the project – it needs space for a well-rounded executive summary across all the important facets (rather than bidders having to squeeze one in as part of Section 2, thereby precluding an overview of later sections). This would help bidders to focus their proposals and make projects accessible for evaluators
- Referencing the now quite old 'Carbon Plan (2011)' as the definitive environmental document should probably be reviewed.
- There are areas where the questions seem ambiguous, and repetitive, particularly in Sections 2&4. Some of this could be solved through clarification. It may be also appropriate to recognise that projects can be very different (for example a cost-saving network 'widget' is very different from future of gas changes to the entire modus operandi of the network). There may be some areas where questions would be better carefully tuned to be different for different generic project types.

We trust these observations are helpful in evaluating changes to the NIC process. We would be very open to discussing any of these issues further with you as required.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Chris Manson-Whitton'.

Dr. Chris Manson-Whitton

Director, Progressive Energy