

Interested parties

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Update on the RIIO-2 Strategic Innovation Fund (SIF), and consultation on the RIIO-2 SIF Governance Document and the operation of the SIF

Update

RIIO-2 will prepare the regulated network companies to deliver net zero greenhouse gas emissions at lowest cost to consumers, while maintaining world-class levels of system reliability and customer service, and ensuring no consumer is left behind. Accordingly, we made the decision in our RIIO-2 Final Determinations to introduce the SIF for the Electricity System Operator, Electricity Transmission, Gas Transmission and Gas Distribution sectors.¹

The SIF seeks to support network innovation that contributes to the achievement of Net Zero, while delivering real net benefits to network consumers. It aims also to work with other public funders of innovation so that activities appropriately funded by network consumers are coordinated with activities funded by Government, and funding gaps are avoided.

Following our statutory consultation on the SIF licence,² we are consulting on our proposals for the SIF Governance Document and for the operation of the SIF. During the consultation period, we also intend to engage further with stakeholders, for example via calls and workshops. If you wish to express an interest in being involved in these additional consultation activities please email graeme.barton@ofgem.gov.uk.

Our proposed requirements of Gas Transporter and Electricity Transmission licensees are set out in detail in the proposed text of the SIF Governance Document, published alongside

¹ RIIO-2 Final Determinations – Core Document, pages 99-105:

https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_-_core_document_revised.pdf

² <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-licence-condition-changes-riio-2-strategic-innovation-fund>

this letter.³ Annex 1 to this letter sets out the rationale underpinning Ofgem’s consultation position.

We are currently considering feedback from recent workshops and surveys of stakeholders on our innovation priorities. We are looking to set the first SIF Innovation Challenges in the summer 2021, Thereafter, we will be inviting the submission of bids for funding out of the SIF by the Autumn 2021, with funding decisions on the first Innovation Challenges issued around the end of the year. Stakeholder engagement ahead of round 1 of the SIF has been consistent with the high-level Innovation Challenges that we propose to set in round 1. In future years, fuller stakeholder engagement will precede more specific Innovation Challenges.

In the light of experience gained this year from round one of bids for funding, we will consider making and consult on any proposed changes to the operation of the SIF and the SIF governance arrangements that are consistent with a strategic fund that can address challenges on the path to net zero and that has the ability, where appropriate, to align with other public funders’ programmes. For example, we may wish to consider how best to maximise third party access to the SIF within any applicable regulatory constraints. Furthermore, we may consider reviewing the arrangements for the RIIO-2 Network Innovation Allowance (NIA) and 2022 ED1 Network Innovation Competition once the SIF is established, and consult on any changes that we think are required to support the objectives of the SIF.

Consultation on the draft SIF Governance Document and the operation of the SIF

A key focus of this consultation exercise is on the draft of the SIF Governance Document (published alongside this letter) and the operation of the SIF. The rationale underpinning the contents of the draft SIF Governance Document and the operation of the SIF, together with rationale for appointing UKRI as our delivery partner, is set out in Annex 1.

We stated in our RIIO-2 Final Determinations⁴ that we would further consult on the matters referred to in the following list, which directs readers to Annex 1 to this Consultation Letter and/or the draft of the SIF Governance Document, as appropriate.

- UKRI’s proposed role and responsibilities, and Ofgem’s proposals in relation to the funding of UKRI – see paragraphs 2–8 within Annex 1.
- Ofgem’s proposals for the involvement of stakeholders in the setting of Innovation Challenges – see paragraphs 9-16 within Annex 1.

³ <https://www.ofgem.gov.uk/publications-and-updates/consultation-sif-governance-document>

⁴ RIIO-2 Final Determinations – Core Document, pages 99-105:
https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_-_core_document_revised.pdf

- The Eligibility Criteria, against which Ofgem proposes that projects be assessed – see paragraph 23 within Annex 1 and Chapter 2 of the draft SIF Governance Document.
- Ofgem’s proposed Innovation Challenge-specific Eligibility Criteria, including proposals to require a higher level of compulsory contribution on a case-by-case basis and industry collaboration and third party involvement in projects – see paragraphs 24-27 within Annex 1 and Chapter 4 of the draft SIF Governance Document.
- The proposed process for assessing projects, including proposed composition of the expert panel (now termed expert assessors) - see paragraphs 45-48 within Annex 1 and Chapter 5 of the draft SIF Governance Document.
- Proposed funding mechanisms alternative to the default funding mechanism identified in Chapter 7 of the draft SIF Governance Document - see paragraphs 51-55 within Annex 1.

We will take stakeholders views, including their views on the draft Governance Document, into consideration in the implementation of the SIF and we invite stakeholders’ specific consideration of the questions in Annex 2. Comments on the SIF Governance Document should be provided within the issues log published alongside this consultation.

Responding to this consultation and next steps on the SIF

Stakeholders are invited to respond to this consultation by no later than 5pm on 30 June 2021. Responses should be sent to graeme.barton@ofgem.gov.uk, copying in RIIO2@ofgem.gov.uk.

Subject to stakeholder responses to this consultation and to the statutory consultation on the SIF licence conditions, the table below provides an indicative timeline for the introduction of the SIF.

Milestone	Date
Statutory consultation on the SIF licence conditions	20 May
Consultation on SIF Governance Document	2 June
Consultation closes on SIF licence conditions	17 June
Consultation on SIF Governance Document closes	30 June
Notification of licence modification (thereafter 56 day standstill period before licence comes into effect)	End June
Direction of RIIO-2 SIF Governance Document	Summer
First Innovation Challenge issued	Summer
First bids received	Autumn
Assessment of bids	Autumn-winter
First funding decisions	Winter
First Project Directions	Early 2022
First Funding Direction	Early 2022

Yours sincerely,

Steven McMahon

Deputy Director, Electricity Distribution & Cross Sector Policy, Networks

For and behalf of the Authority

Annex 1 – policy rationale underpinning Ofgem’s consultation position

1. This annex sets out the rationale for Ofgem’s consultation position in relation to the SIF.

Arrangements for appointing and remunerating the third party delivery partner

2. Our proposal is to appoint UK Research and Innovation (UKRI) as the SIF delivery partner and remunerate them via network charges.
3. The nature of the energy system transition means that the SIF will need to be capable of responding flexibly to emerging issues. We believe that working with a delivery partner capable of running the mechanics of an innovation competition is consistent with the achievement of our policy objectives in relation to the SIF. In Final Determinations, we used the term ‘administrator’. Notwithstanding the change in terminology here, the role for our delivery partner is and will remain as decided in Final Determinations. Appointing a delivery partner for the SIF would enable the fund to operate more flexibly, expeditiously and, where appropriate, in alignment with other public body funding programmes.

Reasons to appoint UKRI as the delivery partner

4. UKRI is a non-departmental public body sponsored by the Department for Business, Energy and Industrial Strategy (BEIS). We consider that the appointment of UKRI as SIF delivery partner is in the interest of energy consumers because:
 - as a non-departmental public body, it’s statutory objectives under the Higher Education and Research Act 2017 are complementary to Ofgem’s principal objective.⁵
 - it has strong experience and expertise in running innovation competitions.
 - it delivers innovation funding programmes of its own, with which we will have the option to coordinate, where such co-ordination could provide real net benefits for energy consumers.

⁵ UKRI is established by the Higher Education and Research Act 2017. For example, UKRI seeks to contribute to “an economic or social benefit in the United Kingdom”, while Ofgem’s principal objective under the Gas Act 1986 and Electricity Act 1989 is to protect the interests of existing and and future consumers.

- it already administers a proportion of BEIS' energy innovation programme and has expertise in running wider, cross-sector innovation funding programmes, and so has the ability to facilitate appropriate central coordination of innovation public funding bodies so funded topics are not duplicative, resulting in cost savings for consumers.
- it could help support dissemination of knowledge created through the SIF and ensure that it is managed in a way that is accessible to the public, allowing effective coordination between public funders of energy innovation.

Functions of the SIF delivery partner

5. Our proposal is to enter into a Contract for Services with UKRI that will require UKRI to:
- a) administer the funding programme, which would include setting the timeline and process for each Innovation Challenge, processing applications for funding and engaging with bidders.
 - b) monitor the successful delivery of funded SIF projects against milestones, deliverables and benefits agreed in project Directions; act as a secretariat for the Expert Assessors appointed by Ofgem, which would include administering the recruitment of Expert Assessors for each competition, supporting the Expert Assessors' independent evaluation of projects against the SIF Eligibility Criteria and acting as a channel of communication between network companies, Ofgem and the Expert Assessors.⁶
 - c) make recommendations to Ofgem on the following operational matters:
 - i. the timeliness of Innovation Challenges.
 - ii. the extent to which projects submitted for funding build upon past innovation projects.
 - iii. milestones, deliverables, and where appropriate key performance indicators against which the the successful delivery of projects might be measured by Ofgem, and the satisfaction of any conditions agreed in project Directions.

⁶ Note that GEMA will retain the decision maker on the SIF and will decide which projects are funded. The Expert Assessors' role is to issue recommendations and advise GEMA's decision making.

- iv. the format, functionality and content of the ENA Smarter Networks Portal.
- d) provide support to licensees by:
- i. identifying and working with licensees and third party innovators developing project proposals.
 - ii. building partnerships with third parties by brokering possible consortia for project applications.
 - iii. disseminating learning through the licensees' annual conference and other channels.
 - iv. facilitating learning and partnerships amongst energy networks and with other sectors with shared innovation objectives on achieving net zero carbon emissions.
- e) ensure benefits are delivered to consumers by establishing a route to market service that will ensure successful projects become business as usual activities, not just within the network that led the project, but also in other network companies. To do this, UKRI will need to harness its wider skills and expertise to provide assistance in creating a route to market to ensure that great ideas tested within innovation projects become established within the energy industry. This is expected to include:
- i. developing links with investors who can support the non-network businesses to secure investment in innovation (thus increasing their ability to deliver consumers benefits over time).
 - ii. developing links with a range of utility companies who will follow on from SIF projects and deliver benefits to consumers.
 - iii. facilitating partnerships with international businesses in order to maximise potential consumer benefits of SIF projects.

Remunerating the SIF delivery partner

6. If UKRI is appointed as our delivery partner, we propose to remunerate UKRI for the activities (a) to (e) listed above. We believe all of these are key activities for a delivery partner to help maximise the benefits that SIF funding delivers to consumers. In particular, we believe that UKRI's activities will de-risk innovation funding decisions,

provide increased support to innovators and strengthen monitoring during projects, and help realise the longer term benefits after projects are completed.

7. Our understanding from market research is that the cost of an external delivery partner for an innovation fund like the SIF is likely to be between 1-2.5% of the value of the fund itself (which we have previously decided to be £450m). Therefore an external delivery partner of the SIF is likely to cost £4.5m and £11.25 over the RIIO-2 period, although it may end up costing more if we end up making more money available for SIF projects.⁷ We propose to negotiate with UKRI on that basis.
8. We propose to direct the Electricity System Operator and National Grid Gas Transmission to pay UKRI's administrative costs via network charges. We propose to apportion UKRI's costs between NTS Charges and Transmission Network Use of System Charges, according to the relative split of gas and electricity projects. For example, in a given year, if £60m of SIF funds are awarded to gas projects and £40m awarded to electricity projects, then NTS Charges will pay for 60% of UKRI's costs on the SIF and Transmission Network Use of System Charges will pay 40% of UKRI's costs on the SIF.

Question 1: Do you agree that our proposals to appoint and remunerate UKRI as our delivery partner provide value for money to energy consumers? If not, please explain why.

Identifying innovation priorities and setting strategic Innovation Challenges

9. We propose to engage with a range of stakeholders ahead of setting Innovation Challenges.
10. Ofgem will set Innovation Challenges in relation to which licensees will be offered the opportunity to apply for funding. We will be flexible and will respond to the innovation needs associated with the energy system transition, and therefore set Innovation Challenges during the price control as the need arises. This will also support appropriate coordination with other public funders of energy innovation.

Ofgem stakeholder engagement before setting Innovation Challenges

11. We have set up a special subcommittee of the cross-Government Net Zero Innovation Board (NZIB) on energy network innovation. Representatives from UK Government

⁷ As stated in the RIIO-2 Final Determination and ED2 SSMD, we will make available up to £450m for the SIF over the RIIO-2 period (this includes ED2, although funding available can however be increased upwards if necessary).

departments (such as Department of Business Energy and Industrial Strategy (BEIS) and the Department for Transport) and devolved administrations will join this subcommittee, which will be chaired by Ofgem, with support from BEIS as secretariat. This subcommittee will enable us to gather insight from stakeholders across Government and devolved administrations on their innovation priorities and funding programmes, as well as views on the Innovation Challenges developed by Ofgem.

12. We recognise that potential direct and indirect recipients of innovation funding (innovators, network companies and the ESO) will have views that could helpfully feed into our Innovation Challenge-setting process and will seek their views at regular intervals ahead of setting Innovation Challenges. Network companies and the ESO are required to produce joint gas and electricity innovation strategies.⁸ The related licence requirement currently states that these strategies must be updated every two years. We believe these strategies could be of use to us when forming our view on Innovation Challenges. We therefore propose to keep this requirement and to work with network companies and the ESO to use them to inform our view on the setting of Innovation Challenges.
13. In addition, we propose that UKRI run surveys and other engagement activities to identify network-innovation related areas of strategic opportunity from energy network companies, third parties, industry, academia, consumer groups, and other sectors. These surveys/engagement activities would also capture emerging project ideas from the market.
14. After developing an Innovation Challenge, Ofgem proposes to engage with the above-mentioned stakeholders, and with the members of the NZIB network sub-group again, to test that the scope of their Innovation Challenge and the problem definition is appropriate, ensure it is novel rather than duplicating other funders' past or ongoing programmes, and to refine the Innovation Challenge.
15. After considering stakeholder views, Ofgem would come to a final decision on issuing any Innovation Challenge, together with the Innovation Challenge documentation. Applicants would then have three months to apply for funding to address the Innovation Challenge.

⁸ Standard Licence Condition B16 in ET and ESO, and Standard Special Condition A28 in GD and GT

16. Stakeholder engagement ahead of round 1 of the SIF has been consistent with the high-level Innovation Challenges that we propose to set in round 1. In future years, fuller stakeholder engagement will precede more specific Innovation Challenges.

Question 2: Do you have views on the means by which we can gather stakeholders' insight into strategic innovation priorities before developing a challenge?

Three-phase approach for SIF projects

17. We propose that a key feature of the SIF is a three phase approach to funded projects. We believe this will support innovation, from feasibility studies at the Discovery Phase and Alpha Phase, through to industrial scale demonstration at the Beta Phase.

18. Requirements relating to the maximum monetary value and length of each phase projects would be defined in the Innovation Challenge documentation. These requirements may vary between Innovation Challenges, depending on the scope of the project. However, an illustrative example of phasing is as follows:

- 1. Discovery:** up to two months and related SIF funding would be capped at £150k.
- 2. Alpha:** up to six months and associated SIF funding would be capped at £500k. For the alpha phase, applicants might request more funding if they could provide justification for why the alpha phase work that they plan to do (ie the testing of assumptions, and preparation for construction and operation of a beta phase project) cannot be completed within the thresholds determined in the Innovation Challenge documentation.
- 3. Beta:** beta phase budgets would start at £500k and might be capped in the Innovation Challenge documentation.

19. The aim of our proposal to introduce three-phases, based on the 'agile' delivery approach,⁹ is to help the network innovators to learn, develop their thinking and respond to emerging information as the project develops. The three-phase approach emphasises learning and adjustments to assumptions throughout the phases of projects.

20. The three-phase approach will also help Ofgem to protect the interests of network consumers by mitigating the risks associated with high-cost projects. Furthermore, we

⁹ Further detail on 'agile' delivery can be found here: <https://www.gov.uk/service-manual/agile-delivery/core-principles-agile>

consider that it would facilitate the trialling of a larger number of higher risk/higher reward projects via the SIF than came forward under the NIC.

21. The adoption of a three-phase approach would also enable Ofgem to influence the direction of a project in line with its strategic priorities and the Innovation Challenge throughout the project's development.
22. Projects would be reassessed against Eligibility Criteria at each phase and, in some instances, this may mean that a subsequent phase of a Project no longer satisfies Eligibility Criteria. However, between phases, Ofgem might also seek to identify alternative avenues for progressing projects which have the potential to benefit consumers, but that were not suitable for funding from the SIF for the next project phase.

Table 1: Steps in the SIF process

Stage	Weeks	Task
Challenge-setting: approximately 3 months		
1	Week 1-6	Ofgem develops the Innovation Challenge internally and UKRI supports with a gap analysis
2	Week 7-11	Ofgem and UKRI engage stakeholders to seek feedback on the Innovation Challenge
3	Week 12-14	Ofgem makes decision on whether to issue Innovation Challenge, and competition opening and closing dates are announced
4	Week 15	Innovation Challenge documentation is issued, 3-month submission window opens
Application period: 3 months		
5	Week 1-2	UKRI hosts an information session to brief all interested parties
6	Week 12	Application submission deadline
Assessment and decision: 2 – 4 months		
7	Week 8 – 16	Following Expert Assessors evaluation, Ofgem decides on funding and applicants are notified
Issuing contract (project Direction): approximately 4 – 6 weeks		

Table 2: Indicative timelines for round 1 for illustrative purposes

Competition Milestones	Illustrative start date
Discovery Phase competition open	Aug-21
Discovery Phase competition close	Oct-21
Discovery Phase funding decision	Dec-21
Notifications and Project Direction agreed	Jan-22
Annual SIF Funding Direction	Feb-22
Discovery Phase project start	Feb-22
Discovery Phase project complete	Mar-22
Application for Alpha Phase – 10 day window	Apr-22

Alpha Phase funding decision	June-22
Alpha Phase notifications and Project Direction agreed	Jul-22
Alpha Phase project start	Aug-22
Alpha Phase project complete	Nov-22
Application for Beta Phase – 10 day window	Dec-22
Annual SIF Funding Direction	Feb-22
Notifications	Mar-23
Project Direction for Beta Phase agreed	Apr-23

Question 3: Do you consider our proposed three-phase approach suitable to support large-scale strategic network innovation projects, while encouraging learning and mitigating risk? If not, please set out your reasons why.

Question 4: Do you consider that the indicative value and length of the different Project Phases will accommodate a wide range of network innovation projects to support net zero?

Projects eligible for SIF funding

23. We propose that projects receiving funding under the SIF would have to comply with the proposed Eligibility Criteria set out in Chapter 2 of the proposed SIF Governance Document. These are derived from the RIIO-1 NIC eligibility criteria (termed 'specific requirements' in the NIC Governance Document). However we have made some changes to ensure the SIF can support wider whole system innovation, providing projects have the potential to provide real net benefits to network consumers.

24. In addition to demonstrating compatibility with the SIF Eligibility Criteria, we propose that applicants would have to meet the Innovation Challenge-specific requirements for projects defined by Ofgem in the Innovation Challenge documentation which would be issued three months before the application deadline for the SIF discovery phase application.

25. The specificity of Innovation Challenges might vary depending on the innovation need, but at times, Ofgem might set requirements including, but not limited to, the following:

- requirements around project scope and project deliverables.
- the types of organisations that need to participate in a consortium as project partners. For example, we envision that we may require that research projects involve academics, and that projects involving consumer research have professional market researchers. This would help ensure the robustness of the innovation.

- a level of compulsory contribution different from the proposed 10% contribution that would otherwise apply by default.

Varying the level of compulsory contribution required for projects

26. The draft of the SIF Governance Document sets the default level of compulsory contribution required by licensees for SIF projects at 10%. We think this is appropriate for most projects because it will ensure that companies share some of the risk of innovation, while recognising that companies and project partners will benefit from successful projects in the longer term. However, as stated in the RIIO-2 Final Determinations, we believe it may be appropriate to vary the level of compulsory contribution required in some cases. We believe this will be appropriate where:

- a. Projects have the potential to deliver significant financial benefits for Gas Transporter or Electricity Transmission licensees, thereby justifying the need for a higher level of contribution from the Gas Transporter or Electricity Transmission licensee before the project starts.
- b. Other sources of funding (such as funds from other private or public bodies) should be contributing a higher amount of funding to the projects because of the extent of non-network benefits that the project delivers. In other words, if 60% of a project's benefits are network benefits, then we may require a 40% compulsory contribution because it is not appropriate for network consumers to pay for the full project.
- c. We seek to fund SIF projects on a matched basis with other sources of public innovation funding, which do not fund 90% of projects. In these circumstances we may match the level of contribution required from that other source of funding. For example, if we seek to fund a Project via the SIF alongside a project funded by another public body (which only funds 50% of project costs), we may consider requiring a 50% Compulsory Contribution for the SIF Project.

27. We propose to consider whether to vary the level of compulsory contribution on a case-by-case basis and to confirm the level of compulsory contribution in Innovation Challenge documentation.

Eligible project investment value

28. In Final Determinations, we decided that the SIF would fund projects above the value of £5m per project. We continue to expect that over the three phases, SIF projects would amount to at least this value.

29. However, as we learn from the experience operating the SIF and further consider how the SIF interacts with other innovation funds in the RIIO price control (ie NIA) and operated by other public funders, we appreciate we may need to reconsider the value of projects eligible for SIF funding.

Question 5: Do you agree with our proposed Eligibility Criteria? If not, please explain why.

Question 6: Do you have views on which parameters Ofgem should consider defining when setting Innovation Challenges? In particular, the types of organisation that need to participate in a consortium as project partners?

Question 7: Do you have views on the circumstances in which Ofgem may require a higher level of compulsory contribution towards projects?

Encouraging collaboration and sharing learning

30. We propose requirements to encourage collaboration and learning that are set out in Chapter 3 of the draft of the SIF Governance Document.

31. These requirements replicate the requirements imposed in the RIIO-2 NIA Governance Document to maintain the ENA Smarter Networks Portal. This is because we think it is important for network companies and the ESO to continue to provide third parties with the opportunity to submit project ideas to support the development of SIF projects, and ensure SIF project reporting is published online.

32. We also believe that the ENA Smarter Networks Portal might need to continue to evolve over coming years and therefore propose to retain the requirement for annual review of the portal.

33. However, we propose that, if UKRI is appointed as our SIF delivery partner, to ask UKRI to support the above-mentioned reviews and work with the Electricity Networks Association to ensure that the ENA Smarter Networks Portal effectively meets the needs of external stakeholders and that knowledge is effectively disseminated from SIF

projects. If such reviews do not contribute to any evolution of the ENA Smarter Networks Portal, which is considered by Ofgem to be necessary, we may consider consulting on updates to the requirements in chapter 3 in coming years.

Data sharing requirements

34. We propose that SIF projects must follow Data Best Practice Guidance (DBP) issued by Ofgem which is currently subject to consultation.¹⁰ We note these requirements in the draft SIF Governance Document go further than requirements on the DBP Guidance we impose in licence for network companies and the ESO. This is because, consistent with requirements in the RII0-2 NIA Governance Document, we require that all data within SIF projects follow the DBP Guidance. Inclusion of this requirement within the governance will also ensure that project partners within SIF projects will also need to share data.
35. Compliance would include applying a data triage process, as defined in the DBP. We do not propose to require the adoption of a specific approach in relation to projects, but note that the ENA Data and Digitalisation Steering Group has been developing an approach which seeks to ensure compliance with the Data Best Practice Guidance.
36. DBP Guidance sets requirements to ensure the quality, accuracy and accessibility of data. It is a principles-based set of guidance. It includes the principle that “data assets” must be treated as ‘presumed open’ which means that data assets must be made available for all people to use, unless the organisation responsible for handling the data provides evidence of a specific reason for needing to reduce the asset’s availability (e.g., due to individuals’ rights to privacy or for security reasons). Additionally, we have proposed requirements to ensure data is made available on the Open Energy platform.¹¹
37. We think that these requirements will increase the availability and usability of data assets, enabling the full benefits of data to be unlocked for consumers.
38. We propose to require that, when applying to for SIF funding, applicants confirm that they consent to their application materials being shared with HMG and the devolved administrations, and their agencies. Ofgem and UKRI might share the material to support the coordination of the SIF with other public funders, and to avoid duplication.¹²

¹⁰ <https://www.ofgem.gov.uk/ofgem-publications/174553>

¹¹ <https://energydata.org.uk/>

¹² These data sharing requirements will remain subject to constraints of s105 of the Utilities Act 2000.

Annual conference

39. We propose to replicate requirements from the RIIO-1 NIC Governance Document and RIIO-2 NIA Governance Document to organise an annual conference to disseminate knowledge from SIF projects.
40. If UKRI is appointed as Ofgem's delivery partner, we propose to task UKRI to work with the Electricity Networks Association, who organise the annual conference on behalf of Electricity Transmission and Gas Transporter licensees, and make recommendations to Ofgem concerning the development of future annual conferences. We think this will support any necessary evolution in the service of knowledge dissemination and to meet the needs of external stakeholders.

Question 8: Do you agree with our proposed requirements to encourage collaboration and share learning? If not, please explain why.

Question 9: Do you have views on whether and, if so, how the ENA Smarter Networks Portal and annual innovation conference could be improved better to achieve its aims of effectively disseminating learning and enabling partnerships between licensees and third parties?

Project application

41. We propose that, when applying to the SIF, applicants will be asked to explain and demonstrate how projects meet the Eligibility Criteria set out in Chapter 2 of the draft SIF Governance Document by answering a set of standard questions. The application questions that we propose applicants will be required to answer are set out in Chapter 4.
42. In addition, we propose that Ofgem will issue Innovation Challenge documentation which will spell out specific requirements, including but not limited to, appendices to be submitted as additional information alongside the application.
43. Applicants may also be required to answer additional questions as part of their application. This may include but is not limited to, the proposed geographic location of the project, or the participants in the project besides project partners. Defining additional questions in the Innovation Challenge documentation would allow us to ensure that all categories of questions relevant to the Innovation Challenge can be answered by Applicants.

44. To help support applicants navigate the regulatory landscape, we have also noted in chapter 4 of the draft SIF Governance Document that applicants can engage with Ofgem's Innovation Link ahead of submitting an application to support their consideration of regulatory challenges associated with their Project, and consider what can be done to enable the Project to progress.

Question 10: Do you agree with our proposals on requirements for project applications? If not, please explain why.

Project assessment and funding decision

45. Details of the proposed process to assess projects and issue a funding decision are set out in chapter 5 of the draft of the SIF Governance Document. The proposals build upon the decisions taken in our RIIO-2 Final Determinations to use experts to assess projects and issue a recommendation whether to fund projects.

46. In our RIIO-2 Final Determinations, we stated this would be an Expert Panel. We are now terming this as 'Expert Assessors' to reflect that the experts appointed may need to vary per Innovation Challenge, and may not sit as a semi-permanent 'Expert Panel' as for the NIC in RIIO-1. We propose to publish their names after the Discovery application window closes. Appointing the Expert Assessors with reference to the Innovation Challenge would allow Ofgem to ensure that Expert Assessors have the appropriate subject matter expertise.

47. We propose that Ofgem will issue funding decisions after considering recommendations from the Expert Assessors and any other relevant information, by considering whether projects satisfy the Eligibility Criteria within SIF Governance Document and how the project proposals align with programmes funded by other public funders of innovation.

48. We propose that the Expert Assessors aim to complete their assessment no later than 8 weeks after the application window closes across all phases. In the discovery and alpha phase especially, we propose to progress this faster, if possible. Taking into account the Expert Assessors's recommendation, together with other matters referred which might be relevant, the Authority would aim to take a decision about which projects it intends to fund out of the SIF (if any), subject to the terms of related Project Directions, no later than 12 weeks after the application window closes.

Question 11: Do you agree with our proposals for the assessment process? If not, please explain why.

Project delivery

49. Our proposed reporting requirements for project delivery and our proposals on how to monitor projects are set out in Chapter 6 of the consultation draft Governance Document.
50. These proposed arrangements build upon the reporting arrangements that UKRI uses in other innovation programmes that it administers, which we consider apt for the purposes of the SIF as they fit with the phased operation of SIF projects. They seek to ensure that reporting requirements to support project monitoring by UKRI will be proportionate to the size and duration of the project Phase.

Question 12: Do you agree with our proposals on requirements for reporting, and our proposals to monitor projects? If not, please explain why.

Funding arrangements for SIF projects

Source of funding

51. Our proposed arrangements for funding SIF projects are set out in chapter 7 of the draft SIF Governance Document. The default position stated in Final Determinations is that approved projects will be funded via use of system charges collected by the ESO and NGGT. Funding approved projects via use of system charges adopts the same approach as under the RIIO-1 NIC. As such, the cost of the innovation projects would be socialised across GB consumers, which we consider to be appropriate given the GB-wide learnings from innovation projects.
52. We previously stated that we would consult on alternative arrangements for funding high-value projects which have a significant short-term impact on network charges. After further consideration, we believe alternative funding arrangements are best considered on a case by case basis as they are likely to be rare and project specific. For example, it may be appropriate to fund a high-value project by adding the cost of them onto one companies' asset base; alternatively, the cost of other high-value projects may be appropriately socialised across the GB consumer base in another way. However it is difficult to foresee what the best arrangements are until we understand what projects we may seek to fund.
53. Therefore Ofgem will further consider in conjunction with stakeholders whether it is appropriate to recover funds for projects via other sources on a case by case basis when engaging about and setting Innovation Challenges. In such instances, we will consult on alternative methods and seek to modify the licence if necessary. For

example, we recognise that, exceptionally, very high value projects may have a significant short-term impact on network charges and that, if such projects arise, we may need to consult in advance on possible alternative funding mechanisms for such projects.

Timing of distribution of funds

54. Consistent with the distribution of funds for the RIIO-1 NIC, the Authority will direct NGGT and the ESO to distribute and return SIF funds once a year ahead of the start of the financial year.

55. However, we retain the flexibility to issue funding decisions and Project Directions at any time in a year (approximately six months after setting any Innovation Challenge). We believe that network companies and the ESO would be able to start projects after we issue our funding decisions and Project Direction, which confirm what projects will deliver. We believe that network companies and the ESO do not need to have received the money in advance for projects and can recover funds for initial work on projects in arrears, after the ESO and NGGT distribute funds from 1 April onwards.

Question 13: Do you agree with our proposed funding arrangements for SIF projects? If not, please explain why and suggest whether there are alternative funding arrangements that may be preferable.

Project administration

56. Our proposed requirements for project administration are set out in chapter 8 of the draft SIF Governance Document. These requirements replicate the requirements for Network Innovation Competition (NIC) projects in the RIIO-1 NIC Governance Document. We believe these requirements continue to be appropriate as they maintain an audit trail for projects and provide Ofgem with the ability to hold licensees to account on the project.

Question 14: Do you agree with our proposed requirements regarding project administration for SIF projects? If not, please explain why.

Intellectual property rights and royalties

57. Our proposed default arrangements for dealing with intellectual property rights and royalties within SIF projects are set out in chapter 9 of the draft SIF Governance Document. These requirements replicate the requirements for NIC projects in the RIIO-

1 NIC Governance Document. We believe these requirements continue to be appropriate as they ensure that consumers continue to benefit from intellectual property and royalties created during the course of SIF projects.

Question 15: Do you agree with our proposed default rules for intellectual property rights and royalties for SIF projects? If not, please explain why.

Annex 2 – Consolidated list of consultation questions

Question 1: Do you agree that our proposals to appoint and remunerate UKRI as our delivery partner provide value for money to energy consumers? If not, please explain why.

Question 2: Do you have views on the means by which we can gather stakeholders' insight into strategic innovation priorities before developing a challenge?

Question 3: Do you consider our proposed three-phase approach suitable to support large-scale strategic network innovation projects, while encouraging learning and mitigating risk? If not, please set out your reasons why.

Question 4: Do you consider that the indicative value and length of the different Project Phases will accommodate a wide range of network innovation projects to support net zero?

Question 5: Do you agree with our proposed Eligibility Criteria? If not, please explain why.

Question 6: Do you have views on which parameters Ofgem should consider defining when setting Innovation Challenges? In particular, the types of organisation that need to participate in a consortium as project partners?

Question 7: Do you have views on the circumstances in which Ofgem may require a higher level of compulsory contribution towards projects?

Question 8: Do you agree with our proposed requirements to encourage collaboration and share learning? If not, please explain why.

Question 9: Do you have views on whether and, if so, how the ENA Smarter Networks Portal and annual innovation conference could be improved better to achieve its aims of effectively disseminating learning and enabling partnerships between licensees and third parties?

Question 10: Do you agree with our proposals on requirements for project applications? If not, please explain why.

Question 11: Do you agree with our proposals for the assessment process? If not, please explain why.

Question 12: Do you agree with our proposals on requirements for reporting, and our proposals to monitor projects? If not, please explain why.

Question 13: Do you agree with our proposed funding arrangements for SIF projects? If not, please explain why and suggest whether there are alternative funding arrangements that may be preferable.

Question 14: Do you agree with our proposed requirements regarding project administration for SIF projects? If not, please explain why.

Question 15: Do you agree with our proposed default rules for intellectual property rights and royalties for SIF projects? If not, please explain why.