

# Decision

## Decision on the 2021 Network Innovation Competition Successful Delivery Reward (SDR) applications

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**Contact:** Duncan Innes

**Team:** Network Price Controls

**Tel:** 020 7901 7471

**Email:** [Duncan.Innes@ofgem.gov.uk](mailto:Duncan.Innes@ofgem.gov.uk)

In May 2021 we received one application from SGN for a Successful Delivery Reward for its Real-Time Networks Network Innovation Competition project.

This document sets out our assessment of the project's Successful Delivery Reward application and the resulting level of award.

**Associated documents:**

Real-Time Networks Project Direction (SGN)

[https://www.ofgem.gov.uk/sites/default/files/docs/real\\_time\\_networks\\_project\\_direction.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/real_time_networks_project_direction.pdf)

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Contents

**Executive summary ..... 3**

**1. Introduction ..... 5**

**2. Real-time Networks ..... Error! Bookmark not defined.**

## Executive summary

Innovation is important to ensure that network companies support the transition to a smarter, more flexible, sustainable low-carbon energy system and reduce costs to consumers by finding new ways of operating and developing their networks. Accordingly, our framework for regulating network companies contains mechanisms to stimulate innovation.

Within the Revenue=Incentives+Innovation+Outputs (RIIO-1) price control framework, network licensees had access to the Network Innovation Competition (NIC) and Network Innovation Allowance (NIA).

While the RIIO-1 price control framework ended on 31 March 2021, a number of the RIIO-1 NIC projects remain in flight, and Ofgem will therefore continue to have decisions to make on these projects during the course of the RIIO-2 price control framework.

The Successful Delivery Reward (SDR) is a financial reward that companies can apply for on completion of certain NIC projects that are delivered efficiently. Network companies make a compulsory contribution of 10% of the total project funding approved at the start of the project. This is the maximum value of the SDR that can be awarded for each project. Companies can apply to receive this once their project is complete if they can demonstrate how they have met certain project-specific SDR Criteria, as set out in each individual Project Direction.

There is an annual window for completed NIC projects to apply for their SDR. This year, SGN's Real-Time Networks is the only completed gas NIC project to apply for the SDR. We used their application, along with other evidence received in the course of the project, to assess whether the project had been well managed and met its Successful Delivery Reward Criteria (SDRC).

Having considered the application, we have decided to award the project £698,976, representing 88% of the potential reward. Remaining unspent funds on the project will be returned to consumers.

Our decision on the reward for the project is presented in Table 1 below.

**Table 1: Decision on the Successful Delivery Reward**

<b>Project</b>	<b>Funding Mechanism</b>	<b>Licensee</b>	<b>Licensee compulsory contribution (£)</b>	<b>Total SDR award (£)</b>
Real-Time Networks	Gas NIC	SGN	798,830	698,976

## 1. Introduction

### Context

- 1.1. Network companies need to innovate to address the challenges they face and facilitate the transition to a low carbon economy. We recognised this when developing the NIC to fund the network companies to run network-related trials of technologies that will facilitate the transition to a low carbon economy, where these offer cost savings and/or wider environmental benefits for consumers. The funding provided to companies under the schemes is paid for by consumers through their bills.
- 1.2. Before licensees were awarded funding for NIC projects, licensees submitted project proposals. These were reviewed by Ofgem and an independent Expert Panel. The Expert Panel recommended which projects should be awarded funding and Ofgem decided to award the requested funding, with each network company being required to make a compulsory contribution of 10% of the funding requested.
- 1.3. All NIC projects awarded funding in or before Relevant Year 2016/2017 are eligible to apply to Ofgem for the SDR once the project has been completed. The maximum reward is equal to the licensee's 10% compulsory contribution to the project budget, as set out in its Project Direction<sup>1</sup>.
- 1.4. There is an annual window for completed NIC projects to apply for their SDR. In 2021, one gas NIC project (SGN's Real-Time Networks) applied for the SDR. The total amount of funding applied for was £798,830.

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<sup>1</sup> All capitalised terms not otherwise defined in this document have the meaning given to them in the NIC Governance Document.

## Our decision making process

- 1.5. The process for assessing the SDR applications is set out in the NIC Governance Documents<sup>2</sup>. Licensees are required by their respective NIC licence conditions to comply with these documents as though they formed part of the licence.
- 1.6. The NIC Governance Document sets out the three elements we consider as part of assessment of SDR applications, which are summarised here:
- whether the project specific SDRC, contained in its project direction, had been met to a quality that we expected and delivered on time – weighted at 50% of the potential reward
  - the final project cost to understand if the SDRC were met cost-effectively – weighted at 25% of the potential reward
  - the management of the project, in particular how risk and uncertainty were controlled and how significant changes to the project were managed – weighted at 25% of the potential reward.
- 1.7. We place greater weighting on the first element because it is directly related to evaluating how the SDRC were met. The remaining weighting is split evenly between cost effectiveness and project management.
- 1.8. We assess projects on a case by case basis, using:
- evidence submitted in the applications
  - responses from the companies to our supplementary questions (if any)

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<sup>2</sup> [Network Innovation Competition Governance Documents v.3](#), paras 8.63 – 8.65.

- evidence gathered by us during the life of the project.
- 1.9. We adopt a standard assessment process to ensure the projects are treated consistently and fairly.
- 1.10. Some projects undergo changes in their scope, methodology and expected outputs, which can be expected due to the nature of innovation projects. In order to incorporate these changes into the Project Directions, the licensees have to submit change requests to us for approval.
- 1.11. When we assess whether to approve these change requests, we consider whether there has been a material change in circumstances and whether the changes are in consumers' interest. We are not at that time evaluating the licensee's management of change, and approving the request does not influence our decision on the level of the award under the SDR.
- 1.12. We reduce the amount of the reward where we believe the licensee had not made full use of the available risk management tools. We also reduce the amount of the reward where we considered documents submitted to us as part of a change request were not to the required standard.
- 1.13. As per the NIC Governance Document for this project, part of our assessment of the SDR we consider whether the project was delivered cost effectively. We note in relation to the submissions assessed in this document, that where companies have demonstrated that they have applied new and innovative approaches to underspend against the budget they have received the reward for this category. We have not rewarded these companies for underspending budgets where this is not demonstrated, as the underspend may simply be a reflection of an inaccurate, and possibly overstated, initial budget.
- 1.14. The remainder of this document outlines our assessment of this year's SDR application, which has been published on our website alongside this decision.



## 2. Real-time Networks

### **Project summary**

SGN was awarded funding by Ofgem to implement their Real-Time Networks project through the Gas NIC in 2015. The project set out to develop, install and demonstrate a flexible “real-time” network demand model capable of modelling the GB gas network to meet current and evolving needs. The project involved the development of four new types of activity:

- Installation of sensors for flow, gas quality, pressure and consumer demand.
- Development of a novel cloud and communications system to pass data to and from the network model.
- Development of an understanding of the impact of renewable technologies on demand.
- Development of a demand and real-time network model.

### **Did the Project meet its SDRC?**

- 2.1. We consider the evidence submitted by SGN in its SDR application for the project demonstrates that the SDRC set out in OFGEM’s Project Direction were delivered to an acceptable quality although with some delays to deadlines. We therefore consider the project met its SDRC.

### **Were the SDRC cost-effectively delivered?**

- 2.2. The project was delivered under budget in all areas. The underspend was small in each area, ranging from 0.8% to 3.8%. Project costs therefore appear to have been accurately forecasted.
- 2.3. SGN delivered the project £79,165 (1%) under budget. The unspent budget will be returned to consumers<sup>3</sup>. Overall, we consider SGN’s approach to be cost-effective.

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<sup>3</sup> For clarity, the sharing factor does not apply to the return of these funds.

### **How well was the SGN project managed?**

- 2.4. SGN was required to provide reports at key milestones throughout the project. All of these reports were of an acceptable standard. SGN provided risk analysis in its six-month reports as required. Additionally, SGN submitted its SDR application on time.
- 2.5. SGN was required to provide reports at key milestones throughout the project. All of these reports were of an acceptable standard. SGN provided risk analysis in its six-month reports as required. Additionally, SGN submitted its SDR application on time.
- 2.6. However, as noted in paragraph 2.1, SGN encountered delays in the completion of some of its SDRC. For instance, SGN missed one particular SDRC deadline. In addition, in 2018, it notified Ofgem of a 12 month delay to the completion of the project, to April 2020.<sup>4</sup> SGN had not previously communicated the changes to SDRC deadlines in advance of these being missed. SGN's management of these delays therefore suggests that project management could have been better.
- 2.7. Overall, we consider that SGN's performance on the project management criterion to be of a mixed standard.

### **Our decision**

- 2.8. We have decided to award the project 87.5% of the full SDR available: £698,976.
- 2.9. This reflects the fact that despite its mixed performance on the project management criterion, SGN has delivered the overall project to a mostly satisfactory standard, and under budget. How this has been calculated is set out in Table 2 below:

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<sup>4</sup> We recognise SGN complied with the NIC Governance as change requests are only needed for projects delayed for more than 12 months but we feel that the disclosure of the delay should have been notified earlier.

**Table 2: Real-Time Networks Award**

<b>SDR criterion</b>	<b>Available / £</b>	<b>Awarded / £</b>
SDRC Delivery	399,415	399,415
Cost effectiveness	199,708	199,708
Project management	199,708	99,854
<b>Total</b>	<b>798,830</b>	<b>698,976</b>