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Dear Graeme,

### **National Grid Electricity Transmission plc Response to Ofgem's SIF Governance Document Consultation**

This response is made on behalf of National Grid Electricity Transmission plc (NGET). We welcome the opportunity to respond to this consultation on the Strategic Innovation Fund (SIF) Governance Document.

Our response to the specific consultation questions is included as an annex to this letter, and we have also provided feedback on the drafting of the Governance Document itself via the issues log provided by Ofgem.

The SIF has a key role in supporting the network innovation that is required to help facilitate the achievement of Net Zero targets. Whilst we recognise the logic of Ofgem's proposed three phase approach, we would welcome additional flexibility that may avoid the need for certain projects to undertake all 3 stages, where this is not appropriate for the project in question, for example where Discovery or even Alpha phases have been undertaken outside of SIF Funding. Given the need for agility and responsiveness we consider that options for such flexibility should be built into the Governance Document from the outset.

We can also see the potential for the three-phase approach to negatively impact timelines and the ability to consistently resource across project phases, ultimately with a negative impact on cost efficiency. In order to avoid potential demobilisation and remobilisation between project phases we would ask Ofgem to consider ways in which the decision-making process may be streamlined and such period reduced.

We would also welcome further clarity from Ofgem on how the SIF mechanism is intended to operate where there are cross sector projects delivering benefits for both electricity and gas consumers. The Governance

Document as drafted appears to require that the entire cost of the funding will be borne by either electricity or gas consumers (depending on which sector the licensee that acts as the Funding Party operates in and which system operator it receives SIF funding from). There does not appear to be a mechanism for costs to be shared equitably between both consumer groups, notwithstanding the principle that projects should be funded based on the consumer group that benefits from it.

We also note Ofgem's proposals around varying the default 10% compulsory contribution in certain circumstances, which has the potential to deter participation in SIF, and would welcome further clarity from Ofgem on the circumstances where it would seek to apply such variation. In particular:

- We are keen to understand how Ofgem will ensure that variations to compulsory contributions are not duplicative to other benefit sharing mechanisms (for instance royalty sharing, the totex incentive mechanism, and the 0.2% compound annual efficiency requirement relating to innovation that was included as part of the RIIO-2 Final Determinations).
- We would welcome further explanation of the basis on which Ofgem considers it is appropriate for the network licensee's compulsory contribution to be increased where a project is considered to provide "non-network" benefits. We consider that this might more appropriately warrant an increased contribution from project partners or external funders rather than network licensees, given licence restrictions on non-network activities.
- We request further clarity from Ofgem regarding the proposal to match SIF project funding with other sources of public innovation funding which do not fund 90% of project costs. Given the potential to negative impact on participation in SIF projects we would welcome further clarity as to why, as a general principle, Ofgem considers such matching of funding is appropriate in the context of the SIF, and how and at what stage it will make network licensees aware that it intends to adopt such a position on a specific Innovation Challenge.

We hope that our response is useful. Please do not hesitate to contact us to discuss any elements of this response.

Yours sincerely,

Alexander Yanushkevich  
**Deeside Innovation Manager, National Grid Electricity Transmission plc**

## Annex 1: 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.

We have no objection to UKRI being appointed as a delivery partner, however, we would highlight the importance of ensuring that UKRI has sufficient technical expertise to identify challenge topics for all licensees as well as to propose challenges for cross sector projects. It is difficult to evaluate if UKRI represents the best value for money for energy consumers as no other alternatives have been presented through the consultation.

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

We would encourage Ofgem and UKRI to engage with licensees through existing groups such as the Energy Networks Association (ENA) or smaller sector group workshops to ensure there is the opportunity for licensees to provide feedback and insight into particular business needs in order that Innovation Challenges can be better aligned to the licensees' technology roadmaps and re-openers timelines.

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.

We are generally supportive of the three-phase approach for project development, however, we are concerned that a 3-6 month gap between project phases will be problematic, making it difficult to maintain the pace of the innovation delivery, managing internal resources and stakeholder expectations, against a backdrop of uncertainty about project continuation. We propose to limit the gap to 4-6 weeks and accelerate approval for next phase decision making through assessing the end of phase report and ongoing feedback from and engagement with the monitoring officer. We would also welcome Ofgem providing flexibility around the requirement for all projects to follow all three-phases, given there are some projects where a Discovery or in some cases Alpha phase would not be required.

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?

Given the broad range of projects that may be brought forwards under SIF we consider that it would be more appropriate for phase value and length to vary with the particular Innovation Challenge or even, on certain Innovation Challenges, for this to be the subject of negotiation between Ofgem and the applicants.

This would ensure that the SIF mechanism is set up from the outset in a way that it can be flexed to ensure efficient and timely progression of projects and as greater experience of the setting of Innovation Challenges and submission and applications is gained by all parties.

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

We are supportive of the Eligibility Criteria with the exception of Criterion 3 which we consider should also include environmental benefits, that might not always lead to network cost reduction, for example replacement of SF6 assets or use of low carbon footprint materials.

**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?**

We consider that the Innovation Challenge scope should align to the licensee's business interests in order to accelerate the delivery of benefits. For most of the projects we anticipate that the participants would include relevant licensees, solution providers, and academia. In some instances the involvement of regulatory bodies may be necessary, for example if changes to regulatory frameworks are required.

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

We would suggest that a requirement for a higher level of compulsory contributions towards projects would only be appropriate for projects from which a high level of revenues or royalties are expected.

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

Generally, we agree with the proposed requirements, we would, however, query the requirement to maintain the ENA Smarter Networks Portal as SIF has no mechanism to fund such works and it would not be appropriate for such changes to be funded via the Network Innovation Allowance.

**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?**

We do not have any specific suggestions on how the Smarter Networks Portal and annual innovation conference could be improved in the ways described.

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

We support Ofgem's proposals on requirement for project applications.

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

We generally support Ofgem's proposals for the assessment process, however, we would welcome faster evaluation and decision making, especially as regards phase to phase transition. Whilst we appreciate some gap is necessary in order to allow governance teams to decide on whether projects should continue to the next phase, the proposed duration will cause issues around funding, contracting and resourcing projects. Such delays between phases may also prevent smaller organisations (who are unable to fund resources during these periods) from participating in SIF projects.

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

In general, yes, we support the proposals on requirements for reporting, however, we would ask that further clarity is provided in the Governance Document as regards "User needs", which is not defined in the document.

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.

We believe that further consideration is needed as to how the funding of cross sector projects will operate in practice, given the requirement for a single Funding Party in circumstances where both electricity and gas consumers will derive benefits from the project. As currently drafted the costs of such project would be directed to one group of consumers rather than shared between both groups which does not seem equitable. We also have several other observations around the proposed funding arrangements which are set out in more detail in the accompanying issues log, including how bank interest will be applied on funding for short-term projects (of 12 months duration or less) and whether application preparation costs may be recovered from the awarded project funding. In the case of the latter, given the high number of applications expected such preparation costs may be material.

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

Yes, we agree with the proposed requirements for project administration for 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.

Given the broad range of projects that may be brought forwards under the SIF mechanism and the potentially greater diversity of funding sources that is foreshadowed by the Governance Document, it is important that network licensees are given flexibility to contract on the basis of IPR arrangements that are best suited to the particular project and which will best secure consumer value, whilst also allowing for the necessary knowledge dissemination to take place. We consider that this is best achieved by adopting a consistent position with the IPR arrangements permitted under NIA, which permits network licensees to select between several default foreground IPR ownership positions, including sole ownership by the creator, joint ownership between network licensee and creator in proportion to funding and effort, and sole ownership by the network licensee. We consider such consistency in approach on IPR is also helpful from the perspective of third parties who work with network licensees on projects funded under a range of different mechanisms, for whom the myriad of different requirements can be off-putting.

Given Ofgem's policy intent to adopt a consistent approach on IPR across NIA and SIF the key paragraphs within the IPR section of the SIF Governance Document should mirror the wording that is used in the corresponding section of the NIA Governance Document. This will ensure absolute clarity and avoid ambiguity or differences of interpretation for the benefit of all parties. We have provided detailed comments on this in our accompanying issues log.

As regards the proposed rules on royalties, given there has been little practical application of the royalties' mechanism to date it is difficult to assess its suitability. One area of concern is that there is no time or value limit on the royalties that are returned to consumers which has the potential to increase administrative burden on network licensees over time. Additionally, given the mechanism as currently drafted would operate in perpetuity it is not clear how it may be applied in a range of scenarios that may subsequently arise, such as where there is further development of the IPR generated under a SIF project but such development is funded outside of SIF. We would welcome further engagement with Ofgem on this issue.