

**Smell gas?**

Call the National Gas Emergency Service  
on 0800 111 999

Graeme Barton  
Ofgem  
32 Albion Street  
Glasgow  
G1 1LH

30 June 2021

Dear Graeme,

**Statutory consultation on RIIO-2 SIF Governance Document and the operation of the SIF**

Thank you for the opportunity to respond to this consultation. Northern Gas Networks (NGN) has been actively involved in the working groups relating to the Strategic Innovation Fund (SIF) governance and future operation of the SIF and welcomes the opportunity to provide feedback on the proposed governance and future operation model required to implement the SIF.

We have undertaken a review of the proposed content and structure of the SIF Governance Document and appointment of UKRI as delivery partner in the response template issued alongside this letter as well as comments provided in annex 1 and are broadly supportive of the proposed document and associated procedures.

Where further clarification on some elements would be welcomed and these are raised within the annex below. We would be happy to discuss this further.

Please contact me should you have any queries about this response.

Yours sincerely

*By email*

Joanna Ferguson  
Head of Market Service & Regulatory Compliance

**we are  
the network**

Northern Gas Networks Limited is registered in England and Wales, no. 5167070.  
Registered office: 1100 Century Way, Thorpe Park Business Park, Colton, Leeds LS15 8TU



Part of your monthly gas bill goes towards keeping your gas supply flowing and providing a fast and efficient emergency response service if you smell gas.  
To find out more visit: [northerngasnetworks.co.uk/goodtoknow](https://northerngasnetworks.co.uk/goodtoknow)

For information on how we use your details please visit: [northerngasnetworks.co.uk/legal-information](https://northerngasnetworks.co.uk/legal-information)

**w** [northerngasnetworks.co.uk](https://northerngasnetworks.co.uk)

**t** +44 (0) 113 397 0034

**a** 1100 Century Way, Thorpe Park Business  
Park, Colton, Leeds LS15 8TU

***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 support the appointment of UKRI as Ofgem's delivery Partner to ensure that a value for money service is provided for energy customers. UKRI are perfectly placed to provide knowledge, process, and expertise to the future operation of the SIF. The visibility and awareness of broader net zero innovation challenges and programmes across industry would be expected to increase value through positive co-ordination, specifically relating to the BEIS innovation programme.

Maximising take-up of the SIF to drive value from the anticipated cost ranges of £4.5m to £11.25m over the RIIO-2 period is essential to maximise value from the operating costs, in line with a view of an increase in applications when measured against the Network Innovation Competition (NIC). We would be keen to see the anticipated volumes of applications and subsequent projects and how the cost base has been established to ensure appropriate unit costs to launch, support and monitor innovation challenges.

The increased support to innovators and strengthened monitoring should have key performance indicators attached to ensure that the process is effective and supports the drive to increase net zero focussed innovation programmes with a robust, clearly defined, route to market.

The role and responsibilities of UKRI as delivery partner need to be clearly documented and understood, and how that is aligned to Ofgem as a regulator. We would like to understand the degree of control or oversight retained by Ofgem in addition to what degree of autonomy UKRI have to administer the process against clearly defined metrics. This is essential to ensure positive, control, pace of innovation and cultural progression in net zero innovation.

***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 support establishment of the special sub-committee of the cross-Government Net Zero Innovation Board on energy innovation to ensure visibility and create alignment between innovation programmes. In addition, the proposal to utilise the collaborative

network innovation strategies, and associated stakeholder engagement as a method of information capture to form views on future innovation challenges is logical. This is a road tested and effective method for network licensees to engage with a range of innovation partners and broader industry to ensure alignment of effort.

We further support UKRI undertaking stakeholder engagement to identify network-innovation related areas of strategic opportunities. This is a positive step, to ensure that the forums and events are successful we encourage these to be UKRI led with network licensees as participants to join, engage and support third parties, academia, consumer groups and other sectors. It is critical to note that advanced notification of innovation challenges in advance of the application window opening is a crucial element to enable networks and third parties to ensure alignment and prepare targeted proposals.

***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.***

The proposed three-phase approach for the future operation of SIF is aligned to other government led funding programmes and aligned to the traditional innovation methods deployed by NGN to research, develop, test, and prove a concept through development stages. We are supportive of the approach, however there are risks associated with the stop/start nature of negotiating the three phases. The progression from one phase to another has a three months, potentially two months if the project commenced based upon confirmation of intent to award by Ofgem, timeframe for projects to progress. This presents a risk to project resources, delivery schedules and overall pace of innovation.

There are a number of questions that remain relating to the three-phase approach to enable what we believe to be a clear and well-defined delivery method with associated governance. Firstly, what upfront notification will be given relating to Innovation Challenges to enable innovators to consider, mobilise and articulate a well-defined application?

Secondly, will all projects be required to follow the three-phase process in its entirety? There may be occasions where innovators will have partially formed proposals where one or more of the phases has been technically proven via an alternate funding

mechanism. Will such applications be permitted and if so, what would the arrangements be to formulate such an application?

Further, we understand that a range may be applied in terms of the maximum monetary value and length of each phase, as appropriate and linked to the scope of each innovation challenge. What is the forecasted range of movement, relating upcoming innovation challenges and to what degree is this forecasted to deviate away from the proposed levels?

***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?***

We believe that the value and length of the Discovery and Alpha phases are appropriate. We would like to understand further the value elements relating to the Beta phase. The proposed start value of the Beta phase would be £500k and we understand that the total value may be capped.

However, the proposed governance document states that the expected total value of the three phase will be in the region of £5m, therefore taking the £650k cap from the Discovery and Alpha phases combined, this would put the Beta phase at a nominal value for £4.35m. Further clarity is required to confirm if this is correct and if this was an expected total value, what would be the process or evidence requirements to support an application that may not meet match this value?

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

We are supportive of the eligibility criteria in general, however, in relation to Eligibility Criterion 3 [Projects must involve network innovation. Projects must be designed to reduce the costs of networks (now and in the future), improve support for vulnerable consumers and/or improve the services and products provided by network companies for consumers] further clarification is required. Project submissions are likely to focus on enabling the energy system transition and are therefore not guaranteed, or indeed likely to reduce the cost of networks now, as this will be future focussed. Clarity is required therefore on the requirement to ensure immediate cost reduction for future energy system transition projects so that it does not become a barrier to innovation.

***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.***

The parameters that should be considered when defining an innovation challenge include areas of focus i.e. provision of evidence to support a policy decision or the advancement and creation of technology to reduce risk for vulnerable customers. This will have a direct bearing on the overall cost and potential percentage of compulsory contribution. In addition, the required timeline, linked back specifically to NZIB requirements and identification of consortium partners and areas of speciality.

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

The compulsory contribution set at 10% for 'uncertain and high risk' projects at the Discovery and possibly the Alpha phase is likely to be prohibitive. To encourage the increased volumes of projects progressing via the SIF, in comparison to NIC, a reduced or removed compulsory contribution would provide an appropriate stimulus to drive and increase in Net Zero focussed innovation, especially for the early phases.

As projects progress through to the Beta phase the route to market will potentially be more certain, where the challenge and/or project relates to the development of a specific piece of technology that could be immediately commercialised and rolled out to market. It is in these scenarios, in-line with the innovation model deployed by NGN, where innovators and supply chain partners should take on more financial risk as the innovation risk is reduced and route to market more certain. Where the challenge and/or project relates to the provision of evidence to support safety case development for a hydrogen future for example, a higher level of compulsory contribution would be prohibitive.

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

We are generally supportive of the proposed approach. However, in relation to the show and tell element of SIF governance as part of project progression clarity is required to confirm when these sessions be convened, how they will be structured, and will they be combined with other applications or specific elements relating to an

individual project? Will costs for this additional requirement to host webinars be accepted as part of project costs and will any platform such as Microsoft Teams be used for this to keep costs to a minimum?

***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?***

The Smarter Network Portal (SNP) has recently been updated and modified to become aligned to RIIO-2 Network Innovation Allowance (NIA) requirements. A forward work programme for future developments has been identified to enable further development and increased ability to support effective dissemination of learning and development of stakeholder relations and subsequent partnerships. The SNP can be a single point of reference for network innovation and has the potential for further development to incorporate the new SIF requirements. However extensive engagement would be required with both Ofgem and UKRI to measure and review against existing UKRI dissemination and reporting methods to assess value and preference, tested with key stakeholders.

The annual innovation conference is perfectly placed to enable and deliver effective dissemination and engagement in relation to NIA, SIF and broader network innovation activity, in-line with the aforementioned engagement with affected parties.

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

The three-phase approach is logical, and it is clear and well defined relating to how one phase builds upon on the previous phase, which we support. The requirements for application at Discover phase, where a concept or challenge is to be defined and potential value identified may be appropriate, however we believe that this may need to be tested over time. The requirement for eight questions at four hundred words per response and the provision of supporting information may be prohibitive relevant to the content matter of the application at this intentionally short, ambitious, discovery step.

In addition, it is unclear whether all projects submitted via the application process be invited for presentation to Expert Assessors, or will this follow an election or shortlisting

review process? If so, the criteria would that be based upon requires defining. Section 5.8 of the Draft SIF Governance Document would benefit from additional information for the circumstances where a project was not progressed at this stage but had potential and was relevant for a re-submission. The format would that follow and any feedback provided by either or all of Ofgem, UKRI or the Expert Assessors needs clarification.

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

We are supportive of this proposed approach. However, potential for additional supplementary questioning and/or meeting with Expert Assessors needs to be monitored in reference to the overall application process. The need for additional questions could negatively impact the pace of application and associated projects and should be managed continually by UKRI as delivery partner.

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

We are generally supportive of the approach. In addition, and in reference to sections 6.19, 6.20 and 7.28 of the Draft SIF Governance Document, if a project requires change, clarification on how this be notified via the Monitoring Officer would be welcomed. It would be beneficial for he Monitoring Officer provide a recommendation to Ofgem as they will be knowledgeable and well informed regarding the progress or the project against the aims and objectives and will be in a unique position to support Ofgem. This will also increase the value-added activity from the Monitoring Officer from UKRI fees.

***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 are supportive of the proposed approach.

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

We are supportive of the proposed approach.

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

We are supportive of the proposed approach.