

Sent by email:

graeme.barton@ofgem.gov.uk

30 June 2021

Dear Graeme,

Consultation on SIF Governance Document

Thank you for the opportunity to respond to the dedicated consultation on Ofgem's Strategic Innovation Fund (SIF) Governance Document. As indicated in our responses to the review of the associated licence conditions, we expect the Governance Document will be key to understanding the overall process and the required information for each stage of this too.

SSEN is the trading name of Scottish Hydro Electric Transmission plc (SSEN Transmission), Scottish Hydro Electric Power Distribution plc (SHEPD), and Southern Electric Power Distribution plc (SEPD). This response is submitted on behalf of those licensees. We note that the current consultation applies specifically to Electricity and Gas Transmission, and Gas Distribution companies, and we will respond to further consultations on the application of the SIF to Electricity Distribution in due course.

We have identified the following key areas that would benefit from further clarification. These points are elaborated on in the attached Annex which responds to the consultation questions.

- An already complex area could be further complicated by the differing objectives and approaches of the UKRI and Ofgem.
- The three-phased approach is an attempt to mitigate risk but with the downside of projects taking longer to develop and with a potential loss of momentum in them being developed.
- There is a potential risk of projects becoming too narrowly focused or niche without a clear commitment to having a wide range of projects – projects should benefit a broad range of consumers.
- It is unclear whether the Smarter Networks Portal is the only way for partners to engage with networks or if a wider engagement programme should be undertaken.
- It will be important for Licensees to be given notice of when challenges are expected so that resource can be available and in a manner that offers good value.

We look forward to continuing to work with Ofgem to develop positive change and ensure the SIF can operate effectively and ultimately provide good value for consumers.

Yours sincerely

Josh Henderson
Senior Regulation Analyst

Annex: SSEN response - Consultation on SIF Governance Document

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.

Overall, yes. We have confidence in UKRI as the delivery partner, having worked with them on projects such as the Leo Project¹. However, given the different objectives of the two organisations, if the governance approach of the UKRI is combined with the detail required by Ofgem, then we would be concerned that the resulting and additional layer of administration between UKRI and Ofgem could complicate an already complex process. The risk is that this delivery approach does not offer better value for money than the existing NIC. The aim should be to have a common view across Ofgem and UKRI that does not result in any duplicated effort.

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

Ofgem should ensure that challenges are consistent with wider policy objectives. Ofgem should gain a good understanding of regional variations in network issues by involving devolved governments and local authorities. Their feedback can then be used to form challenges that address the issues that they and their customers face.

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 agree that the proposed three-phase approach will increase the chance of projects reaching the Beta stage being well focussed and likely to succeed. On the downside of this, it appears that the time taken to reach the Beta stage is longer than the development and approval of a NIC bid. It would be worthwhile for Ofgem to make a more direct comparison between these two approaches to add confidence that the SIF provides an equally or better route to innovation benefits.

We are concerned the three-phased approach could have the undesirable result of slowing down innovation benefits expected to start from the time of the Beta stage. To mitigate this, the level of detail provided needs to be proportionate to each stage of the process.

Where partners are involved, there should also be clarity about the level of commitment required at each stage as well. This could involve letters of intent for the earlier stages and developing to signed commercial commitments for the later stages. We would also be concerned about consequential cash-flow issues since the full cost is unknown as is the case with the NIC.

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 expect that the details of challenges will influence whether there is a wide range of projects, perhaps more so than their scale in terms of value and duration. Challenges being too niche or solely focussed on specific parts of the industry is more likely to limit the range of projects.

It would also be worthwhile to clarify what would happen where either budget or timeline constraints at the Discovery and Alpha stages would stop the project from continuing. If an issue was to arise that results in increased costs or required time, can these be adjusted or does the project end? A pragmatic approach would expect that the project scope and budget can increase or decrease as it progresses and as the project requires.

It is also useful for Ofgem to have a realistic expectation about the likelihood of projects being submitted. Initially we would expect to submit no more than 1 or 2 Discovery projects given that the resource for these is likely to grow as it

¹ <https://project-leo.co.uk/>

moves through the 3 phases. Additionally, the risk of projects not progressing would likely involve contracting resource for shorter term peaks of activity. This approach may not necessarily provide good value for consumers.

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

We think Ofgem could refine their view regarding Criterion 3 in that network innovation goes beyond reducing costs for networks and how this is fairly distributed across consumers as well. Existing targets for an additional 40GW of renewable generation by 2030 could potentially require increasing network capacity at expense necessary to reach the target. While being economic should still be included in the eligibility criteria, assessments should also have a realistic expectation about the necessary costs likely to be incurred.

Ofgem should also be mindful of the internal issues that may be caused for network providers. There is potential for licensees to have to allocate budget before challenges are issued and the contribution value is known as well.

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.

Ofgem should take a holistic view in how successful projects will impact on BaU procurement activities if they are successful. Setting out types of expected partners could offer a useful starting point but come with the risk that several network providers attempt to engage with the same project partners resulting in availability issues.

Ofgem have provided a high-level expectation in referencing types of stakeholders in Eligibility Criterion 6 and this would benefit from more information about the reasoning for having these types of partners involved and the value they will add. Another benefit would be to explicitly state whether these partners should also come from outside of the energy industry.

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

SSEN has several concerns around Ofgem requiring a higher level of compulsory contribution that could result in various complications that Ofgem may not have anticipated.

Eligibility requirements suggest that if collaborating, funding will be required from a party other than the licensee to progress the project. This then presents challenges over how to combine different funding streams and resolve any potential Intellectual Property Rights (IPR) conflicts; something that has added pressure of having prescribed timescales for the different scheme phases.

Mixing funding streams also carries additional compliance and governance costs adding to overall projects budgets which in turn may not offer the best value for consumers. The best option for these factors to be managed will be for applicants to be given notice to a variation on expected contributions. It is important that Ofgem shares details of the intended benefit assessments that will then inform the required contribution. This will help applicants to understand the basis for Ofgem's decision.

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

SSEN understands and supports that encouraging collaboration and shared learning are key to the SIF outcomes. However, there are practicalities of this that would need to be understood for licensees to manage this requirement within their typical resource levels.

Third parties being able to submit a SIF proposal could add an unquantifiable resource commitment (including screening and selecting projects to be progressed) on licensees that could be difficult to resolve without the use of shorter-term contractor resource.

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?

SSEN would welcome more understanding of whether the Portal will be used by third parties to engage with network licensees to develop ideas or whether this will happen separately.

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

We generally agree with the proposals for the project application requirements. Given that RIIO-2 is intended to prepare networks to deliver Net Zero, it would also be welcome if Ofgem gave the expectation that each application should reference how the project will help deliver this.

Ofgem should also have the correct expectation about the number of applications that will be made through the scheme as well. Initially, we are likely to make only one or two as we take a qualitative approach and focus on what drives quality outcomes.

We also currently assume that the Discovery application will require to provide details of how subsequent phases will feed into the overall programme.

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

We are keen to ensure that projects do not lose momentum going through the 3 phased approach, particularly when activity has natural latent periods.

Other than this, we would also like to see early notification and good awareness of when challenges are going to be issued. This would help to plan and resource appropriately. Where possible, the best features of the annual NIC timetable should be taken where this allows resource planning to be known against a known timeframe. This can then be used to establish the required resourcing, including any additional recruitment, and have this considered in the project budget.

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

We agree with the proposed level of detail required for reporting. As well as this, we would recommend development of a consistent measurement framework that will allow a consistent view to be developed across all projects. It should also allow innovators to have a common view of how to quantify and report on project benefits.

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.

Ofgem have noted that they will consult on alternative arrangements when expected to have significant short-term impact on network charges. While these circumstances may not be fully understood until the types of projects are known, it is important that this certainty is established at the earliest opportunity.

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

We agree with administration requirements replicating the existing NIC requirements and the consistency this provides.

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

As mentioned in response to Q7, more complexity will be incurred due to different funding streams having their own IPR requirements.