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By email to: graeme.barton@ofgem.gov.uk

Dear Graeme

Consultation on Draft SIF Governance Document

Thank you for the opportunity to respond to the above consultation. This letter should be treated as a consolidated response on behalf of UK Power Networks' three licensed distribution companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. It is not confidential and may be published on Ofgem's website.

We have reviewed the suite of documents and have a number of comments which we have included in the attached Issues Log. Further, we have included our responses to the Ofgem cover letter issued as part of this consultation. As you will no doubt be aware, DNOs such as ourselves are heavily focussed on finalising their Initial Business Plan Submissions. This coupled with the fact that these documents will not apply to DNOs until RIIO-ED2 commences means that our review and feedback is reflective of this.

In line with Ofgem's standard practice we would expect that DNOs would be consulted regarding the content of these documents prior to their application to DNOs and our response to that future consultation will be reflective of a thorough review.

As an engaged innovator in RIIO-ED1, I hope that our response is helpful. If you have any questions, please do not hesitate to contact Paul Measday.

Yours sincerely



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Head of Regulation & Regulatory Finance
UK Power Networks

Copy: Ian Cameron, Head of Innovation and Customer Service, UK Power Networks



Ian Cooper, Innovation Lead, UK Power Networks
Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
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Appendix 1

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 agree with Ofgem's proposal of UKRI as the delivery partner as this enables beneficial alignment with other UKRI funds.

We believe that Ofgem's proposed value of 1% may be an appropriate level of remuneration to administer the fund but that beyond 2.5% would not represent good value for money. If a higher level of remuneration is requested we suggest market testing the service to ensure that it is efficiently delivered.

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 welcome the inclusion of the Energy Networks Innovation Strategies and the proposal to engage with network companies to develop the challenges. We consider it very helpful to have an early view of the possible challenges such that we can plan and resource for them in time to engage with third parties once the challenges are formally announced.

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 can see the benefits of the three phase approach, in supporting the early stage scoping of major projects and reducing the significant bid hurdle that the NIC has. However, we have concerns over the detail of the phased approach and how this would work in practice.

It is unclear whether contracts with third parties are likely to be able to be negotiated in time to meet the timescales between phases, and whether those parties would be willing to negotiate early while "at risk" of the funding not being awarded. The start/stop nature of the process could also make continual resourcing more difficult, as ideally one would recruit people to carry out design and build work over a long confirmed contract once funding is awarded. Separating the design into the Alpha phase makes it more difficult to bring in long term resources as there is not the confidence in the delivery phase being funded. With a NIC project stage gate there is an expectation that the project will continue if successful, with clear go/no go criteria, which are not present in the phased approach. However we understand innovation comes with a level of risk in bidding and delivering, we welcome the opportunity to revisit this after the first round of challenges.

Despite these concerns, and the electricity distribution sector price control review occurring two years after the other sectors, we are keen to be involved to test this new approach and help shape it further as 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?

We are unclear on what is meant to be achieved in the scope of each phase, as the maximum durations seem short while the maximum budgets seem high. This indicates a very high level of resource starting/stopping during the process which is often difficult to achieve in practice. It may only be possible to determine the best boundaries once the process has been tested, and we think the proposals are sufficient to enable projects to proceed. As such and as stated above we are keen to help test the new approach and provide feedback as projects progress.

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

We have detailed feedback in the attached Issues Log.

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 do not have views on which parameters should be specified at this time.

We welcome clear Challenges and parameters at each stage of the process. To set too rigid parameters on participants too early might remove the opportunity for competitive procurement later on. This may unduly increase costs to the customers who ultimately pay for the SIF.

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

We believe that contributions to projects should be proportional to the benefits received should the project be successful. As such, the network licensee compulsory contribution should be in proportion to the benefits the licensee (and shareholders) might receive. These tend to be extremely time limited as the price control process is designed to pass these benefits from the licensee to the customer.

If a project or challenge requires a network operator to be involved, however the benefits of such a project may be more favoured to third parties and wider society as opposed to energy bills, this may unintentionally dis-incentivise network operators from taking part in such projects. This is different from product developers or suppliers who may gain market share and could more easily make a direct return from outputs of projects than network operators can.

This is particularly evident when aligning SIF funding with other UKRI funding to focus on challenges on the edge of the network licensee's remit. In these cases the benefits are less likely to accrue to network customers via the network operator.

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

Smarter Networks Portal – we agree with your proposals.

Data best practice – we suggest adding clarity over potential conflict between data and IPR requirements where data is IP.

Separately we would encourage UKRI to share similar data from other projects they fund such that all industry learning is shared openly.

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?

Innovation conference – as part of the ENA we have continually engaged with conference attendees to make improvements, within the bounds of the remit issued by Ofgem. We do however acknowledge more recently that some licensees have selected to utilise alternative engagement

approaches and conferences to share learning. We have had the fortune of utilising varied approaches to sharing and dissemination and see the merit of network innovation being part of a larger UK wide innovation dissemination approach, considering the strategic aims of the SIF.

Portal – please see our feedback to Q8.

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

Generally, we welcome reducing the effort required in bidding for projects to reduce barriers to entry for smaller organisations, while recognising the need to provide appropriate due diligence before awarding large amounts of innovation funding. However at this time it is not possible for us to determine whether the proposals could achieve this aim without testing them by completing project applications.

We have detailed feedback in the attached Issues Log.

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

We generally agree with the proposed assessment process, and have provided detailed feedback in the attached Issues Log.

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

We would welcome more detail here as currently network operators expend a substantial amount of time and cost preparing reports for external consumption. We would also welcome more detail in relation to the monitoring officer from UKRI and the role they play as an intermediary between network operators and Ofgem. It is particularly important that all parties are clear on the role and authority of the monitoring officer, and that the level of detail required is appropriate and prevents duplication.

We welcome ongoing monitoring of projects as they progress in preference to completely post-project review with funding clawback. This enables any potential concerns to be addressed in a timely manner and risk exposure to customers and project partners to be reduced, this approach further supports a fail fast approach.

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.

The proposed funding arrangements have been effective for high value NIC and LCNF Tier 2 projects for many years. Their appropriateness for the lower value early project phases should be tested but we believe in principle they can work. As for beta phases significant costs may be incurred before funds are received as well as after, we request that the requirement to calculate interest is consistent either side of the funding being received.

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

We have detailed feedback in the attached Issues Log and we draw your attention to our feedback on the “clawback” post project in clause 7.12.

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 agree, as the IPR rules closely reflect those in place for the NIC. However this agreement is subject to the change of “innovator” to “network licensee” in the chapter as this is a significant change which we believe is not intentional.