

To all interested parties

Email: evaluationteam@ofgem.gov.uk

Date: 29 November 2021

Call for evidence on the evaluation of RIIO-1 and RIIO-2 Innovation Funds

This call for evidence welcomes your views on the [Network Innovation Allowance](#) (NIA),¹ the [Network Innovation Competition](#) (NIC)² and the [Strategic Innovation Fund](#) (SIF).³ The annex to this letter contains seven questions to help us understand both how the funds are working and whether any changes should be considered.

Background

We facilitate funding for innovative projects which aim to help make the energy networks smarter, accelerate the development of a low carbon energy sector and deliver financial benefits to consumers. The funds are designed to incentivise the development of crucial knowledge and expertise both within a particular network operator but also across network operators.

We introduced the NIA in 2013 as part of the RIIO-1 price controls. The RIIO-1 NIA provides limited funding to RIIO network licensees in both the gas and electricity sectors to fund smaller technical, commercial, or operational projects that are directly related to the

¹ The NIA covers both electricity and gas. The governance for the NIA is explained in the following documents:
https://www.ofgem.gov.uk/sites/default/files/docs/2021/03/2021-03-30_electricity_nia_governance_v4.pdf
https://www.ofgem.gov.uk/sites/default/files/docs/2021/03/2021-03-30_gas_nia_governance_v4_0.pdf

² The NIC covers both electricity and gas. The governance for the NIC is explained in the following documents:
https://www.ofgem.gov.uk/sites/default/files/docs/2017/07/electricity_network_innovation_competition_governance_document_version_3.0.pdf
https://www.ofgem.gov.uk/sites/default/files/docs/2020/11/gas_nic_governance_v3.1_0.pdf

³ The SIF covers both electricity and gas. The governance for the SIF is explained in the following document:
<https://www.ofgem.gov.uk/sites/default/files/2021-08/SIF%20Governance%20Document.pdf>

licensees' network and have the potential to deliver financial benefits to the licensee and its customers. To date, over one thousand individual projects have been funded, in whole or in part, by the NIA.

The NIC was introduced in 2013 as part of the RIIO-1 price controls as an annual opportunity for gas and electricity network companies to compete for funding for the development and demonstration of new technologies, operating and commercial arrangements. To date, 44 projects have been funded, in whole or in part, by the NIC.

The SIF is a funding mechanism in the RIIO-2 price controls for the Electricity System Operator, Electricity Transmission, Gas Transmission and Gas Distribution sectors. It went live in August 2021. The SIF aims to find and fund ambitious, innovative projects with the potential to accelerate the transition to net zero. These projects should help shape the future of the gas and electricity networks and succeed commercially where possible.

Stakeholder views

Although we have already made significant changes to the innovation portfolio of funds with the recent launch of the SIF, we want to further our understanding on what, if any, further improvements could be made to the design and operation of the NIA, and whether there are any early views on the operation of the SIF.

Next steps

We are keen to hear any comments that stakeholders may have on the NIA, the NIC and the SIF. Please send your answers and any other comments to evaluationteam@ofgem.gov.uk on or before 7 January 2022. If you have any general queries regarding the information contained within this letter, please contact evaluationteam@ofgem.gov.uk.

Yours faithfully,

Vipran Srivastava
Economist, Office for Research and Economics

Annex 1- Questions

- Please outline any issues or observations you have with the past and current operation of the following:
 - i) Network Innovation Allowance (NIA)
 - ii) Network Innovation Competition (NIC)
- What improvements, if any, would you make to the operation of the Network Innovation Allowance (NIA)?
- Do you have any early views on the planned future operation of the Strategic Innovation Fund (SIF)?
- Do you think third parties have sufficient involvement in the innovation funds? What issues, if any, are you aware of relating to third party involvement?
- Should third parties be allowed to apply directly to the innovation funds, and on what basis?
- Are you aware of any innovation projects which you believe should have proceeded but didn't because they failed to qualify for the innovation funds?
- Do you think there are alternative approaches to incentivising and funding innovation by licensed energy companies? If so, please describe your suggested alternative approach and, in particular:
 - i) Would the benefits of this approach outweigh those from the existing RIIO-2 and RIIO-ED1 innovation funds?
 - ii) Does the approach you recommend complement or substitute for the current set-up and use of the existing innovation funds?
 - iii) Has the approach(s) you recommend been utilised in other jurisdictions or other sectors?
 - iv) What, if any, risks or trade-offs are associated with your recommended approach?