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## **Decision to introduce version 2 of the RIIO-2 Strategic Innovation Fund (SIF) Governance Document**

RIIO-2 is supporting regulated network companies to deliver net zero greenhouse gas emissions at lowest cost to consumers, while maintaining world-class levels of system reliability and customer service, and ensuring no consumer is left behind in the transition to a low carbon energy system.<sup>1</sup>

The Strategic Innovation Fund (SIF) was launched in July 2021 by Ofgem as a RIIO-2 innovation funding mechanism for the Electricity System Operator, Electricity Transmission, Gas Transmission and Gas Distribution sectors. It focuses on finding and funding ambitious, innovative Projects with the potential to accelerate the transition to Net Zero while delivering net benefits to energy consumers.

Ofgem is the decision-maker in relation to the SIF. To support the SIF's operation, Ofgem partnered with Innovate UK (IUK), as part of UK Research and Innovation (UKRI). IUK's role is to operate the SIF in line with the SIF Governance Document, including making recommendations to Ofgem on operational matters.

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<sup>1</sup> RIIO is our approach to ensuring the monopoly companies who own and operate our gas and electricity networks have enough revenue to run an efficient network that delivers what customers need. RIIO stands for Revenues = Incentives + Innovation + Outputs. RIIO-2 is the price control period which runs between 2021-2026 for Electricity System Operator, Electricity Transmission, Gas Transmission and Gas Distribution sectors, and 2023-2028 for the Electricity Distribution sector.

## ***Our July consultation to update the SIF Governance Document***

On 6 July 2022, we<sup>2</sup> published a consultation<sup>3</sup> on proposed amendments to version 1.0 of the SIF Governance Document.<sup>4</sup> The proposed changes focused on introducing more flexible, agile and responsive governance arrangements and a more flexible Project environment in the SIF, whilst maintaining regulatory certainty and adherence to the established SIF funding principles.

Following the launch of round 1 Discovery Phase of the SIF in March 2022, we proposed changes to the SIF Governance Document to reflect:

- a) Ofgem's experience in implementing the SIF,
- b) those of IUK's recommendations relating to the administration of the SIF, which Ofgem approved, and
- c) feedback from stakeholders and participants in the round 1 Discovery Phase.

Workshops were held to discuss the proposed governance changes in April and May 2022.<sup>5</sup> The proposed changes to the SIF Governance Document were refined following the discussions and feedback received at the workshops. More details on the key areas of governance discussed can be found in the consultation letter released on 6 July 2022.<sup>6</sup>

Alongside the consultation letter published on 6 July 2022 were seven consultation questions, a draft SIF Governance Document with proposed changes in track changes, and a line by line summary spreadsheet with the reasoning behind the proposed changes.

## ***Update following the consultation***

We received nine separate responses to the consultation from network companies and the Electricity System Operator (the ESO). Of these responses, eight commented on the consultation questions we issued, while one provided wider feedback on the SIF. Annex 1 to this document provides a summary of the feedback received in response to the consultation and our decisions on each of the questions issued as part of the consultation.

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<sup>2</sup> The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

<sup>3</sup> 06 July 2022 consultation: <https://www.ofgem.gov.uk/publications/consultation-modification-riio-2-strategic-innovation-fund-governance-document>

<sup>4</sup> Version 1 of the SIF Governance Document available here: <https://www.ofgem.gov.uk/sites/default/files/2021-08/SIF%20Governance%20Document.pdf>

<sup>5</sup> We note that attendees provided wider feedback on the SIF's operation and future programme timelines at such workshops. We have sought to address these issues within the latter part to the annex to this letter which details consideration of wider SIF feedback.

<sup>6</sup> For information on the key areas discussed as part of the SIF Governance Document please see: <https://www.ofgem.gov.uk/publications/consultation-modification-riio-2-strategic-innovation-fund-governance-document>

Alongside this decision letter, we have published:

- the spreadsheet issued as part of the consultation with a summary of the responses received on the spreadsheet, and our consideration of such responses. This spreadsheet should be read in conjunction with our decision letter;
- a track change copy of version 2 of the SIF Governance Document, marking changes made to version 1 of the SIF Governance Document;
- a clean copy of version 2 of the SIF Governance Document;
- our direction to issue version 2 of the SIF Governance Document;
- a letter to DNOs confirming the approach for submitting Applications in response to the SIF's round 2 Innovation Challenges; and
- non-confidential responses to our consultation.

### ***Next steps on the SIF***

The table below provides details on the current planned timeline for the operation of round 1 and round 2 of the SIF over the coming months.

<b>Milestone</b>	<b>Date</b>
SIF round 1 – Alpha Phase begins	1 August 2022
Decision published and version 2 of the SIF Governance Document comes into effect	9 September 2022
SIF round 2 – Discovery Phase Applications open	5 September 2022
SIF round 2 – Discovery Phase Applications close	23 November 2022
SIF round 1 – Alpha Phase concludes	31 January 2023
RIIO ED-2 begins for DNOs	1 April 2023
SIF round 2 – Decision on Discovery Phase Projects	April 2023

Yours sincerely,

**Graeme Barton**

**Head of Price Control Operations – Small & Medium Sized Projects**

**For and on behalf of the Authority**

## **Annex 1: Consideration of responses to the consultation questions and wider feedback**

1. We received nine separate responses to the consultation from network companies and Electricity System Operator (the ESO). Of these responses, eight commented on the consultation questions we issued, while one provided wider feedback on the SIF. Most responses also referred to the comments made in the line-by-line spreadsheet released as part of the consultation.
2. We received no responses from third party innovators or industry organisations.
3. For each of the consultation questions, this annex includes our proposed position, a summary of the responses received, and our decision with supporting rationale.
4. We also note that some responses received included feedback on the operation of the SIF which were not covered by our consultation questions. We have noted this feedback, and as part of this annex, we have also summarised and considered these overarching areas of feedback.

### **Consideration of responses to consultation questions**

#### **Question 1 – Amendments to SIF Governance Document to create a more flexible and responsive SIF**

##### *Our consultation position*

5. The feedback we and IUK received in the implementation of the round 1 Discovery Phase, as well as our reflections from the implementation of this Project Phase, suggested that a more flexible and responsive governance environment was desirable for supporting wider consumer benefits. Based on this, we proposed a more flexible and responsive governance environment in the SIF Governance Document. Our proposed changes were to introduce a more flexible, agile and responsive governance and Project environment in the SIF, whilst maintain regulatory certainty and adherence to the established SIF funding principles.<sup>7</sup>

##### *Consultation responses*

6. Of the eight responses received for this question, three respondents directly stated general agreement with the principles and our consultation position. No responses

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<sup>7</sup> Projects should be in line with Innovation Challenges set by Ofgem, have potential to deliver a net benefit to the relevant sector's consumers and should focus primarily on the network. Projects can only qualify for SIF Funding if access to the assets of a network company is essential, or in the case of third-party innovators, the innovation would not happen without provision of SIF Funding.

stated they disagreed. Of the eight responses, three referred only to the feedback provided in the spreadsheet. Four responses also provided specific feedback of areas for consideration. Within these responses, respondents argued that the way in which those principles were implemented resulted in regulatory uncertainty.

7. Issues raised by respondents primarily focused on:
  - a) The use of the Innovation Challenge and Innovation Challenge Documentation to outline separate or bespoke processes for a Project Phase. Specifically, concerns were raised on the use of the Innovation Challenge and Innovation Challenge Documentation to set different SIF processes or circumvent the SIF Governance Document. Additionally, responses commented that these changes to the SIF's processes could result in inconsistent project delivery processes and requirements.
  - b) The suitability of updated or new Application requirements for the Project Phase, noting that changes should take into consideration the project delivery process.
  - c) The inclusion of a requirement to complete new templates within Applications and end of Project Phases not yet shared with network licensees.

#### *Decision*

8. If necessary and where explicitly provided for in the SIF Governance Document, Ofgem may issue Innovation Challenges which depart from default requirements within the SIF Governance Document. We expect we may seek to depart from the default requirements in the SIF Governance Document to combine Project Phases. Should this occur in the future, we expect the combination to be of the Discovery Phase and Alpha Phases in future rounds of the SIF.
9. Any Innovation Challenges which depart from the default requirements in the SIF Governance Document will be subject to a 28-day consultation, which will set out the proposed non-default requirements and the reasons for the departure from the default requirements. Where such departures from default requirements are not already explicitly contemplated by the SIF Governance Document, the 28 day consultation will include consultation on related amendments to the SIF Governance Document.
10. In a change from our consultation position, we confirm that the Innovation Challenge Documentation issued by IUK will not direct departure from the requirements within the SIF Governance Document. The original proposal was to provide Innovation Challenge Documentation with the flexibility to depart from Application and end of Project Phase reporting requirements set out in the SIF Governance Document, we have not included these proposed changes in version 2 of the SIF Governance Document. As outlined in paragraph 4.6 of the SIF Governance Document, IUK may issue Innovation Challenge Documentation which includes additional Application questions and/or ask network

licensees to complete additional Project reporting. IUK will ensure that any additional Application questions and Project reporting will be proportionate relative to the Project Phase and will have been discussed with network licensees before they are confirmed.

11. We have not included the requirement we consulted on for the completion of logic model and impact assessment templates as part of the Application and reporting requirements.

#### *Rationale*

12. We think our proposal for Innovation Challenges to allow for departures from the SIF Governance Document remains appropriate. This was supported by general feedback we received in the consultation. Additionally, one of the learnings from the operation of round 1 of the SIF is that it would be beneficial, for example, to have flexibility to depart from the three-phase process in some circumstances. We have provided clarity in the SIF Governance Document on the process for departures from the SIF Governance Document, where we may seek to depart from the default arrangements and the scope and effects of such departures. Any departures from the default arrangements will only occur (as per footnote 6 in the SIF Governance Document) following a formal 28-day consultation. When a consultation is issued, it will provide details about the areas or processes within the SIF Governance Document from which we propose to depart and the new processes which are being proposed. In cases where departures are not already explicitly contemplated by the SIF Governance Document, the 28 day consultation will consult on related amendments to the SIF Governance Document.

13. We have amended our position on the Innovation Challenge Documentation after considering feedback. We recognise from consultation feedback that it is problematic for IUK to issue Innovation Challenge Documentation which imposes requirements which conflict with those in the SIF Governance Document. While these were proposed to allow for flexibility in the Application and end of Project Phase reporting requirements, we recognise the uncertainty that this could create for Projects.

14. We have instead incorporated a change to the end of Project Phase requirements in version 2 of the SIF Governance Document, which should reduce the reporting burden on Projects. Projects not progressing to the next Project Phase will be required to complete an end of Project Phase report, whereas Projects which will be submitting an Application for the next Phase will not be required to complete an end of Project Phase report. This change reflects the feedback received from Funding Parties at regular workshops and removes much of the uncertainty in the governance environment created by the proposed changes to the Innovation Challenge Documentation.

15. Furthermore, as our partner in operating the SIF application process and monitoring projects, we continue to think it is appropriate for IUK to issue Innovation Challenge Documentation which includes additional Application questions and ask network licensees to complete additional Project reporting. This is also line with the pre-existing provisions with the SIF Governance Document. IUK will ensure that any additional Application questions and Project reporting will be proportionate relative to the Project Phase and will have been discussed with network licensees before they are confirmed.
16. Accordingly, paragraph 4.6 of the SIF Governance Document clarifies that IUK may specify additional Application questions and ask network licensees to complete additional Project reporting. However, these should not conflict with or take precedence over the existing SIF Governance Document requirements.
17. We think the use of Innovation Challenge Documentation in this context will enable us to operate a more flexible SIF process, reflecting feedback and learnings from implementation of the SIF to date. This allows for flexibility and responsiveness to reflect feedback received from network licensees during SIF operation, and ensures that the SIF's operation is not constrained by an unduly prescriptive SIF Governance Document.
18. We have also included paragraphs 1.23 in the SIF Governance Document to clarify the issuer and nature of all formal documents associated with the SIF, and reaffirm the hierarchy of these various documents.
19. Additionally, we have not included the requirement that we consulted on for the completion of logic model and impact assessment templates as part of the Application and reporting requirements. We recognise that such templates have not been circulated to network licensees, and we agree that it would be beneficial for these to be shared in order for network licensees to be able to comment on each of these proposed templates prior to incorporation into governance arrangements.
20. We will continue to develop these two templates. We will share such templates for feedback and discussion with network licensees prior to understand their use in future Application, in-phase reporting and end of Project Phase reporting. If necessary, we will consult on any amendments to the SIF Governance Document to give effect to such templates.

## **Question 2 – Declaring previous UK government funding**

### *Our consultation position*

21. As stated in chapter 1 of the SIF Governance Document, a key aim of the SIF is to support innovation that contributes to the achievement of Net Zero, while delivering net benefits to energy consumers. As part of this, the SIF aims to coordinate network innovation funding with other public sector funding initiatives, thereby ensuring greater flexibility and strategic alignment in innovation funding, and eliminating both unnecessary duplication and funding gaps. This is also reflected in the Eligibility Criteria in chapter 2, which require Projects to provide value for money and to clearly identify a potential to deliver a net benefit to gas or electricity consumers.
22. Our proposed addition was for Projects to outline in their Application what other public funding (aside from the SIF) a proposed Project, or aspects of a Project, has received in the last 36 months. The period of 36 months was chosen to both provide enough clarity on recent public funding a Project, or aspects of a proposed Project, have received, whilst also maintaining a balance which is not cumbersome to potential Projects which wish to apply to the SIF. The intent with this proposed change was two folds. First, to provide clarity on the previous public funding a proposed Project, or aspects of a proposed Project had received, to aid in the assessment of the Projects and ensure that the Projects are not duplicating work already completed as part of previous projects. For example, if aspects of a proposed Project in the SIF were informed or previously examined as part of a Network Innovation Allowance (NIA) or Network Innovation Competition (NIC) project. Second, to provide clarity on where proposed Projects have previously received public funding, which would support the SIF and IUK's role in aligning the SIF with other public sector funding initiatives. This would also help to identify areas of potential future Innovation Challenges for the SIF.

### *Consultation responses*

23. Responses were in agreement with the principle behind the proposed addition to the SIF Governance Document. However, responses also included clarifying comments focusing on the resource requirements this could entail, that this should be done to the best of a Funding Party's ability, that more than just a previous project's title should be included, and that "aspects of a Project" should be defined.
24. Two responses queried the use of a 36 month timeframe. They outlined that projects beyond this timeframe may have informed a current SIF application.



### *Decision*

25. Projects must outline what previous public funding a proposed Project, or aspects of a proposed Project has received that are relevant to the Project. We expect Funding Parties to be pragmatic in their judgement in determining the relevancy of the public sector funding previously received. We have also broadened the requirement to include any relevant public funding, not just that received from the UK Government.

### *Rationale*

26. We have updated this requirement to reflect the feedback received and our original intent with this proposed change. We consider it to be important and aligned with the Eligibility Criteria for Funding Parties to outline as part of their Applications what previous public funding a Project, or aspects of a Project, has received. We acknowledge this may place an administrative burden on applicants, however we consider supporting the coordination of the SIF with other public sector funding initiative should help avoid unnecessary duplication and funding gaps. This should ultimately help to deliver value for consumers, preventing double funding of innovation through different innovation funds.

27. Following the feedback received and a review of the intent of this proposed change, we have removed the requirement for it be only UK government funding that proposed Projects outline, as we recognise that Projects may have previously received funding from the Scottish government and Welsh government which is relevant to the proposed Project. The amended wording now reflects that the Projects outline any previously received public funding relevant to the proposed Project.

28. Following the feedback received for both this question and in line by line spreadsheet released as part of the consultation, we have removed the requirement for this to be done for any public funding received in the last 36 months. Whilst the 36 months time period was considered to both provide clarity and avoid a cumbersome process, we recognise that Projects may wish to outline relevant public funding beyond the 36 month period. Instead, Funding Parties must outline to the best of their ability what previous UK government public funding a Project, or aspects or components of a Project, has received that the Funding Party deems relevant to the Project. Funding Parties may wish to use the 36 month period as a metric for what they deem to be relevant or recent public funding, however we consider emphasis should be given to material factors that may be particularly relevant to Eligibility Criteria and supports the avoidance of unnecessary duplication and funding gaps.

29. Additionally, we have included a new paragraph with 4.18, which provides additional information and clarity on what is required for instances that a Funding Party deems

previous funding to be relevant to a proposed Project or wishes to highlight relevant previous public funding a Project, or aspects of a Project, has received as part of its Application. The paragraph outlines that this must be done to the best of a Funding Party's ability and where a Funding Party wishes to include previous funding, it must include: the amount of funding received, what it was for, how long it was for, the name of project and a brief description of what it sought to achieve, and how the previous project contributes or is relevant to the proposed Project.

### **Question 3 – Application of version 2 of the SIF Governance Document to in-flight and future SIF projects**

#### *Our consultation position*

30. We proposed that an updated SIF Governance Document would come into force in August 2022 and apply prospectively to both Projects already in-flight as part of the round 1 Alpha Phase and all future Projects.

#### *Consultation responses and our consideration of them*

31. We received mix responses in favour and against our proposal for the SIF Governance Document to come into force in August 2022. Half of the responses were in agreement and half were not in agreement. Responses in favour of it generally wanted an updated SIF Governance Document in force before the round 2 Discovery Phase Application window opens in September 2022. Responses against it did not want the updated SIF Governance Document to apply to Projects already underway as part of the round 1 Alpha Phase. Several responses against this change also stated concerns that an updated document may result in retrospective changes to the Projects already underway or retrospective evaluation, and noted that these Projects were submitted according to the requirements of the SIF Governance Document which came into force in August 2021. Several responses against this change also put forward suggestions that an updated SIF Governance Document exclude Projects already in-flight.

#### *Decision*

32. An updated SIF Governance Document will come into force in September 2022, ahead of the round 2 Discovery Phase Application window opening. The updated SIF Governance Document will apply to all in-flight and future SIF Projects.

33. Ofgem will have the power to consider any alternative governance arrangements for in-flight projects which cannot comply with an updated SIF Governance Document. Funding Parties may wish to engage Ofgem and provide evidence to why an in-flight project is unable to comply with the new requirements as set out in the updated SIF

Governance Documents. Ofgem will then consider on a case by case basis whether disapplication of the SIF Governance Document is appropriate for that Project.

### *Rationale*

34. The SIF licence condition for each of the network licensees allows for only one SIF Governance Document to be in force at any given time. We have assessed whether caveats or exclusion could be provided in the SIF Governance Document for Projects underway as part of the round 1 Alpha Phase, but did not consider this option to provide sufficient clarity of processes and requirements for the remainder of round 1 Alpha Phase. Additionally, we believe Funding Parties are best place to specify where Projects encounter material difficulties due to changes to the SIF Governance Document.
35. As mentioned in the cover letter to the consultation issued on 6 July 2022, we have assessed the fair operation of an updated SIF Governance Document coming into force while Projects are already underway as part of round 1 Alpha Phase. We have not identified any issues and do not anticipate any impacts or knock-on effects on Projects already in-flight. This is because the changes focus on introducing more flexible and responsive processes throughout the document and in key areas, including for Applications, end of Project Phases, reporting and Project administration. The changes to the Application processes will not impact Projects already underway as part of the Alpha Phase and will not require Projects to resubmit Applications or involve retrospective evaluation. The changes to the end of Project Phase reports introduced two additional question categories for the Alpha Phase, but we do not anticipate Projects already underway to be unable to comply with these reporting requirements. We have also not made any changes to the in-phase reporting requirements for Projects in the Alpha Phase. The changes to the bank account requirements align with the letter released by Ofgem at the start of the Discovery Phase<sup>8</sup> and we do not anticipate knock-on effects from these requirements as many Projects continue to use the same bank accounts from the Discovery Phase. Finally, and explained in more detail in the following question, we have not included many of the proposed changes included in the IPR section of chapter 9. Therefore, we do not consider the changes we have included in this chapter to alter the existing position set out in the SIF Governance Document, and therefore do not anticipate knock-on effects for Projects already underway.
36. IUK will also continue to proactively engage with Projects already underway. IUK will use its monitoring officers for the Alpha Phase Projects to understand whether Projects

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<sup>8</sup> For more information on the bank account and project administration requirements please see: <https://www.ofgem.gov.uk/publications/strategic-innovation-fund-discovery-projects-approved-funding>

are encountering difficulties due to an updated SIF Governance Document coming into force.

37. We also note that an updated SIF Governance Document will not apply retrospectively. Assessments and activities which have already taken place as part of the round 1 Alpha Phase will not be impacted.

38. We have also included paragraph 1.25 in the SIF Governance Document which provides an avenue for a Funding Party to request disapplication of provisions in governance. This will mitigate any compliance challenges faced by Projects already in flight as part of the round 1 Alpha Phase where the Funding Party considers the Project unable to comply with the updated SIF Governance Document. Ofgem will consider Projects brought forward on a case by case basis.

## **Questions 4 and 5 - DNO participation in round 2 of the SIF**

### *Our consultation position*

39. As the submission of Applications for the round 2 Discovery Phase will open and close prior to the RIIO-ED2 licence coming into force, we sought feedback on DNOs submitting Applications to the SIF before the corresponding and underpinning SIF licencing framework is in place at the start of RIIO-ED2 (Question 4). We also asked whether there were any additional considerations need to be taken into account prior to allowing them to participate (Question 5).

### *Consultation responses*

40. Responses to question 4 were supportive of DNOs participating in the SIF and noted the benefits this could bring to the SIF. This included one response which noted that this could increase collaboration and help prevent duplication among innovation projects. One response noted that additional clarity should be provided in the SIF Governance Document on why and how DNOs are allowed to participate in round 2 of the SIF prior to the RIIO-ED2 licences coming into force.

41. Although similar to the responses to question 4, two responses to question 5 requested there be transparency on Ofgem's decision for DNOs participating in round 2 of the SIF - one response requested Ofgem reference to early DNO involvement be included in the SIF Governance Document and another requested Ofgem provide a letter outlining its position for allowing DNOs to participate in round 2 of the SIF.

42. No responses were received which opposed the proposed incorporation of DNOs in round 2 of the SIF.

### *Decision*

43. We can confirm that the DNOs will be able to submit Applications to participate in round 2 of the SIF before the start of RIIO-ED2. Please note, any decision by Ofgem to award funding to DNOs for round 2 Discovery Phase is subject to the RIIO-ED2 Final Determinations and once the underlying SIF licence condition is in place in the DNOs' licence.<sup>9</sup> Alongside this decision letter, we have published a letter to the DNOs regarding their participation on the 2022 SIF.

### *Rationale*

44. We believe that allowing DNOs to participate in round 2 of the Discovery Phase will enable DNO innovation projects to be taken forward as soon as possible upon the commencement of ED2 (rather than waiting until a subsequent funding round, such as any round 3 Discovery Phase). This will ultimately benefit consumers by supporting and facilitating innovation at an earlier stage, and enable increased cross-sector collaboration on SIF Projects across gas distribution, gas transmission, electricity transmission, electricity distribution and the ESO. The use of the SIF by DNOs could also prevent duplication of innovation projects that may have happened if DNOs proceeded to take forward similar innovation via other funding routes, such as NIA.

45. As the submission of an Application is a voluntary act by a DNO, we do not consider there to be significant risks to allow DNO Applications to be submitted ahead of the start of RIIO-ED2. A funding decision by Ofgem on the round 2 Discovery Phase Projects will be made after the RIIO-ED2 Final Determinations and the underlying SIF licence conditions for respective DNOs has come into force on 1 April 2023. Furthermore, we do not consider submission of DNO Applications into round 2 of the SIF before the start of RIIO-ED2 creates any issues around cross-subsidisation on the £450m value of SIF quoted in the electricity transmission, gas transmission, and gas distribution sectors' Final Determinations as funding decisions on round 2 Projects will not be made prior to RIIO-ED2 coming into force.

46. We have also included as part of the RIIO-ED2 Draft Determinations consultation consideration on the appropriate size of the SIF pot. We note that consultation closed on 25 August 2022, and RIIO-ED2 Final Determinations will confirm the value of the SIF in ED2 in December 2022.<sup>10</sup>

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<sup>9</sup> As discussed within ED2 licence working groups, we propose to introduce a SIF licence condition into the ED2 licence condition (this is currently envisioned to be Special Condition 9.9).

<sup>10</sup> The ED2 Draft Determinations separately consulted on the value of the SIF for the ED2 period. We will confirm the decision on the value of the SIF in the ED2 Final Determinations, which are planned for December 2022. See page 49 within the RIIO-ED2 Draft Determinations Core Methodology Document; <https://www.ofgem.gov.uk/publications/riio-ed2-draft-determinations>

## **Question 6 - Drafting amendments to Intellectual Property Rights (IPR) chapter**

### *Our consultation position*

47. The proposed changes as part of the IPR section of chapter 9 in the SIF Governance Document sought to incorporate greater clarity in the document and make the section easier to understand. The changes throughout this section of chapter 9 were proposed to reflect feedback received from third-party innovators that the chapter was complex and not easily understood. As explained in our consultation letter and in line with our longstanding policy objective to increase third party involvement in the network innovation activities<sup>11</sup>, our changes were based on feedback from third party innovators and work done by an IPR expert employed by IUK. We considered there to be a case for making the IPR section of chapter 9 more accessible to third parties.

48. Our proposed changes in chapter 9 sought to make the default IPR more easily accessible to and understood by third parties. Our proposal with the proposed changes was to implement those changes only if we are satisfied that they are not susceptible to misinterpretation and have no unintended legal effects.

### *Consultation responses*

49. Most of the responses were supportive of the principle behind the proposed changes to the IPR section of chapter 9 and there was recognition in the value of having IPR in the SIF which is easily understood and accessible for all. However, several responses referred to the comments made in the line by line spreadsheet. Many of these responses within the spreadsheet sought additional clarity or clarification on the proposed changes.

### *Decision*

50. We will not be incorporating many of the proposed changes to chapter 9 in the SIF Governance Document. We will continue to examine opportunities to improve clarity and accessibility in chapter 9.

### *Rationale*

51. As noted above and in the consultation letter, our proposal was to implement the proposed changes only if we are satisfied that they are not susceptible to misinterpretation and have no unintended legal effects. As a result of the lack of agreement on the impact of our proposed changes and the clarificatory questions

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<sup>11</sup> Our RIIIO-2 framework decision in July 2018 confirmed that increasing third party engagement in innovation was one of our main policy objectives in RIIIO-2. See page 32 of RIIIO-2 framework decision: <https://www.ofgem.gov.uk/publications/riio-2-framework-decision>

received in response to this question and in the line by line spreadsheet released as part of the consultation, many of the proposed changes to chapter 9 will not be incorporated into the updated SIF Governance Document because we think that our changes could result in increased confusion among network licensees and other third party innovators.

52. We do however note the broad support in the responses received to ensuring chapter 9 is accessible to all and easily understood. We will continue to examine opportunities to incorporate greater clarity and accessibility to chapter 9 for participants and prospective participants in the SIF.

### **Question 7 – Introduction of illustrative IPR guidance document**

#### *Our consultation position*

53. Building on the position outlined in question 6, we proposed the development of an illustrative guidance document in paragraph 9.25 of the SIF Governance Document on the default SIF IPR. This sought to make the IPR section easier to understand for prospective third-parties wishing to participate in the SIF. Following workshops prior to the consultation, we understood there to be scope for developing a guiding document on IPR separate to the SIF Governance Document which can provide illustrative examples on the default IPR conditions set out in the document.

54. As part of proposed paragraph 9.25, we put forward that network licensees must work together with IUK to develop and maintain the illustrative guidance which helps third party innovators understand the default IPR which underpin the operation of the SIF.

#### *Consultation responses*

55. Six of the eight responses received were supportive of this action and noted the importance of third party innovators in the innovation process. Some of these responses also highlighted there is a need for clarity as to how such an IPR guidance document would interact with existing IPR guidance that network licensees and other bodies already have in place. However, we received one response which was in disagreement with this proposal but noted that, should this guidance document be developed, it should draw on the wider insights from across the innovation community.

#### *Decision*

56. We will support the introduction of a common illustrative IPR guidance document. We will engage with network licensees to understand their views and encourage network licensees that have already developed these resources to share these to support the development of a IPR guidance document.

## *Rationale*

57. We support the development and use of an illustrative IPR guidance document. We recognise that third parties are important partners in the innovation process and want to be able to provide them with the resources, where possible, which support their participation in the SIF.
58. As per paragraph 9.25, we think IUK can help network licensees to develop the IPR guidance document. We note however that this will be an illustrative document and will not have legal standing, and as such have not made reference to the IPR guidance in the list of documents mentioned in paragraph 1.23 of the SIF Governance Document. The SIF Governance Document will continue to set out the IPR arrangements for the SIF, and will take precedent over this guidance.
59. We also recognise that some network licensees may already be using their own guiding documents on the SIF's IPR. We confirm that these and other resources already developed and used by network licensees can continue to be used. We encourage network licensees that have already developed these resources to share these, where possible, to help inform the development of this guidance document. This will help encourage transparency and consistency of approach on IPR among network licensees, which will help make it easier for third parties to engage in the SIF.
60. We also consider IUK to be well positioned to work with network licensees on the development of the illustrative guidance document given its role in administering the SIF, working with network licensees and overall experience with running competitions.

## **Consideration of wider feedback on the SIF**

### **Resources requirements throughout the Project Phases**

61. We received feedback that greater consideration should be given to the resource requirements at the various Project Phases and Project stages, noting some of the timeline and resourcing issues experienced in the transition between the round 1 Discovery Phase and Alpha Phase. Along with IUK, we continue to engage in discussions with network licensees and monitor the feedback received. Together we will continue to consider changes to day-to-day operation of the SIF, where possible, which address the concerns brought forward by SIF participants. We continue to assess the impacts of the changes and potential changes and discuss with networks at regular workshops their feedback on the operation of the SIF.



62. For example, we have taken into consideration the feedback received as part of the round 1 Discovery Phase and have made changes to the Application requirements as part of this consultation which reflect this feedback. This includes the feedback on the Discovery Phase public launch webinar, the use of wording limits in Applications, and the overlap of question categories in the Discovery Phase.

### **The annual event to share learnings from innovation**

63. We received a variety of feedback on the proposed changes to the event in chapter 3 of the SIF Governance Document (paragraphs 3.21- 3.24), with specific concerns around how the annual event will be funded going forward, the potential costs associated with the event, and how it risks duplicating existing industry events. We have made several amendments to the wording in the SIF Governance Document which clarify that network licensees will be required to attend only the annual event (or multiple events should they split for gas and electricity as per the existing paragraph 3.23) and not the supporting events.

64. Any supporting events can be conducted as virtual events/workshops throughout the year to support future Innovation Challenge development and to identify areas best suited for future Innovation Challenges. This clarification has been incorporated in paragraph 3.21 of version 2 of the SIF Governance Document.

65. We would also like to note that paragraph 3.22 remains unchanged, and the annual event may form part of the same event as is organised to comply with NIA governance arrangements. The intent of the changes is to incorporate Projects from other innovation funding avenues, while continuing to focus on SIF, NIA, NIC and business as usual funded innovation activities. The SIF, NIA and NIC can be used to fund activities at such events insofar as they activities are associated with SIF, NIA and NIA Projects. However, activities associated with business as usual innovation, or activities supporting wider public sector innovation funding programmes should not be recovered from SIF, NIA or NIC funding.

### **Clarity regarding the IUK administered assessment process**

66. We received feedback which requested additional clarity on the IUK administered assessment process following proposed changes in chapter 5 of the SIF Governance Document. We would like to clarify that, while we proposing changes to who may be involved in the assessment process, we have not made any proposals to change our assessment process. The intent with incorporating other government agencies or bodies in the assessment and interview process is to provide clarity and coordination of network innovation funding with other public sector funding initiatives to ensure greater flexibility and strategic alignment in innovation funding, and eliminating both

unnecessary duplication and addressing any funding gaps. Applications for SIF Funding will still be assessed against the Eligibility Criteria within the SIF Governance Document.

67. We also note the requests within some responses to understand the scoring adopted by the Expert Assessors to guide their assessment of Projects, and a general desire for increased transparency and clarity regarding Expert Assessors' role and how they assess Applications. We will work with IUK to ensure future applicants to the SIF understand how such scoring is used and how it informs the Expert Assessors' assessment of Projects against the Eligibility Criteria. In line with the SIF Governance Document, Projects will continue to be assessed by the Expert Assessors against the Eligibility Criteria in chapter 2. Ofgem remains the sole decision maker in the SIF. We will continue to ensure future recommendation and decision documents explain how Expert Assessors' assessment maps against the Eligibility Criteria set out in the SIF Governance Document.

#### **Roles and responsibilities of Ofgem and IUK**

68. We received feedback seeking additional clarity on the roles and responsibilities of Ofgem and IUK in the SIF. We have not made changes to IUK's core role in operating the SIF. Ofgem remains the sole decision maker in the SIF.

69. As outlined in chapter 1 of the SIF Governance Document, IUK's role is to operate the SIF in line with the SIF Governance Document, and includes: administering the programme, monitoring the delivery of Projects, making recommendations on operational matters, supporting third-party innovators, and where possible, supporting successful Projects in becoming business as usual. Aligned with IUK's role, we have made one change which would enable IUK to issue correspondence to Funding Parties on the written instruction of the Authority. This is because IUK already maintain close day-to-day contact with Projects, which enables them to quickly gather feedback. The intent is for this to be used in the sharing of draft documents, such as draft SIF Project Directions. However, IUK will then relay on feedback back to us to consider as we, Ofgem, will still remain the decision maker.