

Decision

Decision on the 2022 Electricity Network Innovation Competition

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The Network Innovation Competition (NIC) is designed to stimulate innovation in the GB energy networks. The NIC only applies to the electricity distribution networks this year given the other sectors have transitioned into their RIIO-2 price controls. This document is our decision on projects that have been selected for NIC funding in 2022.

We¹ have decided to award £12.45 million for 1 successful project. Compulsory contributions and external financial supporters will contribute a further £1.76 million to the project.

Our decision is informed by the recommendations of the independent Expert Panel², in their assessment of project performance against set Evaluation Criteria.³ We expect the outcome of this NIC project will help network licensees and industry to better address customers' changing requirements as we move towards a smarter, more flexible, low carbon energy system.

¹ The terms the "Authority", "Ofgem", "we", "our" and "us" are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority.

² The Expert Panels are referred to interchangeably throughout this document as 'the Expert Panels', 'the Panels', and, in sector specific chapters, 'the Expert Panel' or 'the Panel'

³ The Evaluation Criteria are set out in the NIC Governance Documents [which are accessible here: https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents](https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents).

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Contents

Executive summary	3
The 2022 Competition	3
The submissions.....	3
Our decision	3
1. Introduction	5
Context and related publications.....	5
Purpose of this document	5
How the NIC works	6
Initial Screening Process	6
Full Submission stage	7
2. Decision on the Electricity Network Innovation Competition	9
Section summary	9
Project summaries	9
Projects selected for funding	10
Community DSO (NPg).....	10
Other Projects not eligible for NIC funding for year 2022	14
Net Zero Island (SSEN)	14
CommuniPower (UKPN)	17
Feedback from this year's NIC	20
3. Next steps.....	21
How projects will be funded	21
Monitoring of projects and dissemination of learning	21

Executive summary

The 2022 Competition

The Network Innovation Competition (NIC) encourages network companies to innovate in the design, development and operation of their networks and, in doing so, to engage with one another and third parties in and beyond the industry. NIC funding is intended for large-scale innovation projects that move the GB energy networks towards a low carbon future with environmental benefits to energy consumers each year.

Up to £40m of funding is available in this year's electricity NIC.⁴ This is the ninth year of the Competition. The NIC only applies to the electricity distribution networks this year given the other sectors have transitioned into their RIIO-2 price controls.

Since this is the final year of RIIO-ED1, there will be no further NIC competitions.

The submissions

This year, we allowed three of the four bids received in our Initial Screening Process to proceed to the Full Submission stage. In August 2022, we received those Full Submissions. The submissions requested a total of £38.60 million. The submissions were as follows:

- "Community DSO" led by Northern Power Grid (NPG), requesting £12.45 million from the Electricity NIC
- "Net Zero Island" led by Scottish Hydro Electric Power Distribution (SSEN), requesting £14.27 million from the Electricity NIC
- "CommuniPower" led by UK Power Networks (UKPN), requesting £11.88 million from the Electricity NIC.

Our decision

Of the three submissions, we have decided to award funding to one project. The table below summarises the aims of the funded project and the maximum amount of NIC funding available.

⁴ There was no gas NIC this year as the gas network companies are within with the RIIO-2 price control framework and are eligible to apply for funding via the Strategic Innovation Fund.

2022 Electricity NIC Projects	NIC Funding Awarded
Community DSO This project aims to create energy communities who will be responsible for managing flows at their level and location on the network. The aim is to develop a cellular approach (based around an Low Voltage feeder). <i>Proposed by Northern Power Grid (NPg)</i>	£12.45 million

1. Introduction

Context and related publications

1.1. Our energy system is undergoing a radical transformation as the process of decarbonisation, digitisation and decentralisation accelerates. The energy networks sit at the heart of the energy system and the network companies have a fundamental role in supporting decarbonisation at lowest cost to energy consumers. Innovation is crucial to increasing the pace of change, and protecting consumers in the transition to a smarter, more flexible and low carbon energy system with environmental benefits to consumers.

1.2. Network companies will need to innovate in the way they design, plan, and operate their networks, while delivering the services that customers want. The NIC is designed to help stimulate this innovation. It provides funding to encourage network licensees to run trials of new technology and different commercial and network operating arrangements.

1.3. Network customers fund NIC projects. Therefore, a key feature of the NIC is the requirement that project learning is disseminated as effectively as possible, to ensure that customers benefit significantly from their funding through the broad rollout of successful projects, and the subsequent delivery of network savings and/or low carbon and environmental benefits. Even where projects are implemented and deemed “unsuccessful”, network licensees will gain valuable knowledge that could benefit future consumers.

1.4. The NIC Governance Document is accessible via the following link:
<https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

Purpose of this document

1.5. This document sets out our decisions on the applications we received in the 2022 NIC.

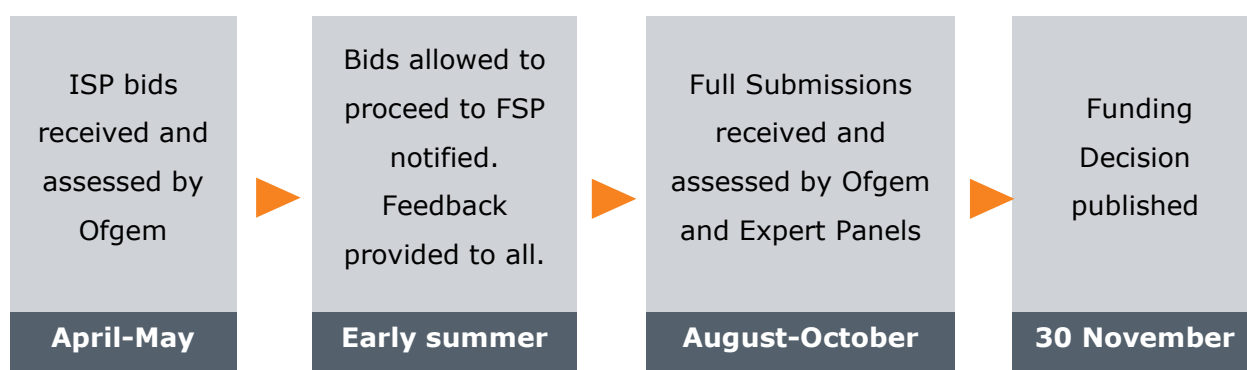
1.6. Shortly after publishing this decision, we will publish:

- The Full Submission documents submitted to us for the successful project, with commercially sensitive information redacted.

- The Recommendation Report from the Expert Panel, providing their independent funding recommendations to Ofgem.
- Supplementary questions raised during the evaluation process by Ofgem, technical consultants (who evaluated parts of the projects) and the Expert Panel, as well as the answers received from the project bid teams.

How the NIC works

Figure 1: The annual NIC process⁵



Initial Screening Process

1.7. The NIC starts with the Initial Screening Process (ISP), through which ten page project proposals are submitted for assessment by Ofgem. Ofgem typically receive bids in late March or April, and announce details of the submission process two calendar months ahead of the deadline set.

1.8. During the ISP, we consider projects against the ISP Eligibility Criteria set out in the NIC Governance Document. The purpose of the ISP is to reduce the risk of Network Licensees spending time and money developing ineligible Projects by providing an early indication of which projects may become eligible for funding. Only projects considered eligible may progress to the Full Submission stage.

⁵ Dates provided are a guide only – the NIC Governance Document determines the notice periods and assessment requirements in detail. The only unchanging annual deadline is 30 November, by which date Ofgem is required to publish its funding decision on the NIC.

Full Submission stage

1.9. At the Full Submission stage, we appointed an independent Expert Panel to consider the relevant submissions and provide us with an independent recommendation on whether we should award NIC funding for the projects. The Panel consists of persons independent of both Ofgem and the energy network companies with specific expertise in energy networks, environmental policy, technical and engineering issues, economics and finance, and consumer issues. Ofgem considers the independent Expert Panel's view in reaching its decisions.

1.10. The Expert Panel assesses each project against the Evaluation Criteria set out in the NIC Governance Documents. These are summarised below.⁶

- a) accelerates the development of a low carbon energy sector and/or delivers environmental benefits whilst having the potential to deliver net financial benefits to future and/or existing customers.
- b) provides value for money to electricity/gas customers.
- c) generates knowledge that can be shared among all relevant Network Licensees.
- d) is innovative (ie not business as usual) and has an unproven business case where the innovation risk warrants a limited Development and/or Demonstration Project to demonstrate its effectiveness.
- e) involvement of other Project Partners and External Funding.
- f) relevance and timing.
- g) demonstration of a robust methodology and that the Project is ready to implement.

1.11. After it has completed its evaluation, the Expert Panel produces a report (which we have published alongside this decision) on which projects it recommends for funding. Ofgem considers this report in reaching its decisions along with consideration of the impact of the project with regards to the wider network innovation portfolio. The final funding decision is taken by the Authority and, where appropriate, may differ from the Expert Panel's recommendations.

1.12. The Expert Panel met the bidding project teams twice. Where aspects of the submissions required clarification, the network companies had an opportunity to provide

⁶ The full Evaluation Criteria are set out in paras 5.41-5.62 of NIC Governance Document

such clarification through meetings, via a written question-and-answer process, and finally, through their formal resubmission.⁷ The bidding project team were asked as many supplementary questions as were considered necessary to clarify aspects of the Full Submissions provided by the network companies.

1.13. The Expert Panel made their recommendations based on the final submissions received, taking into account any clarifications provided in the resubmissions. The network companies' written responses to the supplementary questions have been published alongside this decision and have been considered by Ofgem fully before arriving at this decision.

1.14. In line with the NIC Governance Document, Ofgem's engineers provided assistance to the Expert Panel. We appointed JACOBS as the external technical consultants to provide additional support to the Expert Panel for this year's competition. The Panel directed the consultants to advise it on technical issues and challenged the companies on specific technical aspects of each project.

1.15. We assessed the projects, taking into account the NIC Evaluation Criteria and the Expert Panel's recommendations, to decide which projects should receive funding. Our decisions on the NIC are contained in Chapter 2.

⁷ Resubmission details are set out in paragraph 5.39 of the NIC Governance Document.

2. Decision on the Electricity Network Innovation Competition

Section summary

We have decided to offer funding to one of the three projects for which we received Full Submissions. The project that will be offered NIC funding is Community DSO. In total, subject to any stated conditions and issuance of the Project Directions, we are approving £12.45 million towards NIC projects.

Project summaries

2.1. We received three electricity submissions to the Full Submission process of the NIC, requesting a total of £38.60 million in NIC funding. The projects were as follows:

- “Community DSO” led by NPg. This project will look to create energy communities who will be responsible for managing flows at their level and location on the network. The aim is to develop a cellular approach (based around a Low Voltage (LV) feeder).
- “CommuniPower” led by UKPN. This project aims to address the barriers to rural decarbonisation. These barriers are mostly in the form of the costs, time and complexity of moving to low carbon heating, improving energy efficiency and installing domestic low carbon technologies (LCTs).
- “Net Zero Island” led by SSE. This project will consider the range of alternative long-duration storage solutions and other technologies needed for system stability with high wind penetration when in islanded mode. It will develop the roles of market participants and the technical and operational arrangements needed to ensure resilience.

Projects selected for funding

Community DSO (NPg)

NIC funding awarded £12.45 million, compulsory contribution £1.46 million, other funding £0.30 million.

Overview

2.2. Community DSO will look to create energy communities who will be responsible for managing flows at their level and location on the network. The aim is to develop a cellular approach (based around an LV feeder).

2.3. Community DSO will then consider three levels of participation by consumers:

- Managed – active prosumers with some measure of control influenced directly by NPg
- Monitored – limited physical assets such as solar PV alone, passively monitored by NPg
- Modelled – where consumers' behaviour is assumed.

2.4. How the benefits are shared among these different customer groups will, under NPg's proposal, be determined by the community. Trials will be carried out for two new-build archetype networks (one including communally owned assets). A small retrofit scheme may also be considered as well as one covering multiple substations.

Summary of Expert Panel's recommendation⁸

2.5. We agree with the Expert Panel's view that Community DSO performs well against all of the criteria. We have accordingly decided to fund the Project. Our assessment is below taking into account the NIC Evaluation Criteria set out in the NIC Governance Document.

Ofgem's evaluation and decision

⁸ We have not copied the Expert Panel's full consideration of the projects within this document. The Panel's full consideration is available in their report published alongside this document.

a) accelerates the development of a low carbon energy sector and/or delivers environmental benefits whilst having the potential to deliver net financial benefits to future and/or existing customers

2.6. We agree with the Expert Panel that, while the proposal anticipates reasonable cost savings and some carbon benefits, ultimately most of the benefit will come from the learning of the Project, which in turn, will allow further evolution at LV level.

2.7. While we share the Expert Panel's view that the forecasted direct benefits do not amount to large savings in relation to the decarbonisation challenge and are also subject to the uncertainties (see recommendation report) about the actual level of impact that is achievable. We agree with the view of the Expert Panel that it is reasonable to argue that capacity and carbon can be saved and that NPg's approach to quantifying this is appropriate.

2.8. Regarding financial benefits of the Project, we acknowledge the Expert Panel's concerns about how robust some of the assumptions and figures are on the estimates provided on the submission. Figures provided on the benefits appear to be largely dependent on the additional uptake in flexibility participation that is achieved as a result of the community focus. However, notwithstanding the above, we are of the view that this is one of the key learnings that the project is intended to explore and we are satisfied that this can be learned upon through the course of the project and further developed.

2.9. Although there may be minor concerns as mentioned above, we do not believe this is a material problem which prevents us funding the Project because overall, we agree with the Expert Panel that there is a strong financial case for Community DSO due to the key learnings projected to come out from the Project which will benefit consumers.

b) provides value for money to electricity/gas customers

2.10. We agree with the Expert Panel that in general, the costs associated with the project appear proportionate. The project is being delivered at day rates typical for services of the type envisaged.

2.11. While we see some uncertainties around the creation of Community DSO groups, which imposes a need for management that may well fall to specialist third parties created for this purpose. For example, there could be a risk to consumers in new builds that they get locked into a Community DSO arrangement and the benefits flow primarily to the

manager of the group rather than to consumers themselves. We recognise that this can ultimately be considered as learning of the project and understanding these risks and management of them could potentially be a benefit to consumers.

2.12. We agree with the Expert Panel's view that the Project will deliver value for money to consumers.

c) generates knowledge that can be shared among all relevant Network Licensees

2.13. We have some concerns surrounding the fact that there is not a full DNO partner associated with the Project. We share the Expert Panel's view that there is a risk that the solutions developed do not adequately take account of the differences between networks; this reduces the scope for replication. However having UKPN as a project supporter should alleviate these risks.

2.14. Overall, despite the concerns shared above, we agree with the Expert Panel's view that the Project will deliver knowledge that is highly relevant to all network license. The reasons for this are twofold:

- Firstly, we consider that Community DSO will generate knowledge that will be of value to all DNOs as they are all facing the challenge of how to optimise use of the LV network.
- Secondly, having UKPN as a project supporter helps mitigate the risks mentioned above.

d) is innovative (ie not business as usual) and has an unproven business case where the innovation risk warrants a limited Development and/or Demonstration Project to demonstrate its effectiveness

2.15. We agree with the Expert Panel's view that the Project will provide grounds for true innovation. Managing flexibility locally on the LV networks is a different approach to the more traditional one of central management, and that merits exploration.

2.16. Recognising that there have been other projects like Local Energy Oxfordshire (LEO) that have started to explore a Smart Local Energy System model. By contrast, with this Project, we agree with the Expert Panel that NPg are taking this forward in a material way by looking to standardise the interface with the DNO.

2.17. Overall, notwithstanding that there are other projects that have started to explore similar models, we recognise that NPG is looking to do this in a unique way. We agree with the Expert Panel's view that, because of the significant uncertainties associated with the way the market will develop and where the benefits will accrue, the Project would not be taken forward without innovation funding.

e) involvement of other Project Partners and External Funding

2.18. While we recognise the concerns shared by the Expert Panel surrounding the level of experience of the two project partners, TNEI and Delta-EE⁹, regarding hands-on experience working with communities and lack of involvement of no supplier involvement, we can see the approach NPg will be utilising by running open competitions for subcontractors which will alleviate this concern by bringing in the additional expertise NPg need.

2.19. Involvement of UKPN as a project supporter is also a welcome addition and we agree with the Expert Panel that this will increase the likelihood of learning.

2.20. Overall, we agree with the Expert Panel's assessment and despite the concerns mentioned above, we have sufficient evidence that the Project has reasonable involvement of partners at this stage.

f) Relevance and Timing

2.21. We agree with the Expert Panel that the Project is highly relevant given the widespread acceptance that flexibility will be a key tool in achieving net zero at least cost, finding ways to achieve this at the LV level is key.

g) demonstration of a robust methodology and that the Project is ready to implement

2.22. While there is a risk around the time required to get subcontractors on board for each of the trials; we agree with the Expert Panel's view that this can be managed provided the competitive process together with the community engagement are given an early focus.

⁹ Delta Energy & Environment Ltd and TNEI Services Ltd

2.23. There is also concern surrounding the five year wait to get results and this could be seen as too slow. However, we agree with the Expert Panel that there is robustness with the methodology in that the evolution of the regulatory framework is being addressed as a specific workstream, so we do not consider the five year wait as a challenge to the project methodology.

2.24. Overall, although there may be minor concerns regarding the timescaled mentioned above, we do not believe this is a material problem which prevents us funding the Project because of its readiness to implement. We agree with the Expert Panel that the Community DSO Project is ready to implement.

Other Projects not eligible for NIC funding for year 2022

Net Zero Island (SSE)

NIC funding requested £14.27million, compulsory contribution £1.65 million, other funding N/A

Overview

2.25. Island communities in SSEN's Scottish licence area rely on carbon-intensive diesel generation as a back-up in the event of an extended subsea cable fault (recognising that such cables can take months to repair). These diesel generators are aging and expensive to maintain, have a high carbon footprint and may become unnecessary in the modern context where many of the islands now have significant renewable generation. However, when the diesel generators are running, renewables are currently constrained to 10% of demand to maintain grid stability.

2.26. The project will consider the range of alternative long-duration storage solutions and other technologies needed for system stability with high wind penetration when in islanded mode. It will develop the roles of market participants and the technical and operational arrangements needed to ensure resilience. The proposal involves performing simulation and testing before installing and operating the Net Zero Island solution in an island environment to test its suitability.

Summary of Expert Panel's recommendation

2.27. We agree with the Expert Panel’s recommendation not to fund the project and will not be funding the Project. Our assessment is detailed below taking into account the NIC Evaluation Criteria set out in the NIC Governance Document.

Ofgem’s evaluation and decision

a) accelerates the development of a low carbon energy sector and/or delivers environmental benefits whilst having the potential to deliver net financial benefits to future and/or existing customers

2.28. In agreement with the Expert Panel, we do not consider that avoiding the use of diesel will be a huge pathway to the development of a low carbon energy sector beyond the small number of Scottish island communities mentioned within the Project.

2.29. While we acknowledge the specific problems the Project is aiming to address in the Scottish islands, we agree with the Expert Panel, from a wider GB perspective, the carbon and capacity benefits are not satisfactory as replacing any diesel generators within the Scottish islands is only beneficial to the small-scale area as opposed to a wider GB benefit which we are assessing against.

2.30. We agree with the Expert Panel, that there is not a sufficient financial case for approving this Project. The level of benefits is highly dependent on the counterfactual assumed which may in turn depend on other regulatory decisions and there is no assessment of benefits beyond SSEN’s own licence area.

b) provides value for money to electricity/gas customers

2.31. In agreement with the Expert Panel, the Project is high cost compared to past NIC projects and given the narrow focus on the Scottish islands problem does not evidently represent value for money.

c) generates knowledge that can be shared among all relevant Network Licensees

2.32. We do not consider that the Project has wider GB learning as it is focussed primarily on finding a solution to the problem of the Scottish islands.

2.33. We agree with the Expert Panel and see this as counter to the purpose of the NIC (which is funded by all GB customers).

2.34. Throughout the process of the NIC, SSEN have developed the argument that wider GB benefits can accrue, however, we agree with the Expert Panel that given this was not the primary focus of the project, these wider learning opportunities have not been properly scoped within the project and as a result the benefits to other networks will be limited.

d) is innovative (ie not business as usual) and has an unproven business case where the innovation risk warrants a limited Development and/or Demonstration Project to demonstrate its effectiveness

2.35. Although we recognise that there are innovative elements within the proposal, we agree with the Expert Panel that much of this builds on other innovation projects.

2.36. Therefore, we agree with the Expert Panel that there are not sufficient innovative elements within the proposal to justify the scale of investment requested.

e) involvement of other Project Partners and External Funding

2.37. We recognise the mutual benefits of making use of long duration storage being funded through other UKRI funding streams. This, together with SSEN, ESO and NPg being named as project partners is welcome.

2.38. Nonetheless, we agree with the Expert Panel that as ESO and NPg were late additions their views will not have shaped the project design to maximise that wider learning.

f) relevance and timing

2.39. We note the range of long duration electricity storage solutions, which are key to this proposal, will not be available and tested in a timeframe that is useful for this project.

2.40. While we recognise that the need to replace aging diesel generators on the islands can be seen as a critical project in terms of timing, we agree with the Expert Panel that there would be more value (from a wider energy system perspective) in taking time to consider the initial learning before attempting to explore its use in whole systems solutions (in a way that would more obviously provide learning of wider applicability).

g) demonstration of a robust methodology and that the Project is ready to implement

2.41. We agree with the Expert Panel’s concern regarding the project’s risk management, particularly the management of risks associated with the equipment that will have to be procured.

CommuniPower (UKPN)

NIC funding requested £11.88 million, compulsory contribution £1.32 million, other funding £1.46 million

Overview

2.42. CommuniPower aims to address the barriers to rural decarbonisation. These barriers are mostly in the form of the costs, time and complexity of moving to low carbon heating, improving energy efficiency and installing domestic low carbon technologies (LCTs). CommuniPower looks to address these by demonstrating novel approaches to community-led decarbonisation.

Summary of Expert Panel’s recommendation

2.43. We agree with the Expert Panel’s recommendation not to fund the project and will not be funding the Project. Our assessment is detailed below taking into account the NIC Evaluation Criteria set out in the NIC Governance Document.

Ofgem’s evaluation and decision

- a) accelerates the development of a low carbon energy sector and/or delivers environmental benefits whilst having the potential to deliver net financial benefits to future and/or existing customers*

2.44. While we recognise that institutional solutions are needed to engage households and drive heat decarbonisation at scale, we agree with the Expert Panel’s view that this falls outside the remit of the DNO. We also acknowledge there are benefits to network consumers from a more co-ordinated and hence lower cost approach to heat decarbonisation, we nonetheless share the Expert Panel’s view that this could be achieved to a large degree through the more strategic approach to investment in ED2.

2.45. We agree with the Expert Panel that the forecasts presented by UKPN in their submission are hard to envisage in the current energy climate. Reasons such as current

fuel price differentials and volatility, plus inflationary pressures, seem likely to deter and/or delay adoption of low carbon heat solutions that require a substantial capital investment while householders' stand-alone energy efficiency efforts (usually lower-cost) may be further stimulated regardless of CommuniPower engagement.

2.46. While the forecast on carbon savings can be seen as more credible, we agree with the Expert Panel that the savings can only be realised if the coordinated approach to community decarbonisation is successful in the first place.

2.47. There is recognition that the intention to create a community-led approach to decarbonisation as being welcome. However, we agree with the Expert Panel that, while community engagement has a role to play in decarbonisation, the overall uncertainty about potential capacity and carbon savings attributable to the project remains very high.

2.48. We agree with the Expert Panel that the potential consumer benefits, even after being reduced in the final submission are over-stated as they reflect an assumption of a 7-year acceleration. In agreement with the Expert Panel, we consider this as optimistic.

b) provides value for money to electricity/gas customers

2.49. We agree with the Expert Panel that the benefits to network customers account for a relatively limited part of the overall benefits and would be reduced if a different view was taken on the counterfactual in the light of the strategic approach to investment in ED2.

2.50. While there is value in upfront planning at a local area level this could be delivered more holistically (for example, including transport) by building, for example, on Energy Systems Catapult work on Local Area Energy Plans. Based on the above, we agree with the Expert Panel that the Project does not represent value for money.

c) generates knowledge that can be shared among all relevant Network Licensees

2.51. We agree with the Expert Panel that it is atypical to have one of the two trials based on the same location. This is unusual as it has an existing energy community group and has already been through an earlier engagement cycle. This limits the replicability of any learning.

2.52. We also agree with the Expert Panel as to how readily other DNOs would take up tools and models developed as part of the project given the costs involved with integrating into company-specific network planning systems.

d) is innovative (ie not business as usual) and has an unproven business case where the innovation risk warrants a limited Development and/or Demonstration Project to demonstrate its effectiveness

2.53. Although there is recognition that the project could be considered innovative because it is involving the DNO in a community led process, is integrated and automated, and takes a unique optimisation approach, we agree with the Expert Panel's view that these innovative elements are not sufficient to justify a project on this scale given the developments that can be expected anyway in ED2.

e) involvement of other Project Partners and External Funding

2.54. We agree with the Expert Panel that the Project has a broad set of project partners bringing different skills.

2.55. However, we share the Expert Panel's view that working with at least one energy supplier would help in determining how the network benefits can be stacked alongside other considerations such as wholesale energy costs.

f) relevance and timing

2.56. While we can recognise the relevancy of the Project, we share the Expert Panel's view about the impact the current energy crisis may have on the proposal.

2.57. We agree with the Expert Panel that the current energy crisis would make it harder to interpret findings and raises questions about how relevant the learnings around engagement would be to the longer term BAU implementation. While the proposal might have been timely when it was submitted, the current energy crisis creates significant drawbacks in terms of the timing.

g) demonstration of a robust methodology and that the Project is ready to implement

2.58. We agree with the Expert Panel’s view that, although the project can be considered as ready to be implemented, there are material gaps in the robustness of the methodology presented as identified in the Expert Panel’s recommendation report.

Feedback from this year’s NIC

2.59. In considering this year’s applications, the Panel noted on several occasions that concerns they had with the proposals would be alleviated under the new Strategic Innovation Fund (SIF)¹⁰ process and hence see this as a positive development. In particular given the pace of change that there now is in the sector around the evolution of the DSO role, data and digitalisation and the development of flexibility services (to name but a few), a four or five-year timeframe - which has become the norm for NIC projects - feels too slow and too inflexible. Rather than major projects incorporating a number of different aspects the Panel would like to see a more agile approach – but without this meaning writing a blank cheque for undefined future stages. The SIF process addresses these concerns.

2.60. We believe that for both proposals where the Panel recommendation and our decision was not to fund the projects, the companies could nevertheless find ways to take forward elements of the proposal either through BAU or using the other funding streams that are available in ED2.

¹⁰ The SIF is our new RIIIO-2 innovation funding mechanism, replacing the NIC
<https://www.ofgem.gov.uk/strategic-innovation-fund-sif>

3. Next steps

How projects will be funded

3.1. Before funding a NIC project, we issue a Project Direction explaining the terms that the funding licensee has to comply with as a condition of receiving NIC funding. If the network Licensee agrees to comply with its Project Direction, we will issue a Funding Direction to specify the amount of money to be recovered from network customers next year, through their network charges, to fund the successful NIC Projects. We will issue both the Project Direction and the Funding Direction shortly.

3.2. Once a Project Direction has been issued, the Network Licensee must comply with all of the terms within it (subject to amendment or revocation of the Project Direction and the provisions concerning project changes set out in the NIC Governance Document). Failure to do so means that Ofgem may determine all or part of the Approved Amount as received by the Network Licensee to be Disallowed Expenditure.

3.3. We expect the funded Project to start as soon as possible, according to the terms in the Project Direction and the NIC Governance Document. Project will be able to access funding from April 2023.

Monitoring of projects and dissemination of learning

3.4. We will monitor the project to ensure it is implemented in line with the Project Direction and Funding Direction. The project will have to provide regular progress reports, in line with the requirements of the NIC Governance Document. These reports will be published on the companies' website. Learning from the project should also be made readily available and shared according to the project's plan.

3.5. The Funding Licensee must ensure the project, in its entirety, is undertaken in accordance with the NIC Licence Condition, the NIC Governance Document and the relevant Project Direction. This includes ensuring compliance with the NIC Licence Condition, the Governance Document and the relevant Project Direction by its project partners.

3.6. The Energy Networks Association (ENA) has a portal which holds information and learning from innovation projects, including those funded under the Low Carbon Networks

Fund (LCNF) and the Gas and Electricity NICs.¹¹ We expect learning from this year's project to be made available through this portal.

3.7. Network companies have obligations to ensure dissemination of the knowledge generated from their projects (including previously funded NIC projects). These requirements are set out within the NIC Governance Document.

¹¹ <http://www.energynetworks.org/electricity/futures/innovation-portals.html>