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National Grid ESO response to RIIO-ED2 Statutory Licence Consultation

Dear Ms Gaches

We welcome the opportunity to respond to your consultation on RIIO-ED2 Statutory Licence Consultation.

National Grid ESO is the electricity system operator for Great Britain. We move electricity around the country second by second to ensure that the right amount of electricity is where it's needed, when it's needed – always keeping supply and demand in perfect balance. As Great Britain transitions towards a low-carbon future, our mission is to enable the sustainable transformation of the energy system and ensure the delivery of reliable, affordable energy for all consumers.

The ESO holds a unique position at the heart of the nation's energy system. We use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers.

Our response does not include feedback specifically on the ED2 licence drafting. However, as part of this consultation, changes have been proposed to the RIIO2 NIA Governance document and we have included feedback on this in Appendix 1.

We were surprised to see the scope of changes to the RIIO2 NIA Governance document included as part of the ED2 consultation, given that these changes apply across the whole sector and do not appear to be specific to just the DNOs in this framework. Indeed, if proposed changes had been better communicated to all affected parties it would have improved our ability to respond to this consultation.

We welcome the opportunity to discuss any of the points raised within this response. Should you require further information or clarity on any of the points outlined in this response then please contact Amanda Rooney in the first instance at Amanda.Rooney@nationalgrideso.com.

Yours sincerely

Matthew Wright
Head of Strategy and Regulation
National Grid ESO

Appendix 1 – Detailed response

RIIO-2 NIA Governance Document

- **Section 2.7. Gas Transporter, Electricity Distribution and Electricity Transmission Licensees must have in place efficient and effective processes that promote partnerships with third parties. This should include processes aimed at offering suitable support, information and guidance to innovators new to the energy sector, innovators less familiar with network challenges, to small and medium enterprises, and to early-stage innovators.**

 - We believe we already cover this requirement within our existing NIA governance requirements, such as the development and maintenance of the Smarter Networks Portal, the Energy Networks Innovation Process (ENIP), and the network Innovation Strategy and Innovation Annual Summary publications. We are unclear on the level of expectation required, above and beyond on what is currently produced.
 - The ESO does provide further guidance and support to prospective innovators through our Innovation webpage, Innovating with the ESO publication, our own ESO Innovation Strategy and ESO-led events such as the Open Innovation Event.
 - We would be happy to work with Ofgem to understand the intent of this new requirement. If this is a significant new activity (such as a new publication, a new process or an event), then we would wish to recover the costs of this through NIA funding and would request that paragraph 4.10 is amended to make explicit reference to such costs being recoverable.

- **Section 2.8. Licensees should work collaboratively, so that this support aimed at improving access to network innovation partnership opportunities is realised in the most efficient and effective manner.**

 - As with the above point (2.7), we believe we already cover this requirement within our existing NIA governance requirements such as the development and maintenance of the Smarter Networks Portal, the Energy Networks Innovation Process (ENIP), and the network Innovation Strategy and Innovation Annual Summary publications.
 - We are unclear on the level of expectation required, above and beyond on what is currently undertaken, and we would be happy to work with Ofgem to understand the intent of this new requirement.

- **6.3 and 6.4. The Gas Transporter, Electricity Distribution or Electricity Transmission Licensee must publish the Project Progress Information on the ENA Smarter Networks Portal by 31 July each year for each Project that was ongoing or completed in the preceding Regulatory Year. If a Project is halted, then Project Progress Information must be published sooner: as soon as possible, but at the latest by 31 July following the halting of the Project.**

 - As per the current governance document drafting, we would publish a progress or completion report if new learning has been generated. Typical examples where we would not publish a progress report includes a project registered that hasn't yet started or a new project that hasn't yet delivered its first work package.
 - Is it Ofgem's intention that all projects must have a progress or completion report if no material progress has been made? We believe this is inefficient and adds unnecessary additional paperwork but is also misleading for the reader as we would be publishing a progress report with no progress/new learning made.

- **6.6. The Outcomes of the project – removal of “Unless there are regulatory, contractual or commercial reasons not to do so, comprehensive details of the Project’s outcomes are to be reported.”**

 - The proposed wording change removes the exception process for reporting on project outcomes with regulatory, contractual or commercial limitations. We already release comprehensive detail of project outcomes, but these exceptions can be important in order to avoid revealing sensitive operational practises and data, exposing a supplier's proprietary information to competitors or due to compliance with legal requirements such as GDPR.

- Where we do have these limitations, we provide guidance via our progress and completion reporting, including providing direction on how the reader can find out more, or request access to this information.
- With the proposed amendment, we would expect this to become a blocker to innovation as this will effectively close topic areas or be a limiting factor to prospective innovators. At present, the ESO has a number of in-flight projects where we can't share the full results of the project. For example, our 3MD (market monitoring) project is a non-default project, so we are unable to share the full results and analysis due to the likely market damage that may result from publication and due to compliance with the relevant market monitoring regulatory requirements.
- We would welcome guidance from Ofgem on how we should treat these projects and whether the proposed change, if adopted, would be applied retrospectively to existing registered projects.
- Whilst we note that there remains the ability under 6.5 to inform Ofgem prior to project registration if any of the required Project Progress Information cannot be published, we consider the existing drafting in 6.6 provides greater assurance to prospective innovators that any concerns (which may otherwise preclude them from participating) can be accommodated and gives us greater flexibility to handle these issues where they materialise after project registration. We do not consider this flexibility is open to abuse as Ofgem retains the ability to disallow recovery of NIA expenditure where it is not satisfied with the reason for non-publication. We also note that the current wording in 6.6 recognises three broad categories of issue/concern which may give rise to non-publication – contractual, regulatory and commercial – none of these categories are mentioned in 6.5 so it is not clear whether any or all of these would still be accepted by Ofgem as a valid reason for non-publication.

- **6.6. Net Benefit Statement**

- We believe this new section should be aligned with the requirements as set out in Section 3.8 and 3.9: 'Requirement 2 – potential to deliver a net benefit to consumers'. All innovation projects at registration must show a potential to deliver net benefits to consumers.
- The benefits we set out at project registration are both quantitative (financial saving), but also qualitative (knowledge of an impact of a new technology/approach). A calculation of estimated benefits is required for development and demonstration projects but not research projects.
- Currently projects which are Research/Low Technology Readiness projects are not required to provide a calculation of estimated benefits. We believe undertaking this 'Net Benefit Statement' activity for projects that haven't progressed into a development or a demonstration stage at completion would be unrealistic.
- Implementation of innovation projects is not fundable through NIA, and we would therefore not see direct benefits within the innovation project timescales. Rather, benefits would likely be realised by the business post-project in most cases, and outside of the current regulatory price control.
- Innovation outputs are usually implemented as part of a wider business activity, such as a follow-on project or programme. Where a benefit would be seen through a BSUoS charges reduction, for example, attributing a specific benefit from an innovation project as part of a wider programme of work could be misleading without the complete picture.
- It should also be recognised that a snapshot of forecasting future benefits at project completion may also be unreliable as the system conditions continue to change and evolve (either as a result of other ESO-led activities or due to third party implementation of new technologies, products or processes).
- We currently undertake benefits reporting through the Innovation Measurement Framework (IMF) and we publish our scorecard within the Network's Innovation Annual Summary, as well as within our own Innovation Annual Summary. We believe the IMF is a better reporting mechanism as this takes place at the portfolio level takes into account multi-step programmes of work. It is also updated annually.
- We would welcome engagement from Ofgem to explore this further, including how we can further improve the reporting of benefits if this is unclear. We did engage extensively with the Benefits RFI led by Jon Pacey in 2022, and some of his recommendations around a standardised benefits calculation methodology could be one such improvement.