



Together we innovate

Energy Innovation Centre Ltd,
Suites 1 & 2, The Technology Centre,
Inward Way, Ellesmere Port,
Cheshire CH65 3EN

† 0151 348 8040
e enquiries@energyinnovationcentre.com
w www.ukaic.com

Dear Sir / Madam,

Re: Response to RIIO-3 Sector Specific Methodology for the Gas Distribution, Gas Transmission and Electricity Transmission Sectors Consultation

1. Introduction

Thank you for the opportunity to share the thoughts and insights from our Innovator Community in relation to the development of the RIIO3 sector specific methodology. Our response focuses entirely on the innovation section of the consultation document.

The energy system has a vital role in ensuring that the UK does not fail to meet its binding target of reaching net zero by 2050. Whilst there are considerable challenges ahead, Innovators fundamentally believe innovation will be essential to achieving success. Therefore, it is crucial that we achieve regulation which fosters, accelerates and deploys initiative solutions onto the energy networks.

The EIC Partnership and its Innovator Community welcome Ofgem's decision to maintain the innovation funding incentives. As previously shared with Ofgem, the Innovation Community believes that NIA is essential for innovation within the sector, as it is the primary method of engaging with smaller third parties and innovators.

Our Innovator Impact Panel continue to believe that **continuity**, **consistency** and **flexibility** in the funding mechanisms are key to maintaining momentum. They are also firmly of the view that arbitrary time constraints connected to the price control continue to hinder progress and the deployment of innovation.

Innovators over many years have consistently fed back the following points which are required in order to develop effective engagement with third parties and deliver innovation. These are:

- Faster pace of innovation from idea to BAU.
- Increased collaboration between network businesses ensuring a simplified common approach for Innovators. Some networks continue to operate from their own perspective and do not take into consideration Innovators position which prevents Innovators accessing their businesses.
- More consistency across network businesses to provide easier access to data and information.
- Improved collaborative working and partnerships with Innovators at all stages.

2. Support to Innovators

In February 2023, to further facilitate partnerships with third parties, Ofgem strengthened the requirements for networks to have in place processes to offer suitable support, information and guidance to innovators (Sections 2.7 and 2.8 of latest [NIA Governance document](#)).

Seven Networks - National Grid Electricity Transmission, UK Power Networks, Scottish & Southern Electricity Networks (Distribution), Scottish & Southern Electricity Networks (Transmission), Northern Powergrid, SP Energy Networks & Northern Gas Networks - are part of the EIC Partnership. They fund the work we undertake to continuously evolve the support available to Innovators.

The support available to Innovators through the EIC includes established processes from idea to business-as-usual deployment, personalised 1:1 support, visibility of relevant challenges, and a growing number of resources including recently published Innovation Deployment Guidance and a Procurement Guide. All of these are accessible from the EIC Innovator Support Page ([Link](#)).

This service is highly valued by Innovators, as evidenced by the continuous positive feedback being received. 87% of Innovators believe that an organisation like the EIC needs to exist for them to effectively engage and innovate with the industry. To secure its availability in the long term, Ofgem should consider how to provide stronger recognition to the networks who actively support access for SMEs and early-stage innovators.

NIA Governance Document Extract:

2.7. Gas Transporter, Electricity Distribution and Electricity Transmission Licensees must have in place efficient and effective processes to create and facilitate 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.

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

3. Direct response to consultation questions

Question 47 - Do you have any views on our proposal to retain a flexible allowance, providing evidence for why you think that it should, or should not be, retained?

Innovators say that a flexible fund is essential to ensure that innovation continues within the sector. However, they have also asked that the scope be broadened to accommodate technical innovation and moving away from the sole focus of net zero and consumer vulnerability. Innovators believe that NIA for technical and tactical innovation remains important, as it enables third parties to respond quickly to developing scenarios within the network businesses. There is also a view that innovation inclusion through TOTEX incentive mechanism may result in delays in progression to BAU, due to the lack of external transparency in governance requirements which drives progress. Innovation deployment through TOTEX may be delayed due to continued competing demands for limited operational resources to deploy innovation within network businesses.

Question 48 - Do you have any views on our proposal to retain a competitive network innovation funding pot, that continues to focus on key challenges facing the energy sector, with phases to de-risk the pot?

The EIC Partnership agree to the retention of a competitive network innovation fund. However, the Innovator Impact Panel continue to actively not engage with SIF due to the level of bureaucracy and timings of the structure of SIF as it is detrimental to small business operations. In addition, Innovators have a contrary view to the consultation document. The Innovator Impact Panel's experience has been that less innovation is being undertaken within the network businesses through NIA primarily because SIF activity is absorbing all resources within the network businesses.

Question 49 - Do you have any views on how the structure of the price control innovation funding could be adapted to better focus on whole systems problems, and ensure strategic alignment with other public sector initiatives?

The Innovator Impact Panel have discussed the need for strategic innovation for the industry with clear goals to be achieved. These goals should stretch beyond price controls, and it is felt that such clarity and direction will stimulate innovation activity in the right areas. Innovators have demonstrated that they are agile and responsive to industry demands.

Question 50 - Do you agree with our proposal to continue with a similar level of innovation funding, and if not, could you provide evidence for why a different amount is required, including consumer research you are aware of into their willingness to pay for network innovation?

The Innovator Community fundamentally believe that to achieve the energy system transition, the magnitude of investment for innovation should be higher given the scale and pace at which the energy networks need to adapt to meet the net zero challenge. Therefore, the regulator is asked to consider increasing the levels of funding, enable innovation to extend beyond price controls, support and drive a

culture change within network businesses through strong reward and penalty incentives linked to innovation deployment mechanisms.

Question 51 - Do you agree there is a need to expand the scope of innovation funding to be more inclusive of third parties?

The EIC Partnership would agree that there is always a need to evolve and develop the scope of innovation funding to be more inclusive of third parties. As stated earlier, third parties have demonstrated that they are both agile and have the skills to support the industry as it moves through the energy systems transition.

The Innovator Impact Panel shared their experience that to take part in innovation funded projects, Innovators may not charge commercial rates for the work that they are doing. Therefore, SMEs are less likely to take the risk in undertaking research as part of a SIF project. Whilst overall Innovators are supportive of competition, they believe the industry needs to work more collaboratively in creating the frameworks within which innovation operates.

Question 52 - What are your views on us establishing an accelerator to support early-stage innovators?

The EIC has 15 years' experience in supporting Innovators and developing innovation projects. The Innovator Impact Panel stressed that not all SMEs are the same and no innovation project maybe the same. Therefore, any support by a company can be nuanced. The Innovator Impact Panel stated that in their experience many accelerators are not nuanced enough. Members of the Panel were very supportive of the work of the EIC, as it provides, in their opinion the best nuanced support currently available.

Whilst processes have evolved over time in response to Innovator feedback, more work could be done. The EIC Partnership offer is curtailed by resources available.

The EIC Innovation Calls process is 90% successful in sourcing solutions to problems and 300+ ideas from Innovators are typically reviewed annually.

The table below provides an overview of the end-to-end support currently available from the EIC.

Innovator Support (from Idea to business-as-usual deployment)		Specific Support Available from EIC		
Description	EIC	1:1 Support	Documents or Online Resources	Additional Information
Regulatory support (New products & services)	-	-	-	Support available from Ofgem
Information to help Innovators navigate and innovate with the UK Energy Networks	Yes	✓	✓	Ultimate Guide (Link) / FAQs (Link)
Information on innovation projects & activities carried out by network companies	Yes	-	✓	Case Studies (Link)
Overview of funding available to support development of ideas	Yes	✓	✓	Funding Landscape (Link)
Visibility of industry problems, challenges and priorities for innovation (E.g. Calls)	Yes	-	✓	EIC Core Process / EIC Opportunities Page (Link)
Evaluation / screening of ideas for the sector, development ahead of potential submission to Networks	Yes	✓	-	EIC Core Process
Pitching guidance & support	Yes	✓	✓	Guidance (Link)
Support with development of an innovation proposal - scoping (following Network interest)	Yes	✓	-	EIC Core Process
Legal support & IP guidance	Yes	✓	✓	EIC Core Process / Guidance (Link)
Regulatory sandbox	-	-	-	Support available from Ofgem
Innovation project delivery support	Yes	✓	-	EIC Core Process
Visibility of testing & demonstration facilities	Yes	-	✓	Live Testing Facilities Map (Link)
BAU deployment, guidance & fast Follow	Yes	✓	✓	Innovation Deployment Guidance (Link)
Innovation commercialisation & scale-up support	Yes	✓	-	High level guidance provided as part of deployment guidance
Procurement guidance	Yes	✓	✓	Innovation Procurement Guide (Link)
International development / Export support	-	-	-	Support available from other organisations (e.g. ESC)
Escalate an issue or provide feedback to the industry	Yes	✓	✓	Feedback can be provided online or via feedback session

Should a gap in services to Innovators be identified and an accelerator developed, Innovators state that it should build upon the expertise which already exists, ensuring continuity, consistency and flexibility.

Additionally:

- In the light of Ofgem's continued concern about the demonstration of outputs particularly NIA, the EIC Partnership has commissioned a piece of work to develop a benefits framework providing a consistent approach to calculation of financial benefits to share with Ofgem and wider stakeholders.
- The EIC Partnership welcomes Ofgem's focus on developing lean applications, but Innovators would ask that this be built on existing work already been co-created between Innovators and the networks through the EIC Partnership to maintain the consistency and continuity that has already been achieved.
- The EIC is in the process of introducing the Deployment Ready Hub to share innovations across all network businesses, reducing duplication, and transferring fast follow deployment between networks.

Question 54 - Do you have evidence of potential innovation projects that have not been implemented or sought funding due to the five-year structure of the price control? How could this issue be addressed?

The Innovator Impact Panel considered this question and stated that if we were to design an innovation process, an arbitrary five year start and end period would not be built in. As stated earlier the price control structure in fact hinders innovation progress and deployment. Ofgem are asked to consider how innovation can operate outside of the price arbitrary price control time boundaries.

Question 58 - What are your views on the design of potential new mechanisms to address this?

The EIC Partnership and its Innovator Community and Impact Panel agree that the success of innovation is impacted by the culture of the businesses and the regulatory framework within which colleagues within networks operate. Overall, Innovators believe that incentives should be stronger in relation to reward and consequence for both the development and deployment of innovation.

It is important that the measures of success are appropriate e.g. with NIA we need to be measuring what has been learnt, where appropriate, what has been implemented, not just a finalised product. We need to ensure that there is room to fail.

Any KPIs set for the rollout mechanism need to be aligned with the needs of operational teams. At present, it appears to Innovators that the driver for innovation teams is to deliver good projects and the driver for operations teams is to ensure reliability. These two drivers are not necessarily aligned. It is these nuances within the businesses that will need to be addressed by any new mechanism to ensure effective rollout.

Resources within operational teams to effectively support deployment will be required to achieve impact.

Innovators also conveyed a strong message that incentives should be in place to ensure businesses collaborate across gas and electricity and truly co-create. This will then create mechanisms to create wider alignment across a whole energy system.

Thank you once again for inviting the EIC Partnership and its Innovator Community to contribute to the consultation. Should you require any further information or insight from our Innovators, please do let me know and I will be happy to facilitate a more detailed conversation and insights as required.

Yours sincerely,

A handwritten signature in dark ink that reads "Denise Massey". The signature is written in a cursive, slightly informal style.

Denise Massey
Managing Director
Energy Innovation Centre Ltd
6 March 2024