Minutes

Innovation Working Group Meeting #4

Notes and issues from the fourth meeting of the Innovation Working Group.	From	Neil Copeland	24 June 2011
	Date and time of Meeting	21 July, 1030-1430	
	Location	Ofgem, 9 Millbank, London	

1. Introduction

1.1. Anna Rossington (AR) welcomed attendees and outlined the agenda for the meeting – to provide an overview of the forthcoming decision and consultation document on the network innovation competition (NIC). There was also opportunity to discuss the transition from innovation to business as usual, intellectual property (IP), and direct benefits.

1.2. These notes aim to capture the key points of discussion. They do not indicate or imply Ofgem's agreement to points made by attendees.

2. Third party access

2.1. AR informed the working group that Ofgem intend to publish their decision on third party access to the NIC in July. Following discussions at the previous IWG, Ofgem has decided not to introduce an innovation licence and therefore third parties cannot directly apply for funds. The consensus amongst attendees at the previous meeting had been that the key issue was ensuring that third parties could collaborate with network operators early in the process, rather than having direct access to funding.

2.2. Mark Wagner (MW) indicated that he felt that he was not convinced proposals other than an innovation licence for third parties would ensure that their ideas would be taken on board by the networks companies.

3. Network innovation competition (NIC) consultation and Third Party access

Criteria

3.1. AR noted that the criteria will be set out at high level in the consultation, and are broader than the Low Carbon Networks (LCN) Fund where projects must accelerate the low carbon transition. For the NIC projects must provide carbon benefits or environmental benefits. AR pointed out that the scope for NIC projects would also be broader in that projects from research and development through to network trialling would be funded.

3.2. AR also set out the proposal that projects should *"create new knowledge that can be shared across the GB networks (i.e. opportunities for roll-out or knowledge that is relevant to a significant proportion of the GB networks)".* Dave Openshaw (DO) pointed out that projects would be of interest to other parts of the supply chain and that this should be taken into account in the criteria. AR recognised that the benefits of projects would go beyond the networks themselves, and suggested that this should be emphasised in the requirement to disseminate learning. However, as network customers were paying for the projects then it is appropriate that the criteria for funding are specific to the networks.

3.3. John Christie (JC) asked whether offshore electricity transmission networks would be included in the criteria. Discussion took place around the table on this issue. Stewart Reid (SR) pointed out that there were crossovers between offshore networks and transmission to the Scottish islands where cables might go below the sea. AR stated that she could see no reason why offshore licensees could not apply to the NIC.

Funding

3.4. AR outlined Ofgem's intention that the NIC should be funded through transmission charges and passed through to customers through charging methodologies. Ofgem will consult on the best way to allocate the funds between transmission operators (TOs). Sean Gauton (SG) asked how risk protection and the funding of awards would be administered. AR responded that this was still being looked at, but pointed out that the funding for risk protection and rewards would come out of the maximum annual funding amount. Ben Smithers (BS) emphasised that Ofgem wanted to keep the amount of funding available for the competition the same in each year of the price control but noted that depending on the number of projects finishing in a particular regulatory year this may lead to issues with the amount of funding available.

NIC project preparation funding

3.5. AR briefly explained that Ofgem would consult on whether or not network companies would be able to use some of their Network Innovation Allowance (NIA) to fund the preparation of NIC project submissions. MW questioned whether there would be any allowance for small third parties. It was noted that some DNOs had provided preparation funding to their partners in the LCN Fund first year. SR suggested that DNOs should have a certain amount of their allowance which is spent within the network company and a certain amount that could be spent on partners.

Third party access

3.6. AR summarised Ofgem's intention to consult on requiring the network companies to set up a collaboration platform for all network companies where third party organisations can approach network companies with ideas/products for NIC projects. AR stated that Ofgem would have oversight of this platform – to identify if certain types of projects were not being considered by the network operators.SR hoped that the portal would not be seen as a way round the normal procurement processes. Both SR and MH pointed out that they get approached by companies who do not have a product; instead they hope by interacting with the network company scope for developing a product or service will appear. SG asked what Ofgem felt they would get out of the portal. AR responded that Ofgem would be able to see if there was a pattern to the technologies/services that were being rejected by the network companies and that Ofgem could then encourage collaboration, or review the mechanisms.

3.7. MW suggested that as well as responding to the organisation that had approached them network companies should also inform Ofgem they had responded and grade the approach from the third party so Ofgem could understand why approaches had been rejected.

Risk protection

3.8. AR summarised Ofgem's proposals on risk protection emphasising that the funds for risk protection would come from the annual available funding allowed for the NIC. It was emphasised that the consultation would be at a high level and that the detail would be finalised when the NIC Governance Document was being drafted.

Rewards

3.9. AR set out the proposals on rewards, including that they would be funded out of the amount set aside for the NIC each year. Denise Massey (DM) asked why there was a need for a successful delivery award. SG and SR responded that it encouraged the network companies to efficiently manage their projects rather than doing the minimum. DM pointed out that a discretionary reward may encourage unintended types of behaviour. SG noted that a company's likelihood of receiving a reward would form part of the company's assessment of uncertainty and risk. This would be reflected in their well justified business plan and balanced against the other potential impacts on RORE. SG continued that any reward and particularly those not linked to specific milestones should be discussed in the context of the whole price control.

3.10.   Several people around the table agreed that it was necessary to link the reward to deliverable outcomes. However, JC pointed out that Ofgem should not be incentivising a fixed deliverable when half way through a project it becomes clear that it is the wrong deliverable and that perhaps stopping a particular project would be the best outcome. AR pointed out that Ofgem and network companies currently have the right to stop LCN Fund projects, but recognised the point and agreed this issue could be revisited to as the NIC develops.

4. Transition to business as usual (BAU)

4.1. Members of the working group raised this as an issue at a previous innovation working group meeting. SR pointed out that there are two types of innovation: there are innovations that reduce costs straight away; and, there are innovations which require an upfront capital investment before there is a return on investment later in time.

4.2. SR and DO mentioned that suppliers are pushing back on DNOs in relation to demand side management (DSM). This would be a major obstacle to rolling out an innovation making use of DSM more broadly. SR also pointed out that rolling out an innovative solution might lead to new risks that were not visible at the trial stage.

4.3. SR questioned whether companies who quickly and efficiently roll out innovation on a business as usual basis should be rewarded. KM felt that the RIIO framework would incentivise the roll out of innovation and MH pointed out that those companies who do not roll out an innovation would be penalised as their costs would be greater.

4.4. BS noted Ofgem appreciated that the trialling of innovative solutions may mean challenges to the current regulatory framework. He said that rolling out innovative solutions may require changes to the framework as it currently stands.

5. Direct benefits

5.1. AR summarised Ofgem's intention to consult on direct benefits as part of the NIC consultation. Ofgem intend to ask network companies to quantify the expenditure that had been included in their well justified business plans but would not be required if the project went ahead. This sum should then be subtracted from the amount of funding they request in their project submission. SG pointed out the direct benefits were project specific and may differ greatly from project to project.

6. Intellectual property (IP)

6.1. AR stated that Ofgem envisaged treating IP for the NIC in the same way as it currently dealt with under the LCN Fund. MH questioned whether IP would be treated in the same way on the NIA as in the NIC. He stated that he would prefer the NIA to follow the innovation funding incentive; while NIC IP is treated in the same way as the LCN Fund Second Tier IP. AR asked how customers would receive value for money if IP from NIA projects are dealt with in the same way as the IFI. DM pointed out that network companies get a discount from the companies who they had partnered with on IFI

projects when technologies develop into the market. AR responded that Ofgem would need something more binding to ensure value for money for current and future consumers.

6.2. AR noted that projects don't have to use the default IP arrangements – but they have to justify the alternative approach. She recognised that this could be emphasised more, to encourage small third parties. However, SR and MH pointed out that the DNOs felt that it would count against them at the assessment stage if they did not use the default IP arrangements.

7. Next Meeting

7.1. It was agreed that:

- The next meeting would take place at the end of August,

- Ofgem would provide a timetable of what issues it aimed to discuss and when, and

- Provide feedback on the LCN Fund Annual conference.

Appendix

List of Attendees

Jenny	Cooper	National Grid Transmission
Kerri	Matthews	National Grid Gas
Martin	Hill	SP Transmission
Stewart	Reid*	SSE Transmission
Insaf	Ahamed	Scotia Gas
Nigel	Winnan	Wales and West Utilities
John	Christie	DECC
Dave	Openshaw	DNO representative
Mark	Wagner	Isentropic
Alec	Breen	NGN
Sean	Gauton	ENA
Denise	Massey	Energy Innovation Centre

*Stewart Reid attended by teleconference