

## Innovation Working Group: March 2012

Notes and issues from the March meeting of the Innovation Working Group.	From Date and time of Meeting Location	Neil Copeland 22 March 1000-1600 Ofgem, 9 Millbank	03 April 2012
--	--	---	---------------

### 1. Present

Alec Breen	NGN
Roger Hey	WPD
Stewart Reid	SSE
Zoltan Zavody	REA
Steve Edwards	WWU
Chris Goodhand	NPG
Insaf Ahamed	SGN
Jenny Cooper	NG
Darren Dunkley	NG
Euan Norris	SP
Jonah Anthony	DECC
David Oram	NG
Martin Wilcox	UKPN
John Christie (teleconference)	DECC
Dora Guzeleva	Ofgem
Sam Cope	Ofgem
Nicola Meheran	Ofgem
Neil Copeland	Ofgem
Sam Williams (pm only)	Ofgem

### 1. Introduction and Welcome

1.1. Dora Guzeleva (DG) welcomed the attendees and thanked the members of the working group for their attendance. Sam Cope (SC) then set out that the purpose of the meeting was to update stakeholders on the decision document<sup>1</sup> that has been published on the Network Innovation Competition (NIC) and begin discussing the detailed governance arrangements for the NIC and the Network Innovation Allowance (NIA).

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. Innovation Working Group Terms of Reference

2.1. SC commented that the IWG had existed for some time to discuss the innovation stimulus introduced as part of RIIO T1 and GD1 price controls reviews. He also stated that Ofgem expects a majority of the innovation policy developed under these reviews to be consistently applied to RIIO ED1 as well. Given this, and in order to reduce overlap between the various price control groups, the IWG will be used to discuss ED1 innovation policy as well as T1 and GD1 policy. As such, SC stated that Ofgem had circulated a draft Terms of Reference (ToR) for the IWG to all members before the meeting. He then asked if members had any comments on the document that was circulated.

2.2. A number of people around the table felt that the Innovation Rollout Mechanism should be within the scope of the IWG. Stewart Reid (SR) also commented that there should be discussion at the IWG regarding incentivising the roll out of successful

<sup>1</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=346&refer=Networks/nic>

innovations and this should be included in the ToRs. The group also discussed bringing together the LCN Fund and the IFI into the NIA with a number of views expressed.

**Action**

Ofgem to update ToRs based on comments from the IWG and circulate

**3. Update on Current Developments**

## A) Timetable

3.1. SC outlined the future timeline for developing the detailed governance for the NIC and NIA; drawing particular attention to the addition of a future consultation that will be held on the NIA in May. He also noted that the Low Carbon Networks (LCN) Fund Second Year Review Decision<sup>2</sup> had been published and new version of the LCN Fund Governance Document<sup>3</sup> reflects the outcome of the review.

**Action**

Ofgem to circulate link to LCN Fund Governance Document

## B) Summary of Decisions

3.2. SC summarised slide six of the slide pack<sup>4</sup> that was provided for the meeting. He noted that Ofgem intend to retain the two stage evaluation process as with the LCN Fund. However, this would be kept under review and if there was a greater than expected number of applications then the system could be changed. SC also noted that some of the evaluation criteria had been slightly tweaked based on learning from the LCN Fund Two Year Review.

3.3. Steve Edwards (SE) pointed out that throughout the presentation pack and in the straw man of the Governance Documents for the NIC and NIA there were a number of references to the LCN Fund and noted that it was important the documents the group were developing were able to stand alone in their own right. SC responded that the final documents would be stand alone and subsidiary to the relevant licence. However, for now the LCN Fund documents were being referred to where Ofgem planned to introduce an equivalent treatment in the NIC or NIA to what is happening in the LCN Fund. DG added that in Ofgem's opinion, and in the opinion of respondents to the LCN Fund consultation, the LCN Fund was working well. Therefore it makes sense to adopt learning from this source where it is applicable to the NIC or NIA.

3.4. Roger Hey (RH) commented that it may be necessary to reconsider the cap on the number of projects that a group could submit. This would become a particular issue if a group were to host a project on their network that was being undertaken by a third party. DG responded Ofgem would consider this issue further.

## C) Implementation of the Gas NIC

3.5. SC summarised slide seven of the slide pack. He highlighted that Ofgem have identified a potential issue that could delay implementation of the Gas NIC. He outlined Ofgem's current view that the Gas Act as drafted does not allow Ofgem to implement the NIC in the Gas Sector. He stated that Ofgem is working with DECC to seek a solution to this problem and that Ofgem believe that an amendment to primary legislation is necessary for the Gas NIC to be implemented.

---

<sup>2</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=115&refer=NETWORKS/ELECDIST/LCNF>

<sup>3</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=118&refer=NETWORKS/ELECDIST/LCNF>

<sup>4</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=327&refer=Networks/nic/iwg>

3.6. Jonah Anthony (JA) explained that the Department for Energy and Climate Change (DECC) is currently considering the options for potentially proposing an amendment to primary legislation and these changes could possibly be provided by April 2014.

3.7. SE suggested that all those around the table consider possible solutions and feed these back to Ofgem. DG said this would be useful and also asked the companies to consider suggesting alternative interim arrangements for the Gas NIC in the meantime.

#### **Action**

Members to consider alternative means of running the NIC

Members to consider contingencies if a NIC cannot be held in 2013

### **4. Introduction to NIC Governance Document**

4.1. Nicola Meheran (NM) introduced a draft skeleton of the NIC Governance Document which had been shared with the group. She noted that the first section would set out the processes by which the NIC would be run. The second section would contain the obligations winning companies would need to comply with. NM then asked if participants felt there were any omissions from the draft structure. Roger Hey (RH) and SE commented that it would be useful if the introduction of the Governance Document summarised the: principles, objectives and processes of the NIC.

#### A) NIC Evaluation Process and Criteria

4.2. NM summarised slides 14 and 15 which sets out the NIC Evaluation Process and the NIC Evaluation Criteria respectively. SE asked whether the Expert Panel made the decision on which projects passed the ISP. SC responded that for the LCN Fund ISP decisions were made by GEMA (the Authority) not the Expert Panel. He also clarified that the Expert Panel provides recommendations to the Authority at the Full Submission stage only and that the ultimate decision on which projects receive funding is made by the Authority.

4.3. Martin Wilcox (MW) suggested that the customer engagement plan requirements referred to on slide 14 should not be as strong as it is for the LCN Fund. DG commented that a number of similar sensitivities would be in place, but that this was something that Ofgem would consider when drafting the Governance arrangements.

4.4. SE asked whether NIC projects would be assessed against all the criteria or just one. NM responded that projects would be assessed based on how they performed against all the criteria. SR commented that the criteria should allow for licensees carrying out projects to examine issues associated with their specific geographical and temporal situation. He drew attention to the FiTs scheme where DNOs in the south have seen a growth in the amount of PV connections whereas in Scotland most FiT installations are micro wind connections.

#### B) Assessing Project Benefits

4.5. NM summarised slide 16 which set out how potential carbon and financial benefits could be assessed. Some around the table commented that they were having difficulty understanding how this proposal would work for gas network companies. RH noted that not all potential NIC projects will increase capacity on the network and would therefore not perform as strongly against this criterion.

4.6. SE noted that there was no reference to enhancing security of supply. NM responded that the NIC is intended to deliver financial and carbon or other environmental benefits to consumers and this scope was set in the March RIIO strategy documents. SE asked Ofgem to consider whether given recent developments in the Gas Sector it would be appropriate to expand the scope of the gas NIC to encompass project delivering security of supply benefits as well. DG stated that Ofgem would consider this point further internally.

NM summarised slide 17 which highlights projects that may deliver broader environmental benefits, the LCN Fund only covers financial and carbon benefits. NM noted that this was something new and a way of assessing these submissions would need to be considered. Discussion took place around the table on this issue and it was agreed that the cost savings of projects could be easily quantified. However, it was not simple to quantify the potential environmental benefits of projects.

### **Action**

Members to consider how environmental benefits of NIC projects could be assessed

#### C) Cross Sector Projects

4.7. NM stated that Ofgem were considering the implications of including cross sector projects in the NIC. NM noted there are some additional complexities involved with cross sector projects and one issue Ofgem is considering is how the benefits of cross sector projects can be calculated and how accurately they can be assigned to each separate sector. SR spoke about the Northern Isles New Energy Solutions project which involves collaboration with the local district heating system operator.

4.8. DG noted it would be useful to understand more about what potential cross sector projects companies could request funding for and what proportion of the benefits from these projects might accrue to electricity and gas customers as a result of these projects.

### **Action**

Members to provide detailed examples/case studies of cross sector projects, highlighting what the potential project benefits will be and how they accrue to both the gas and electricity sector and how you assess the benefits to each sector.

## **5. NIA Governance Document Overview**

5.1. Neil Copeland (NC) summarised the high level policy intent of the NIA (slide 22) and the principles (slide 23) that is being followed when developing the proposed structure for the NIA Governance Document. NC described the straw man of the Governance Document that had been circulated before the meeting and asked whether there was anything missing that should be included.

5.2. DG noted that Ofgem want to take the best from the First Tier and the IFI and use these principles to develop the NIA. With this in mind it would be useful to understand what the companies consider works best for consumers in the IFI.

5.3. RH queried whether there was any need to make a specific reference to audit requirements within the Governance Document because Ofgem can audit all activities by licensees whenever it wishes. RH felt the explicit inclusion of audit requirements could cause alarm in some places. DG noted that there are many ways to audit and we would need to consider our reasons for including the requirement explicitly in the Governance Document. SE commented that Ofgem could include a general statement in section four of the Governance Document rather than having a specific section setting out audit requirements.

5.4. Martin Wilcox (MW) commented that Ofgem's intention to use the default IPR arrangements from the LCN Fund may cause issues with collaborators. He suggested that some collaborators may be put off because they had to share certain intellectual property with all other GB DNOs. Chris Goodhand (CG) added that he would prefer to adopt the IFI approach where DNOs get a discount after a collaborative project has been completed. NC noted that the arrangement set out in the LCN Fund Governance Document was only the default. Licensees are free to put forward alternative arrangements on a project by project basis. DG asked if the companies could provide some examples of the type of IPR arrangements they have entered into with third parties to implement IFI projects. DG said

that Ofgem would consider this issue further and update the Innovation Working Group at the next meeting.

### **Action**

Members to provide examples of the type of commercial arrangements covering IPR licensees have entered into when implementing IFI projects.

Members to send their views regarding G85/IFI and what they consider works best and why this works for consumers.

#### A) NIA Eligibility Criteria

5.5. NC summarised slide 29 which set out the first “gate” of the proposed eligibility criteria. This aims to ensure that NIA projects are innovative. He then asked if the proposed criteria would rule out any innovative activities. SE commented that the criteria could be broadened to include methods that are being used in other sectors but need to be trialled in the licensees sector. Jenny Cooper (JC) and CG commented that it could be difficult to apply the proposed criteria to projects targeted at issues lower down the TRL levels. SR also noted that theoretical innovation could be within the scope of the NIA. Other issues that licensees highlighted included: asset management; vegetation management; market arrangements; customer research; the health effects of energy networks; and applied research.

5.6. NC presented slide 30 which set out that NIA projects should produce new learning. All those around the table felt that NIA projects should not lead to duplication. JC commented that the same solution can be used in different ways to do different things. NC responded that if the project was going to deliver new learning then it would be eligible. NC asked if learning from NIA projects should be shared. DD noted that companies may be hesitant about participating in NIA projects if they have to provide the intellectual property generated by a project freely to all other network licensees. MW noted that for LCN Fund First Tier DNOs need to provide 10% of the project costs, in the IFI it is 20%. MW suggested that the lower contribution for LCN Fund projects meant DNOs were more willing to share learning.

5.7. RH noted that he was unlikely to look for information from projects WPD had not funded because they were not relevant to the networks he is responsible for. He would invest where it was in the interest of WPD’s customers. MW noted that because learning from a First Tier project would be available to all DNOs they only need to persuade one DNO to contribute towards a project.

5.8. NC summarised slide 31 which sets out that NIA projects should deliver value for money for consumers and asked for comments. CG commented that it is not always possible to know at the start of certain projects, particularly those focussed on initial research, if a project will have a positive net present value (NPV). CG suggested that these projects should be allowed to go ahead if the portfolio of NIA projects has a positive NPV. NC clarified that a project should have the potential to deliver benefits. He also asked whether other benefits, eg environmental and social benefits where there are no obvious financial benefits should be allowed. All licensees felt that these projects should be allowed. NC noted that a different process may be required for projects which do not have a clear financial benefits but may deliver other benefits.

#### B) NIA Project Registration

5.9. NC summarised slide 33 which describes Ofgem’s proposal regarding project registration. NC highlighted that Ofgem are minded to require project registration, a key principle of which is to increase transparency and allow companies to see what the others are doing. SE commented that the IFI includes measures to provide transparency of learning, including a requirement on GDNs to submit a forecast of IFI spend each year. CG added that the LCN Fund First Tier registration process was not particularly onerous and

similar arrangements would be appropriate under the NIA. RH questioned whether or not adequate thought had been given to the amount of projects might be implemented under the NIA and the amount of resource registration could require.

5.10. JC commented that companies could publish the minutes of the internal meetings in which licensees decide which innovation projects are to be taken forward. JC also added that it would be possible to publish registration proformas on the ENA innovation portal.

5.11. SE asked about the limit on funds that can be spent within the licensees company that is in place for the IFI would continue for the NIA.

## **6. AOB**

6.1. The next meeting of the IWG will be held at Ofgem on 26 April between 0930 and 1400.