

Innovation Working Group: April 2012

Notes and issues from the April meeting of the Innovation Working Group.	From Date and time of Meeting Location	Neil Copeland 0930-1330 26 April 2012 Ofgem 9 Millbank	14 May 2012
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1. Present

Alec Breen	NGN
Roger Hey	WPD
Stewart Reid	SSE
Richard Pomroy	WWU
Chris Goodhand	NPG
Insaf Ahamed	SGN
Jenny Cooper	NG
Dave Oram	NG
Jamie McWilliam	SP
Martin Wilcox	UKPN
Denise Massey	EIC
Gaynor Jones	NG
Steve Cox	ENWL
Rodney Brook	Sohn Associates
Gareth Shields	SSE
Dora Guzeleva	Ofgem
Sam Cope	Ofgem
Nicola Meheran	Ofgem
Neil Copeland	Ofgem
Sam Williams (NIA only)	Ofgem

1. Introduction and Welcome

1.1. Dora Guzeleva (DG) welcomed the attendees and thanked members of the group for their attendance.

1.2. Sam Cope (SC) provided an update on progress against actions that were taken at the previous meeting and thanked members for their contributions. He went on to explain that the purpose of this meeting was to discuss the detailed governance arrangements for the NIA and draft sections of the NIC Governance Document.

1.3. 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. Network Innovation Allowance (NIA)

2.1. SC summarised slide eight of the slide pack¹ which shows the structure of the NIA Governance Document. He highlighted the areas that had been discussed at the March IWG and drew attention to the issues to be discussed in this meeting.

a) Intellectual Property

2.2. Sam Williams (SW) introduced the issue of intellectual property (IP) for NIA projects. He thanked members of the working group who had explained some of the arrangements presently entered into by licensees and third parties undertaking Innovation

¹<http://www.ofgem.gov.uk/Networks/nic/iwg/Documents1/AprilIWG.pdf>

Funding Incentive (IFI) projects since the March IWG. He noted that Ofgem recognise it is important no unnecessary barriers are put in place that would stop collaboration. However, it is important to understand the specific issues there may be if the default IP treatment in place for the LCN Fund was retained for the NIA. SW added that the intent of including default IP arrangements in the LCN Fund was to ensure that customers benefited from the innovation that was taking place and learning was disseminated

2.3. SW explained the detail of what is currently in place for the LCN Fund (slides 10-12). Chris Goodhand (CG) and Roger Hey (RH) noted that the key difference between IFI projects and LCN Fund First Tier projects was that the IFI involved developing technologies for networks from an early stage in the innovation cycle while First Tier projects are trialling and demonstrating technologies on networks. While the existing treatment works well for the LCN Fund it may not be suitable for the NIA given the broader range of projects likely to be undertaken using the NIA. Stewart Reid (SR) noted that customers benefit by a technology coming to market and being used in business as usual, for example where the use of a new technology reduces the amount of reinforcement that is required. SR noted that the default IP arrangements described by SW work well for the LCN Fund because collaborators already have a technology developed and the IP contained in this technology is protected.

2.4. RH commented that the different types of organisation they work with on IFI projects want to enter into different types of commercial agreement. However, he would be happy to demonstrate how the arrangements entered into by WPD deliver value for customers. CG commented that one possibility for the NIA would be for companies to set out the commercial arrangements and justify how they deliver value for customers. Martin Wilcox (MW) felt that it was correct for licensees to demonstrate how they deliver value for customers. However, he was uncomfortable having different treatments for different types of project.

2.5. Denise Massey (DM) noted that as well as taking into account the TRL of a project Ofgem should also consider treating smaller companies differently. DG responded that this was considered as part of the evaluation criteria on collaboration when undertaking the LCN Fund Two Year Review but it was not possible to establish a transparent and clear way of doing this and risked being discriminatory.

2.6. DG summarised her understanding of the discussion so far: the LCN Fund First Tier arrangements are working well for the types of project being undertaken under the First Tier governance; however, where a technology is less mature or only being developed as a result of IFI funding the flexibility available under the existing IFI system is useful. DG added that it would not be possible to pull back from the existing treatment for First Tier type projects that will be undertaken under the NIA, however, she added that Ofgem would consider alternative treatments for projects involving less mature technologies. The members of the working group agreed with the summary and DG's conclusions. Finally she noted that to assist Ofgem in policy development it would be useful if licensees could provide evidence justifying their current position on IP.

Action

Members to provide examples of IFI projects and their specific IPR arrangements including why those specific arrangements were deemed most appropriate.

b) Knowledge Transfer

2.7. Neil Copeland (NC) summarised slide 15, he explained what knowledge dissemination requirements are currently in place for the LCN Fund and IFI. He then asked members of the group what they felt would make the IFI annual reports more useful as knowledge dissemination tools and whether an event like the LCN Fund Annual Conference was something which would be useful for the NIA.

2.8. SR responded that the LCN Fund Annual conference is not a means of disseminating learning. It is a way of drawing attention to what is being or has been done. RH added that having been to the conference companies know who they need to learn what from but no actual 'learning' takes place. CG repeated that it was important to note that the conference was about showing the positives of projects not about the nuts and bolts of how they work. Instead, the detailed learning takes place in separate bilateral sessions.

2.9. SR noted that the Energy Storage Forum is a group where learning is being shared between DNOs. He noted that some of the learning that happening here took place in an open forum and some in a closed forum depending on the subject. He added that Ofgem should not be overly prescriptive in what type of dissemination should be taking place. DG responded that Ofgem felt it was necessary to put in place sufficient regulation to ensure dissemination happened.

2.10. RH commented that companies complete formal reports on what innovation activities they are undertaking as part of the IFI which make others aware of what learning is being generated. DM noted that it would be useful for third parties to know where these are published. SR added that there are reciprocal arrangements between licensees to share learning coming out of projects. SR noted that he would expect all companies to have a strategy for disseminating any learning they generate. Companies could then be rewarded for the quality of this strategy. NC responded that this should form part of a company's Innovation Strategy (IS) and that a company with a good IS would receive a proportionately larger NIA than a company with a weaker IS.

2.11. DG noted that members felt that there should be a balance between the push and pull of information. Enough information should be made available in NIA reports to allow other licensees to know that learning has been produced and how this could be made available. Licensees should then be obliged to share learning when approached by other licensees and there should be regulatory mechanisms in place to allow Ofgem to act in the event this knowledge sharing breaks down. The members of the working group agreed.

Action

Members to make it clear where IFI Annual Reports are published.

c) Eligible Expenditure

2.12. NC summarised slides 17-18 explaining Ofgem's consideration regarding the potential size and length of NIA projects. He went on to ask whether there should be a cap on the length or value of NIA projects. A number of members felt that there should not be a cap of any type. Various members noted that companies were able to self regulate in this area. They felt that only a very bold licensee would spend their entire allowance on a large and by the nature of innovation risky project. RH noted that projects vary in cost because some of the equipment that is required is very expensive.

2.13. DG noted that Ofgem do not want to introduce any regulation that can be avoided simply by splitting high value or long projects into less expensive or shorter projects to get around the rules. The members of the group felt this was an area where regulation could be avoided.

d) Internal Expenditure

2.14. NC presented slide 19 explaining that Ofgem consider the existing cap on internal expenditure that is part of the IFI scheme has worked well. However, he explained that Ofgem understand the different range of projects that may be implemented under the NIA could be different to those undertaken as part of the IFI. Ofgem are keen to understand how a cap would impact upon the broader range of NIA projects. The members of the group suggested that this cap has been removed for electricity distribution. CG commented that they have had a derogation for at least five years.

2.15. SR, and Steve Cox (SCo) acknowledged that there should be a cap on the level of internal expenditure. However, they suggested that this should be higher than the existing cap that is part of the IFI arrangements. Suggestions ranged from 20-33% of the total NIA. DG also noted that Ofgem intend to be consistent across the various sectors in regard to the governance of the NIA including in relation to any cap that is introduced.

Action

Members to send any evidence they have that they have been granted a derogation against the licence condition requiring companies to spend no more than 15% of their IFI on the internal resources of the company.

Members to provide evidence to support their preferred level of internal spend cap through NIA.

3. Network Innovation Competition

a) Bid preparation costs / Setup Expenses

3.1. NM summarised slides 24-26 and explained Ofgem's updated proposal. Ofgem now intend to provide bid preparation costs to those projects that pass the ISP stage. This will be capped at £175k or 5% of the total funding bid for by the licensee group whichever is smaller. She added that to ensure efficient expenditure Ofgem would reserve the right to audit and claw back any inefficient expenditure. Dave Oram (DO) commented that £175k may not provide enough funding to cover the contribution of third parties to bid preparation. RH commented that in his opinion £175k would not allow licensees to develop submissions equivalent in quality to what is currently being submitted to the LCN Fund Second Tier competition.

3.2. SR added that by placing a cap of £175k on bid preparation costs for the NIC Ofgem could drive licensees to concentrate on large capital expenditure projects which are less expensive to prepare than projects involving significant amounts of customer engagement. CG commented that the level of the cap should be based on the size of a project. However, RH argued that it should be based on the complexity of a project. DG asked DNOs to share the level of expenditure involved in preparing submissions for the Second Tier Competition with Ofgem. RH and SR commented that they had no issue with placing a cap on bid preparation costs. However, they added that submissions to the NIC would be of a lower standard than those being made to the LCN Fund.

3.3. MW asked why the amount available for the preparation of bids had changed. SC responded that Ofgem had not made a decision on this issue. However, there was recognition that the set up expenditure available under the LCN Fund is intended to be used to do more than prepare Second Tier bids. DO asked whether it would be possible to use the IFI to prepare submissions to prepare submissions for the 2013 NIC.

Setup Costs

3.4. NM referred to slide 27 and asked whether there were any one of costs not specifically associated with the preparation of NIC projects or with the implementation of NIA projects. RH and SR noted that a number of activities are currently funded by First Tier setup expenditure that would not normally be funded. These included, the cost of running innovation teams, establishing and maintaining innovation websites, training staff disseminating learning and funding the annual conference.

Action

DNO members of the group, to provide evidence of the level of spending on a)bid costs and b) set-up expenses for the LCN Fund. Explaining the cost categories.

Licensee members to set out how these types of costs been covered for projects funded through the IFI?

b) Detailed Evaluation Criteria - benefits

3.5. NM summarised slides 29-31, explaining that the network capacity released by a project would be used as a proxy for carbon savings during this year's LCN Fund evaluation. DO noted that some technologies would not come about if an innovation did not occur and suggested the proposed criteria did not take this kind of project into account. RH commented that using capacity as a proxy for carbon savings could be useful but licensees would need an opportunity to provide an accompanying summary.

3.6. SM summarised slide 32 which showed how the LCN Fund arrangements would be developed for the NIC. SCo asked to whom the benefits of projects would have to flow. SC responded that Ofgem has to make its decision in the interest of gas or electricity network customers depending upon which group were funding a project and the benefits would need to flow primarily to these groups.

3.7. Due to a lack of time SC asked if the members of the group could provide comments by email on the sections of the Governance Document that had been circulated before the meeting.

Action

Members to provide any comments on the initial drafting of the governance document that was circulated in advance of the previous meeting.

4. Dates of next meetings

Wednesday 6 June

Wednesday 11 July