



Promoting choice and value
for all gas and electricity customers

Innovation Working Group

June 2012

Agenda

1) Update

2) NIA

- Summary of NIA consultation letter
- Discussion

Lunch

3) NIC

- Comments on drafting

4) Any other business

Lunch	13:00-13:30
Close	15:00

ITEM 1: Update

ITEM 2: NIA

Summary

- We are currently consulting on the detailed governance arrangements for the NIA and one outstanding NIC issue.
- Our consultation closes on 28 June 2012 and responses should be sent to networks.innovation@ofgem.gov.uk.
- The proposals in the consultation letter and summarised today are intended to ensure NIA projects deliver on the principles below:
 1. Deliver relevant innovative solutions.
 2. Generate knowledge that can be shared amongst licensees.
 3. Deliver value for money to present and future consumers.

These have previously been discussed with the IWG.

Issue A - Bid preparation costs

- Revised proposal:
 - Cap at £175k or 5% (whichever is smaller)
 - Intention to introduce following arrangements to ensure cost efficient spending of bid costs:
 - Requirement to pass ISP before recovery of bid costs allowed;
 - Provision for Ofgem to audit and disallow misspent funds; and
 - Review of arrangements once competition has began to assess their effectiveness.
- Licensees have raised specific concern around interaction of this proposal and requirements of competitive process:
 - Requirement to provide detailed submissions; and
 - The level of scrutiny exerted by Expert Panel through the full submission process.
- Consulting further on revised proposal.

Issue A – NIC Bid preparation costs Consultation Questions

- Question 1:
 - Do you agree with a fixed annual allowance for bid costs for all licensees and an annual cap per bidding group of £175k or 5% of annual NIC funding request, whichever amount is the smaller? If not please provide evidence to justify an alternative level of cap.
- Question 2:
 - We welcome views from stakeholders on whether the funding for bid preparation costs should be funded from the existing funding set aside for funding the NIC, or alternatively, should it be raised in addition to the annual NIC allowance?

NIA Issue 1 – Eligibility Criteria

- First discussed Eligibility Criteria in March
- The intent of the first gate is to ensure that projects deliver relevant innovations. To do this the gate would require that projects must either:
 - trial new technical, operational and/or commercial arrangements; **or**
 - undertake research and development to inform the development of new technical, operational and/or commercial arrangements.
- The second gate would ensure projects are generating new learning and have the potential to deliver value for money. To do this the gate would require that all projects must:
 - Not lead to unnecessary duplication by companies;
 - Have the potential to develop learning that could be applied across the GB Gas/Electricity Distribution/Transmission System; **and**
 - Have the potential to deliver net financial benefits to current and/ or future customers.

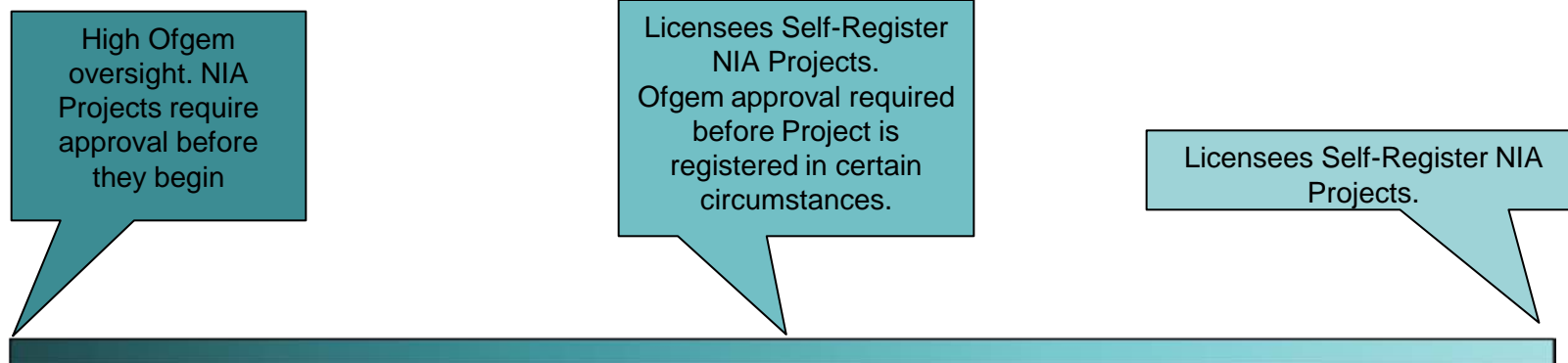
We propose that where the licensee does not expect a project to deliver financial benefits then the licensee seek Ofgem's permission to utilise the NIA for the project

NIA Issue 1 – Eligibility Criteria Consultation Questions

- Question 3:
 - Do you agree with the proposed high level eligibility criteria? If you do not agree then please explain why.
- Question 4:
 - Do you agree with our proposed approach to non-financial benefits? If you do not agree then please explain why.

Issue 2 –Project Registration

- Registration allows transparency around innovation projects
- We are proposing that licensees be required to register projects with Ofgem before they begin. This would not involve Ofgem approving projects except under limited circumstances. We are proposing these be where:
 - There is no clear expectation of financial benefits, but other benefits are expected;
 - The project partners do not intend to conform to the default IPR arrangements; and
 - The project requires payments to be made to undertakings with the same ultimate controller as the licensee.



Issue 2 –Project Registration Process Consultation Questions

- Question 5: Do you agree with our proposal that licensees should self certify projects against the eligibility criteria? If you do not agree then please explain why.
- Question 6: Do you agree with our proposal that licensees should register projects with Ofgem before they begin? If you do not agree then please explain why.
- Question 7: Do you agree that in the three sets of circumstances, described above, licensees should require Ofgem's permission before registering the project? If you do not agree then please explain why.

Issue 3 – Internal Expenditure

Context

- There is no Internal Expenditure cap in LCN Fund First Tier
- However a maximum of 15% of IFI Expenditure can be spent on the internal resources of the licensee - unless the Authority consents otherwise (as has been the case with ED).
- We think that this cap:
 - Incentivises collaboration with outside organisations; and
 - Incentivises efficient expenditure by licensees.

Proposals

- We are proposing to cap the level of expenditure on internal resources for the NIA.
- However, recognise cap needs to be set at a level that ensure optimal use of internal resources – which can provide value for money
- We have received initial feedback from licensees proposing a cap of between 20 and 50%.
- We are seeking stakeholders views on where this cap should be set.

Issue 3 –Internal Expenditure Consultation Questions

- Question 8: Do you agree with our proposal to include an annual cap on internal expenditure? If you do not agree then please explain why.
- Question 9: What proportion of a licensee's NIA do you consider would be an efficient level of internal expenditure? Please include evidence and justification of your view.

Issue 4 – Knowledge Transfer

Objective – ensure learning from NIA projects is shared with other licensees.

Principles

- Make it clear where learning has been generated; and
- Ensure licensees have access to the detailed learning that has been generated.

Proposals

- ‘Transparency of available information’
 - Companies should make it clear in NIA annual reports what learning has been generated.
 - Reports should be made available through the ENA portal.
 - Annual conference where licensees can signpost learning.
- ‘Access to detailed information’
 - Where other licensee seeks access to learning generated by a NIA project then requirement on licensees to share this learning.

Issue 4 – Knowledge Transfer Consultation Questions

- Question 10: What elements of the current IFI annual report work best; and what would you improve to make these reports more effective as knowledge dissemination tools?
- Question 11: Do you agree with our proposal for sharing the NIA annual reports? In addition, what other means are there of disseminating this learning to all interested parties?
- Question 12: Would an annual NIA conference be a useful tool for disseminating the knowledge gained from NIA projects? Why?
- Question 13: Do you agree with our proposals requiring licensees to share the learning from NIA projects? If you do not agree then please explain why.

Issue 5 - Intellectual Property Rights (IPR)

Objective – ensure IPR does not act as a barrier to the dissemination of learning or collaboration.

Proposals

- Similar default IPR arrangements as those which exist under the LCN Fund. We propose that these should be applied to projects at all TRLs.
- Recognise concern regarding having prescriptive requirements, therefore, we are proposing a carve out for commercial products – and asking whether this carve out should be in place for projects at all TRLs.
- We will also give licensees an opportunity to set out alternative IPR arrangements and justify how they deliver value for customers (e.g. Discount arrangements) on a project by project basis. Projects not conforming with the default IPR will require Ofgem's permission.

Issue 5 – Intellectual Property Consultation Questions

- Question 14: Do you agree with our proposed approach on IPR?
- Question 15: Should a carve out for commercial products be included with the default IPR arrangements?
- Question 16: Should the carve out be limited to projects focusing on lower technical readiness levels?
- Question 17: If a carve out is provided, should other requirements be placed on the licensee to ensure best value for consumers?

ITEM 3: NIC

Recap of timetable for drafting

Chapter of document		Date for discussion	Status
Strawman circulated to group for discussion		March IWG	Complete
Section A			
Introduction		June IWG	Circulated on 6 June
Collaboration		April IWG	Circulated pre April meeting – No subsequent comments from members
Annual competitive process	ISP process	June IWG	Circulated on 6 June
	Full Submission Process	June IWG	Circulated on 6 June
Section B			
Project Implementation		July IWG	TBC
Funding direction		July IWG	TBC
IPR		April IWG	Circulated pre April meeting, received comments from IWG. Will consider comments alongside responses to NIA consultation
Royalties		July IWG	

Indicative plan for drafting sections of the document over the coming months

This meeting

- Drafted the following chapters:
 - Introduction
 - ISP
 - Full Submission
- Development principle to adopt LCN Fund drafting as far as possible
- Continuous iterative process
 - May make changes to drafted sections based on comments and consultations
 - Some outstanding sections to be completed - flagged in the document and will be added into next draft
- Welcome high level comments – opportunity to provide more detailed written comments after meeting via email

1. Introduction

- Contents of chapter
 - Background to the competition
 - The purpose of the Governance document
 - The use of key terms in the document (ie Project, Trial, Method)
 - The Structure of the overall document
- Key changes from LCNF
 - Follows the same structure of the LCN but adapted for the NIC
 - Tweaked the following terms to reflect the wider scope of the NIC:
 - Problem: *means the issue that needs to be resolved in order to facilitate the low carbon future or deliver wider environmental benefits,*
 - Method: *means the proposed way of investigating or solving the Problem,*
 - Trial: *means a limited, controlled and monitored test of the Method,*
 - Project: *means the Trial, research and development, or demonstration being proposed or undertaken, and*
 - Solution: *means the outcome if the Problem is solved.*

2. Initial Screening Process

- Contents of chapter
 - The purpose of ISP
 - The need for projects to pass ISP to be eligible to be developed into full submissions
 - The Eligibility requirements and ISP criteria against which a screening submission will be assessed
 - The ISP process that must be followed by all participants
- Key changes from LCNF
 - Specific requirements and ISP criteria have been tweaked to reflect wider scope of innovation in the NIC
 - ISP criteria on project benefits reflects the inclusion of environmental benefits in the NIC
- Other points to note
 - In process of designing implementation of funding mechanism – intend to draft this section once this development is complete

3. Full Submission

- Contents of chapter
 - The Full Submission Process
 - Information required as part of the Full Submission
 - Evaluation process
 - Evaluation Criteria
 - Award notification
- Key changes from LCNF
 - Evaluation criteria have been updated to reflect wider scope of innovation in the NIC
 - There is an additional criteria at Full Submission to demonstrate that the Method being Trialed is innovation (Criterion d)
 - Restructured the information under each evaluation criteria to make it clearer what information Ofgem requires to assess a project (no significant changes to content though)

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

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