

Innovation Working Group: June 2012

Notes and issues from the June meeting of the Innovation Working Group.	From Date and time of Meeting Location	Neil Copeland 1000-1500 11 June 2012 Ofgem 9 Millbank	12 June 2012
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1. Present

Alec Breen	NGN
Roger Hey	WPD
Stewart Reid	SSE
Chris Talbot	WWU
Chris Goodhand	NPG
Insaf Ahamed	SGN
Jenny Cooper	NG
Dave Oram	NG
Martin Hill	SP
Martin Wilcox	UKPN
Denise Massey	EIC
Gaynor Jones	NG
Steve Cox	ENWL
Stewart Reid	SSE
John Christie	DECC
Dora Guzeleva	Ofgem
Sam Cope	Ofgem
Neil Copeland	Ofgem
Arun Pontin (PM only)	Ofgem

1. Introduction and Welcome

1.1. Dora Guzeleva (DG) welcomed the attendees and thanked members of the group for their attendance. Sam Cope (SC) explained that the purpose of this meeting was to (1) discuss the current consultation on the detailed governance arrangements for the Network Innovation Allowance and (2) draft sections of the NIC Governance Document. The minutes of the April meeting were confirmed.

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. Item 1 – Price Control Update

2.1. SC provided an update on the progress of the three price controls (RIIO: T1, GD1 and ED1). He noted that initial proposals for the RIIO: T1 and GD1 non-fast tracked companies would be published in July. He added that alongside these initial proposals there would also be an informal consultation on the licences for both price controls. Martin Wilcox (MW) asked whether the electricity distribution network operators (DNOs) would be able to see the licence drafting for the RIIO: T1 and GD1 price controls. SC said that the licences would be put out for public consultation.

2.2. SC also noted that Ofgem would be publishing a 'Consultation on Strategy' for the RIIO: ED1 price control in September. One of the issues to be addressed in this document would be innovation. SC explained that Ofgem intended to discuss ED1 specific innovation issues at the July meeting of the IWG. He noted Ofgem already intended to discuss the transition from LCN Fund/IFI to the innovation stimulus but is aware there may be other issues to be discussed. He also asked licensees to send issues they would like to discuss in July to Ofgem.

Actions

Ofgem to check if it is possible to share T1 and GD1 licence drafting with DNOs.
Members to provide examples of ED1 issues they would like to discuss at the July IWG.

3. Item 2 – Network Innovation Allowance Consultation

3.1. SC summarised slide five in the slide pack. He noted that Ofgem had published a consultation¹ on funding the cost of preparing submissions for the NIC and the detailed Governance Arrangements for the NIA. He noted that the proposals in the consultation were intended to ensure that NIA projects would:

- Deliver relevant innovative solutions;
- Generate knowledge that can be shared amongst licensees; and
- Deliver value for money to present and future consumers.

a) Issue A – Bid preparation costs

3.2. SC summarised Ofgem's proposals on funding the preparation of submissions to the NIC (slide six of the slide pack) before asking the members of the IWG for their comments in response to the questions on slide seven.

3.3. Dave Oram (DO) asked whether the intent was for £175k per project or per group available. SC responded that the intent was that this should be on a group basis.

3.4. Roger Hey (RH) asked whether there was a separate proposal to cover setup costs. Martin Hill (MH) added that these covered the costs of: preparing First Tier projects; paying for the ENA portal and the Annual Conference. SC responded that these costs would come within the internal expenditure cap to be discussed later.

3.5. A number of members of the working group noted that they accepted the need to place a cap on the amount of a company's NIA that could be used to prepare submissions for the NIC. However, a number of companies felt that a higher cap than the one that was proposed was necessary. DG responded that Ofgem and licensees will constantly need to prove that they are providing value for money in this area. Therefore before a higher cap is considered licensees need to provide evidence that a higher cap is justified.

3.6. Chris Goodhand (CG), Stewart Reid (SR) and MH commented that if a lower amount is available to prepare then submissions would be of a different type. CG noted that the Expert Panel are not currently expecting a 'bid document' at full submission they are expecting a full project plan. MH agreed and noted that he felt the 'project readiness' evaluation criterion was driving this. MW commented that LCN Fund projects tend to move from project award to implementation very quickly because of the level of development that had already been done. He noted that if 'bids' were submitted rather than project plans then there would be a delay while licensees translated these bids into project plans.

3.7. MW further noted that UKPN have itemised the costs of preparing two Second Tier submissions. He noted that this had been done for one large project and one medium sized one. One project: Low Carbon London cost well over £250k to prepare. The breakdown of preparing each of these submissions will form part of UKPN's response to the consultation. Steve Cox (SCo) commented that he felt £250k would be sufficient to fund the preparation of submissions to the NIC.

3.8. MH asked how cross sector projects with multiple lead licensees would be treated under this condition. SC said that Ofgem would consider this issue further.

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=349&refer=NETWORKS/NIC>

b) Issue 1 – Eligibility Criteria

3.9. Neil Copeland (NC) summarised Ofgem's proposed eligibility criteria for NIA projects (slide eight) and noted that two questions had been asked as part of the consultation letter before asking for comments. SR noted that it would be useful for licensees to test the proposed criteria against what they already do.

3.10. Jenny Cooper (JC) noted that for a number of projects at lower TRL levels then it may not be possible to calculate robust financial benefits for projects. She added that a number of issues impact upon this calculation, including: uncertainty and timescale. Gaynor Jones (GJ) added that for lower TRL projects it is not clear what financial benefits may accrue. She added that requiring all projects that do not have a clear financial benefit to seek Ofgem's permission before being implemented would slow down innovation and potentially act as a barrier. SC noted that companies make this type of assessment under the current IFI arrangements.

3.11. Discussion took place around the common approach for assessing possible IFI projects noting that companies could develop individual approaches under the new proposals. SC asked whether anything would be lost if the common G85 approach to assessing projects was changed. CG, RH and SR commented that this aspect of the G85 Guidance Document was not perfect. SR added that there were a number of projects which it was common sense to implement that it was difficult to get through the G85 process.

c) Issue 2 – Project Registration

3.12. NC summarised Ofgem's proposal requiring licensees to register projects with Ofgem before they begin (slide ten) and added that there were three questions associated with this issue. CG noted that the proposal assumed that money was not spent until after projects had been registered. He noted that there can be a fuzzy start to projects at a lower TRL level. MH noted that the definition of a 'project' under the NIA may need to be different to the NIC definition. JC noted that under the IFI there are di minimus amounts that are grouped together for reporting purposes. SC noted the view that a different treatment may be needed for lower TRL projects.

3.13. MW noted that given the proposal for an Annual NIA report then project registration would mean other licensees would know on a regular basis what projects are being undertaken. CG noted that he would be content with a high level registration proforma that was less detailed than currently required under the First Tier of the LCN Fund with the aim of project transparency.

3.14. JC noted that every project that was also making use of EU or TSB funding would need to be approved by Ofgem before being implemented. This is because they have fixed IPR requirements. Chris Talbot (CT) noted the potential workload on Ofgem it may be more effective to note that any arrangements entered into by the licensees were liable to audit and funds could be clawed back.

d) Issue 3 – Internal Expenditure

3.15. NC summarised Ofgem's proposal to place a cap on the amount of their NIA licensees are able to spend on their own internal resources (slide twelve) and noted that there were two questions regarding whether there should be a cap and what level any cap should be. A general discussion took place around the table and there was an agreement that there should both be a cap and that this should be flexible enough to allow low TRL projects with less internal expenditure as well as higher TRL projects which would normally have higher levels of internal expenditure. CG commented that Northern Powergrid have consistently been sitting at 22-23% of IFI expenditure being internal. He argued that a cap of 50% in the NIA would provide the necessary flexibility. SCo noted that the highest level of internal expenditure he had seen was 25%. He argued that 50% was a large jump.

There was a consensus amongst the licensees that where a company expected to spend more than 50% on their internal resources then the balance of expenditure was wrong.

3.16. SC noted that licensees should provide as much evidence as possible in their consultation responses to support their positions. He added that licensees should clearly explain what the benefits were of setting the cap at a higher level.

e) Issue 4 - Knowledge Transfer

3.17. NC summarised slide fourteen of the slide pack. He emphasised that there would be two parts to the knowledge transfer requirements. The first part would require licensees to describe what learning had been developed in an annual report. The second part would require licensees to share learning when asked to do so by another network licensee.

3.18. CT commented that it may be unfair to require learning from NIA projects to be shared with IGTs or other independent companies who in some cases are competitors to the RIIO network licensees. SC suggested any concerns should be set out in consultation responses for Ofgem to consider further.

3.19. A number of members of the working group argued that the knowledge transfer elements of the governance document should not be overly proscriptive. CG and MH suggested that the industry should establish a best practice guide for sharing any learning. SR also suggested that the scope of any annual conference should be left as open as possible. SC summarised the IWG's view as being that the governance document should be light touch with regard to the annual conference but that further thought was required regarding the annual reporting requirements.

3.20. RH commented that a searchable database would be more useful than a series of written annual reports. JC agreed commenting that a searchable database of projects showing the learning and progress that has been made would be useful. MH commented that this would link with work stream five of the Smart Grids Forum. SC questioned the extent to which GDNs and TOs were involved in this process. RH commented that this was an area the ENA were considering further.

f) Issue 5 – Intellectual Property Rights

3.21. SC summarised Ofgem's proposal to base the IPR requirements for the NIA on those currently in place for the LCN Fund (slide sixteen) and noted that there were four questions associated with this issue; including asking whether respondents agreed with Ofgem's proposals.

3.22. MW did not feel that there were any other ways in which licensees would be able to get value for customers. DG responded that it was important to understand whether licensees are able to agree deals for other licensees as part of the commercial arrangements entered into as part of a project. MW and CT commented that this would be very difficult and is likely to have the effect of pushing the general price of a product or service up. DG noted that this proposal is focussed on the NIC where all customers are paying for an innovation not just a single licensee's customers. It was noted that it may be more appropriate for individual licensees to negotiate discounts.

3.23. RH commented that WPD have been able to take projects forward under the IFI but not the LCN Fund because of the different treatments of IP. SC responded that there is scope for some flexibility and asked whether there may need to be more scope for flexibility. Members of the working group generally felt that the ability to seek Ofgem's approval for different treatments would only serve to slow the process down. One member of the group also pointed out that this process would essentially make Ofgem a party to any alternative IP arrangements that a licensee entered into.

3.24. DG commented that this is an area where Ofgem needs more information, adding that it would be particularly useful if members of the group could share the consultation letter with their research and development colleagues in the other organisations they worked with on innovation projects as discussed earlier in the meeting.

4. Item 3 – Network Innovation Competition

4.1. SC summarised slides 19-20 describing the work that had been done to date and the plan for the future. He also noted that members of the working group should send comments on the NIC Governance Document drafting to Ofgem by 06 July 2012.

Post Meeting Note: Ofgem has recorded the detailed drafting points made by members of the working group separately rather than include these in the minutes. Any written comments will be logged in the same way. Drafting comments will be addressed in the next iteration of the governance document drafting.

Actions

Members to provide to provide comments on the NIC Governance Document drafting by 02 July 2012.

a) Section 1: Introduction

4.2. SC summarised slide twenty one and identified points of divergence from the LCN Fund Governance Document before asking for any comments on the introduction. RH commented that there was no indication in the introduction that the amount of money available under the electricity NIC would be reviewed as part of the ED1 price control. MH added that there was no reference to the maximum length of NIC projects or whether there would be a two year review of the NIC.

b) Section 2: ISP

4.3. SC summarised slide twenty two and identified points of divergence from the LCN Fund Governance Document. He also noted that the funding mechanism was currently being designed and this section will be incorporated in a future iteration.

4.4. MW questioned whether or not visual amenity would be seen as an environmental benefit. DG confirmed that it would fall into that category for the purposes of the NIC. DO also asked whether avoided costs would be considered a financial benefit. SC responded that this would depend upon on the reasonableness of the scenario set out by the licensee in any project submission.

c) Section 3: Full Submission

4.5. SC summarised slide twenty three of the slide pack and identified points of divergence from the LCN Fund Governance Document. MH noted the paragraphs 3.16 and 3.17 regarding customer interruptions and made a general point regarding whether there should be a general carve out for the extra costs licensees may incur due to the impact of the project on their performance against incentive arrangements.

4.6. MW asked whether a proforma project direction would be included in the Governance Document for the benefit of those who have not gone through the LCN Fund process. SC commented that there was unlikely to be a proforma direction as part of the document. However he did say it would certainly be possible to share those directions that had been made so that licensees could understand their form and function.

4.7. Discussion took place around the table as to whether the licensees should have access to all research that the Expert Panel commissions in the course of their work. RH commented that a copy of the consultant's report is already shared. However, CT queried

whether other information should be shared. DG commented that Ofgem would consider whether the Expert Panel are able to commission research in addition to that of the technical consultants and whether this should be shared. Finally, MH asked whether more detail should be provided on the makeup of the panel in the Governance Document to give clarity to the licensees. SC responded that this could be incorporated.

Actions

Ofgem to send links to existing LCN Fund Project Directions to member of the working group.

5. Date of Next Meeting

5.1. The next meeting of the IWG will be on 16 July 2012.