

# Draft Network Innovation Allowance Governance Document v.1

## Governance Document

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### Overview:

This document is draft version 1 of the Network Innovation Allowance Governance Document referred to at under The Network Innovation Allowance Licence Condition (ETC11).

One of the key innovation proposals for the RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls was the introduction of a Network Innovation Allowance (NIA) for gas and electricity. The purpose of the NIA is to encourage Licensees to innovate to address issues associated with the development of their networks.

This Governance Document sets out the regulation, governance and administration of the Electricity Network Innovation Allowance. Network Licensees are required by the NIA Licence Condition to comply with this document as if it formed part of the licence. However we have attempted to make this document accessible and informative to parties other than the Licensees, especially those who may be looking to partner with Licensees to use the NIA to try out new technological or commercial arrangements.

## Context

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Innovation is a key element of the new RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls. The RIIO model applies to gas distribution companies (RIIO-GD1) and electricity and gas transmission companies (RIIO-T1) from 1 April 2013. We intend to introduce the RIIO model to electricity distribution companies (RIIO-ED1) from 1 April 2015.

One of the key innovation proposals was the introduction of a Network Innovation Allowance (NIA) for all RIIO Licensees. The purpose of the NIA is to provide a consistent level of funding to Licensees to allow them to carry out smaller innovative projects.

This document sets out the regulation, governance and administration of the Electricity Network Innovation Allowance. This document is issued by the Authority under Part E (The NIA Governance Document) of ETC11 of the Electricity Transmission Licence and in accordance with Part F (Procedure for Issuing the NIA Governance document) of ETC11. This document may be revised and reissued in accordance with part F of ETC11.

Licensees are required by ETC11 to comply with this document as if it formed part of the licence. However, we have attempted to make this document accessible and informative to parties beyond the Licensees to whom this document applies, especially those who may be looking to partner with licensees to use the NIA to try out new technological or commercial arrangements.

For the avoidance of doubt, this document is subordinate to licence condition ETC11. Consequently, this document will not change any definitions or obligations contained within the Electricity Transmission licence applicable to each of the Licensees and, in the event of any dispute, the licence condition will take precedence.

## Associated documents

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Electricity Act 1989

Gas Act 1986

[Insert specific licence references]

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# 1. Introduction

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## Chapter Summary

This chapter sets out the purpose and objectives of the Network Innovation Allowance and provides an overview of the Innovation Stimulus.

## Background

1.1. Innovation is a key element of the new RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls. The RIIO framework provides strong incentives to innovate as part of normal business. However, certain Research, Development, and Demonstration projects are speculative in nature and yield uncertain commercial returns. In addition, where benefits are linked to the decarbonisation of the network, it may be difficult to commercialise the respective carbon and/or environmental benefits and shareholders may be unwilling to speculatively fund such projects. Overtime, we expect the incentives within the RIIO framework to encourage Network Licensees to innovate as part of business as usual. In the meantime, we have also introduced a time-limited Innovation Stimulus package within the RIIO framework to provide additional funding to kick start a cultural change where Network Licensees establish the ethos, internal structures and third party contacts that facilitate innovation as part of business as usual.

1.2. The Innovation Stimulus<sup>1</sup> which consists of three measures:

- a Network Innovation Allowance (NIA) – to fund smaller innovation Projects as part of a RIIO-Network Licensees price control settlement;
- a Network Innovation Competition (NIC) – an annual competition to fund selected flagship low carbon and environmental innovative Projects; and
- an Innovation Roll-out Mechanism (IRM) – to fund the roll-out of proven innovations which will contribute to the development in Great Britain of a low carbon energy sector or broader environmental benefits.

1.3. The NIA and NIC are successors to the Low Carbon Networks (LCN) Fund. The NIA and NIC broadly replicate the structure of the LCN Fund<sup>2</sup> which consists of a First Tier Allowance and a Second Tier annual competition for funding. The scope of the NIC is broader than the Second Tier of the LCN Fund as it also includes Development as well as Demonstration Projects. In addition to the LCN Fund First Tier the NIA also builds upon elements of the Innovation Funding Incentive (IFI) that was in place under previous price controls.

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<sup>1</sup> Further information on the high level policy of the Innovation Stimulus can be found in the RIIO-T1/GD1 March Strategy Document:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=77&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

<sup>2</sup> More information on the LCN Fund is available [here](#).

## The NIA

1.4. The NIA provides limited funding to Licensees to use for two purposes:

- to fund smaller Projects which meet the criteria set out in this Governance Document; and/or
- to fund the preparation of submissions to the NIC which meet the criteria set out in the NIC Governance Document<sup>3</sup>.

1.5. The amount of funding available to each Licensee under the NIA can be calculated using the formulae in ETC11 of the Licensee's licence. We have introduced ETC11 of the Electricity Transmission Licence to enable the creation of the NIA.

1.6. We expect Licensees to whom this document applies to collaborate with each other, other licensees and non-network parties<sup>4</sup> on Projects.

1.7. A key feature of the NIA is the requirement that learning gained through Projects is disseminated in order that Customers gain significant return on their funding through the broad roll-out of successful Projects and the subsequent roll-out of network savings. Even where Projects are deemed unsuccessful, Network Licensees will gain valuable knowledge that could result in future network savings.

## Differences between the NIC and the NIA

1.8. The Network Innovation Allowance (NIA) is a set annual allowance that each Licensee will receive to fund small-scale innovative Projects as part of their price control settlement. The NIA will fund smaller scale Research, Development, and Demonstration Projects, and can cover all types of innovation, including commercial, technological and operational. Unlike the NIC, the NIA is not focussed solely on innovative Projects with potential low carbon and environmental benefits.

1.9. Compared to the NIA, the NIC is focussed on funding larger scale, more complex innovative projects, as such, funding will be awarded through an annual competitive process. All types of innovation including commercial, operational and technical are eligible for NIC funding so long as the project has the potential to deliver low carbon and/or environmental benefits to consumers.

1.10. The scope of Licensee involvement in the NIC is also broader than the NIA. The NIA is only available to RIIO-Network Licensees as part of their price control settlement, whereas Non-RIIO Network Licensees may lead bids for funding under the NIC.

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<sup>3</sup> Insert link when published

<sup>4</sup> A party which does not hold a gas transporter licence or an electricity transmission or distribution licence.

1.11. The regulation, governance and administration for the NIA is set out in the NIA Governance Document.

### **The NIA Governance Document**

1.12. This document is the NIA Governance Document and sets out the regulation, governance and administration of the NIA.

1.13. In this document we use the terms Ofgem and the Authority interchangeably. Ofgem is the Office of the Gas and Electricity Markets Authority. The Authority is the Gas and Electricity Markets Authority and is the governing body for Ofgem, consisting of non-executive and executive members.

1.14. Defined terms are capitalised throughout the text, with the definitions set out in Appendix 1.

1.15. In this document “Licensee” means the holder of an Electricity Transmission Licence regulated through the RIIO price control framework.

1.16. Throughout this document, we use the terms Project, Method, Problem and Solution.

- **Problem:** means the issue that needs to be resolved,
- **Method:** means the proposed way of investigating or solving the Problem. This may be done by either<sup>5</sup>:
  - **Research** (TRL 2-3) which means activity undertaken to investigate the problem based on observable facts;
  - **Development** (TRL 4-6) which means activity on generating and testing solutions to the Problem; and
  - **Demonstration** (TRL 7-8) which means activity focussed on generating and testing solutions on the network and take it to a stage where they can be transferred to business as usual.
- **Project:** means the Research, Development or Demonstration being proposed or undertaken.
- **Solution:** means the outcome if the Problem is solved.
- **Dissemination:** means the activity undertaken to share learning from a project

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<sup>5</sup> Technology readiness levels (TRLs) are used to assess the maturity of evolving technologies, graded on a scale of 1-9. Projects with a TRL between 1 and 9) will not be eligible for NIA funding

## **Compliance**

1.14 Licensees are required by the NIA Licence Condition to comply with this document as if it formed part of their licence.

1.15 The NIA and this NIA Governance Document in no way relieves affected parties, including Licensees and Project Partners, from their responsibility to ensure ongoing compliance with legislation including competition, environment and consumer protection laws.

## **Review**

1.17. Ofgem may from time to time revise this NIA Governance Document in accordance with the NIA Licence Condition.

1.18. Ofgem will undertake a review of the NIA after it has been in operation for at least two years. It is possible that, following this review, we will make changes to aspects of the NIA operations and governance and amend the Governance Document to facilitate these changes.



## 2. Collaboration and Project partner awareness

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### Chapter Summary

This chapter sets out that Licensees should collaborate with a range of parties to develop and facilitate Projects supported by the NIA. We also require Licensees to work collaboratively to maintain a collaboration website for this purpose at all times

### Potential Project Partner Awareness Portal

2.1 We expect Licensees to collaborate with each other and Project Partners on many of the Projects supported by the NIA. Licensees are likely to have to work closely with other parties in the energy supply chain (from generators to suppliers) to explore what technological or commercial arrangements best address changes in network use and what role they can play in facilitating low carbon and/or wider environmental benefits. Similarly, Licensees may benefit from the technologies used and lessons learned in other industries, including the telecoms and information technology sectors, in which case partnerships with technology providers and others outside the energy industry will be valuable. Other parties such as local authorities may be carrying out pilot studies and these could offer opportunities for Licensees to get a better understanding of how to respond to these studies.

2.2 For the purposes of the Low Carbon Networks Fund (LCN Fund)<sup>6</sup> established as part of Distribution Price Control Review 5 (DPCR5), Distribution Network Operators (DNOs) have established an area on the website of the Energy Networks Association (ENA) through which external parties can bring forward ideas to the Licensees for LCN Fund Projects<sup>7</sup>.

### Requirements

2.4. We require Licensees to work collaboratively with the DNOs and each other to develop this website to incorporate the NIC and NIA, or develop an equivalent portal (if more cost-efficient than the existing ENA portal) for the NIC and NIA so that the following content is available by 1 October 2013:

- Links to the Ofgem website, to allow direct access to this NIA Governance Document;
- A function which enables potential Project Partners to record their name, contact details and a brief summary of their business, the output of which is available to all Licensees; and

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<sup>6</sup><http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Documents1/LCN%20Fund%20Governance%20document%20v5.pdf>

<sup>7</sup><http://www.ena-eng.org/lcn/Home.aspx>

- A contact point for potential Project Partners to submit Project ideas.

2.5. We require Licensees to work collaboratively to ensure the portal is up to date at all times. In addition Licensees should annually review this portal and make appropriate changes to improve its accessibility and content. We expect this review to be informed by stakeholder consultation on the quality of information provided and the usability of the website.

### **Additional information**

2.6. The provision of this portal is not intended to provide any constraint on, or specify the mechanism as to how the Licensee will select Project Partners. The portal should not be used as the sole basis upon which an award of a contract for services provided by a Project Partner should be based. It is for the Licensee to ensure that its actions, in this regard, comply with any applicable procurement rules.

### **Awareness of Learning Portal**

2.7. Facilitating knowledge transfer is one of the key principles of the NIA. Ultimately, consumers are funding this work and we want the learning generated to be disseminated as effectively as possible to ensure that all Licensees, and therefore all consumers, are able to benefit from Projects.

2.8. For the purposes of the DECC/Ofgem Smart Grids Forum, Licensees are establishing a portal to share learning from innovative Projects. This portal will be an area on the website of the ENA through which external parties can access some of the learning generated as a result of innovative Projects.

### **Requirements**

2.9. We require Licensees to work collaboratively to develop this portal so that the following content is available by 1 October 2013:

- Registration information for all NIA Projects; and
- Project Progress Information for each NIA Project.

2.10. We require the Licensee to ensure the Project details published on the portal are up to date at all times.

**Additional information**

2.11. The provision of this portal is not intended to provide any constraint on, or specify the Dissemination mechanisms of the Licensee. The portal should not be used as the sole means of Disseminating learning.

2.12. The requirements of this chapter could be fulfilled by creating a single website or multiples websites.

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## 3. Network Innovation Allowance Projects

### Chapter Summary

This chapter sets out the requirements for a Project to qualify as an Eligible NIA Project.

### Background

3.1. The policy intent of the NIA is to provide Licensees with sufficient funds to explore technologies, commercial and operating arrangements that will deliver benefits for consumers.

### Project Portfolio

3.2. There will be no initial requirement for a Licensee's Project portfolio to contain a specific percentage split between different types of Method and Solutions. However, it is likely that we will achieve the maximum learning for the industry if the Projects funded across all Licensees cover a broad range of Methods and Solutions. If Ofgem identify strong bias towards one type of Method and Solution, we may decide to specify the balance between types of projects funded through the NIA following a review.

3.3. There is no minimum or maximum size for a NIA Project<sup>8</sup>. However, Licensees cannot recover any expenditure on a NIA Project which is incurred after 31 March 2021.

3.4. We expect that projects that have previously been funded under IFI funding will be able to receive funding under the NIA. However, to ensure the same transparency and availability of learning we will require all Projects that have been funded under the IFI and are now being funded under the NIA to conform to all aspects of this document.

### Specific Requirements

3.5. There are two sets of criteria (Specific Requirements) that a Project must meet if it is to qualify as a NIA Project.

#### Specific Requirements set 1

3.6. A NIA Project must involve the Research, Development or Demonstration of at least one of the following:

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<sup>8</sup> Although NIA Funding is subject to the size of each licensee's NIA.

- A specific piece of new (i.e. unproven in GB) equipment (including control and communications systems and software) that will have a Direct Impact on the GB Transmission System.
- A novel arrangement or application of existing electricity transmission equipment (including control and communications systems software) that will have a Direct Impact on the GB Transmission System,
- A novel operational practice directly related to the operation of the Electricity that will have a Direct Impact on the GB Transmission System, or
- A novel commercial arrangement that will have a Direct Impact on the GB Transmission System.

### **Specific Requirements set 2**

3.7. A NIA Project must, in addition, meet all of the requirements described below.

#### **(a) Has the potential to develop learning that can be applied by all Relevant Network Licensees**

3.8. One of the purposes of the NIA is to allow learning to be shared amongst Licensees. The NIA Project must develop new learning that can be applied by all Relevant Network Licensees. However, we recognise that the Licensee may wish to address challenges specific to their network.

3.9. To comply with this criterion the Licensee must be able to certify in their Project Eligibility Assessment (PEA) – the requirements for which are set out in paragraph 3.17 below :

- i) how the learning that will be generated could be used by all Licensees; or
- ii) show where a specific challenge has been identified in the Licensee's Innovation Strategy.

3.10. Where a Licensee wishes to deviate from the default requirement for IPR set out in Section Seven, it must:

- i) demonstrate how the learning from the Project can be meaningfully disseminated to network operators and other interested parties;
- ii) take into account any potential constraints or costs caused, or resulting from, the imposed IPR arrangements; and
- iii) justify why the proposed IPR arrangements provide value for money for consumers.

**(b) Has the potential to deliver net financial benefits to electricity Customers.**

3.11. There must be a clear expectation that the Method being used has the potential to deliver the Solution at a lower cost than the most efficient Method currently in use on the GB Transmission Systems.

3.12. To comply with this criterion the Licensee must be able to set out in their PEA either:

- i) the saving if the Problem is solved (in the case of Research); or
- ii) the financial benefits of a Development or Demonstration as set out in paragraph 3.18 to 3.22 below; and
- iii) estimate how replicable the Method is across GB in terms of the number of sites, or the percentage of the GB Transmission System, where it could be rolled-out; and
- iv) provide an outline of the costs of rolling out the Method across GB.

3.13. To ensure a consistent approach in assessing the benefits of Projects we require the Licensee to work together with other Licensees to develop a common guide for converting different types of benefit into financial terms. Please see paragraphs 3.18 to 3.22 below for the requirements of this document.

**(c) Does not lead to unnecessary duplication**

3.14. A NIA Project must not unnecessarily duplicate other IFI, LCN Fund, NIA and NIC Projects already Registered by the Electricity Transmission Group.

- To comply with this criterion the Licensee must demonstrate in their PEA that: no unnecessary duplication will occur as a result of the Project.

3.15. Unnecessary duplication is likely to occur if the new NIA Project is not expected to lead to recognised new learning. Projects that address the same Problem, but use a different Method, will not be considered as unnecessary duplicates. For the avoidance of doubt, Projects that are at different TRLs will not be considered as unnecessary duplicates.

## Documentation Requirements

### Project Eligibility Assessment

3.16. Before Registration of a NIA Project, the Funding Licensee(s) must produce a PEA, demonstrating that the Project meets the Specific Requirements set out in paragraphs 3.6 to 3.16 above and why the Funding Licensee is not implementing the Project as part of its normal business activity. This assessment should be published on the Project Registration Page.

### Project Benefits Guide

3.17. To ensure a consistent approach in assessing the benefits of Projects we require the Licensee to work together with other Licensees to develop a common guide for converting different types of benefit into financial terms. We consider that the balanced scorecard approach that is currently part of the IFI development process would be a useful starting point in developing this guide. The guide will be approved by Ofgem before being used by Licensees. Licensees must submit the draft guide for approval to Ofgem by 1 October 2013.

3.18. In the case of Research the Licensee must be able to use a methodology set out in the guide to estimate the financial benefit if the Problem is solved. This estimate should be accompanied by a qualitative summary of the resources the Licensee currently uses to address the Problem.

3.19. In the case of a Development or Demonstration the Licensee must be able to use the guide to explain the financial benefit of the Project by:

- estimating the costs of delivering the Solution (at the scale being tested within the Project) through the most efficient Method currently in use on the Electricity Transmission System - the Base Case Cost; and
- estimating the costs of replicating the Method, at the scale being tested in the Project, once it has been proven successful - the Method Cost.

3.20. The difference between the Base Case Cost and the Method Cost for a Development or a Demonstration is the financial benefit of the Project. Where a Licensee is looking to test more than one Method It should outline the financial benefit of each separate Method.

3.21. Until the guide is approved the Licensee will only be able to start new Projects with a clear monetary benefit.

## Registration Process Requirements

3.22. In order for a Project to be eligible for funding it must be registered on the shared portal (or the Licensees own website until the portal is in place) referred to in

Section Two. The Licensee must notify Ofgem by sending an email to [nia\\_project\\_registration@ofgem.gov.uk](mailto:nia_project_registration@ofgem.gov.uk) each time they register a Project.

3.23. The registration process does not generally involve Ofgem approving Projects. However, we have identified two circumstances where a Licensee must seek approval from Ofgem before registering a Project. These are if:

- i) It is requesting an exemption from the default conditions for IPR set out in Section Seven; or
- ii) It intends to make payments to itself or to Related Undertakings as set out in Section Four.

3.24. Where a Licensee has explained in their PEA why it (or Project Partners) will face commercial harm from disclosure of any of the information required in table 3.1 below then it is not required to publish this information. If the Authority later considers information has been unreasonably withheld then NIA Expenditure up to the value of the Project may be declared ineligible.

3.25. Where the Licensee wishes to register a Project in one of the circumstances described in paragraph 3.23 it should make a written submission to Ofgem before the Licensee intends to Register the Project. Ofgem will review these submissions and only provide approval where it judges that a satisfactory justification has been supplied. Ofgem will undertake this review and respond to the request within twenty Working Days of receipt of the submission. If, during the twenty Working Day evaluation period following the submission of the request, Ofgem considers that additional information will be needed to assess whether approval should be given then in these circumstances the Authority may extend the deadline for its decision by 20 working days, or a part thereof, from the day when the further submissions were made.

3.26. Where two Licensees wish to recover Allowable NIA Expenditure for the purposes of a collaborative Project all Licensee Partners must be named on the NIA Project Registration Page. Where there are multiple Funding Licensees it should be made clear at the time of registration what contribution each Funding Licensee will be making.

3.27. If the Licensee is not seeking approval to register a Project for one of the reasons identified above, the Project will be registered when the Licensee publishes information required for the Registration of NIA Projects on the portal (or the Licensees own website until the portal is in place). For the avoidance of doubt there should be one Project Registration Page per Project.

3.28. A Project can be registered at any time during the Relevant Year. Projects must start in the same Relevant Year that they are registered, except where Registration has taken place within twenty Working Days of the end of the Relevant Year, in which case the Project may start in the subsequent year.



3.29. Projects must not be started until Registration has taken place and Ofgem has been notified. Where the Licensee has sought permission from Ofgem to register a Project it cannot be started until the Licensee has received permission to register the Project.

3.30. A Licensee can still register a NIA Project even if it does not expect to incur any Allowable NIA Project Expenditure. In doing so, it will still be eligible to receive Allowable NIA Expenditure if the outturn costs and benefits are different from expectation.

3.31. The Funding Licensee(s) will provide the information required for Registration set out in Table 3.1 on the NIA Project Registration Page.

**Table 3.1: Information required for the Registration of NIA Projects**

Information required	Description
Project title	
Funding Licensee(s)	The Licensee(s) which register(s) the Project and recover(s) the Allowable NIA Expenditure from Customers.
Problem(s)	This should outline the Problem(s) which is being addressed by the Project.
Method(s)	This section should set out the Method or Methods that will be used in order to solve or investigate the Problem. The type of Method should be identified where possible e.g. technical or commercial.
Scope and Objectives	The scope and objectives of the Project should be clearly defined including the benefits which should directly accrue to the GB Transmission System.
Success criteria	Details of how the Funding Licensee will evaluate whether the Project has been successful.
Project Partners and external funding	Details of actual or potential Project Partners and External Funding support as appropriate.
Potential for new learning	Detail what the parties hope to learn and how the learning will be disseminated.
Scale of Project	The Funding Licensee should justify the scale of the Project. In particular, it should explain why there would be less potential for new learning if the Project were of a smaller scale.
Geographical area	Details of where the Trial(s) will take place. If the Project is collaboration, the Funding Licensee area(s) in which the Trial(s) takes place should be identified.

Information required	Description
Revenue allowed for in the RIIO: T1 settlement	An indication of the expenditure allowed for within the RIIO: T1 settlement <sup>9</sup> that is likely to be saved as a result of the Project.
Indicative total NIA Project Expenditure	An indication of the total Allowable NIA Expenditure that the Funding Licensee expects to reclaim for the whole of the Project.

## NIA Project Changes Requirements

3.32. Once a NIA Project has been Registered, the Funding Licensee will not be able to change the following aspects of the Registered Project, as identified Information Required for the Registration of NIA Projects:

- i) Project title,
- ii) Problem,
- iii) Objectives,
- iv) Success criteria, and
- v) The IPR arrangements.

3.33. Further, although the Funding Licensee can reduce the level of payment that was registered to be made to a Related Undertaking, it cannot either increase the payment or make a payment to an additional Related Undertaking without receiving approval from Ofgem.

3.34. However, if the Funding Licensee can demonstrate that there will be a benefit to changing other aspects of the Project (not listed in paragraph 3.33) based on learning once the Project has been started, it may do so. The Licensee must update the information on the Project Information Page (including an explanation of why the change has been made). The Licensee must inform Ofgem by email at [nia\\_project\\_registration@ofgem.gov.uk](mailto:nia_project_registration@ofgem.gov.uk). For the avoidance of doubt, this change could include prematurely terminating the Project.

3.35. Where a Licensee has explained in their PEA why it (or Project Partners) will face commercial harm from disclosure of any of the information required in Table 3.1 above then it is not required to publish this information. If the Authority later considers information has been unreasonably withheld then NIA Expenditure up to the value of the Project may be declared ineligible.

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<sup>9</sup> This is the Expenditure included in the Licensees' Business Plan for RIIO: T1

## 4. Eligible Expenditure

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### Chapter Summary

This chapter defines what is Eligible NIA Project Expenditure and defines what will be considered eligible Bid Preparation Costs.

4.1. There are two categories of expenditure that can be recovered from the NIA. The first category is to recover expenditure associated with undertaking NIA Projects. This is set out in paragraphs 4.3 to 4.11 below and is called Eligible NIA Project Expenditure. The second category is expenditure to prepare submissions for the NIC. This is set out in paragraph 4.12 below and is called Bid Preparation Costs.

4.2. The amount available for Allowable NIA Expenditure can be calculated using ETC11: The Network Innovation Allowance.

### Eligible NIA Project Expenditure Requirements

4.3. Eligible NIA Project Expenditure is expenditure on a Project that is related to the implementation of the Licensee's Project subject to the restrictions set out in this Governance Document.

#### Expenditure relating to equipment

4.4. If the expenditure relates to equipment (including control and communications systems and software) then:

- It must be incurred in relation to the development, procurement, installation, operation, maintenance and decommissioning of equipment (including control and communications systems, IT equipment and software) which will have a Direct Impact on the GB Transmission System, and
- It must not be related to the procurement, installation, operation and decommissioning of any device on any Customer's premises that measures the consumption of energy and provides such measurement data to a Energy Supplier.

#### Payments to Network Users

4.5. If the expenditure involves payments to a Related Undertaking to remunerate that User for the actions it takes as part of the NIA Project then:

- All payments that are proposed to be made to any Related Undertaking must be declared before Project Registration and will require approval from Ofgem before the Project can be Registered,

- If a payment is made to any Related Undertaking that is a Network User, the Licensee must simultaneously offer the same terms to similar Network Users of the part of the network that is within the Project boundary, and have used reasonable endeavours to identify similar Network Users, and
- The payment cannot be made directly to the Licensee or affiliated Licensees undertaking the NIA Project, except to cover the marginal operating costs of running existing Licensee owned generation or storage plants that are solely necessary for the purposes of the Project. Such marginal operating costs must be declared at the time of Project Registration and will require approval from Ofgem before the Project can be registered.

### **Customer Protection Requirements**

4.6. Where the Project involves any interaction with a Relevant Customer or a Relevant Customer's premises, or any Direct Impact on or engagement with Relevant Customers (e.g. through charging or contractual arrangements or supply interruptions) the Licensee must comply with the conditions set out in this Customer protection section.

4.7. The Licensee must submit to Ofgem, at least two months prior to initiating any form of Customer engagement, a plan of how it, or any of its Project Partners, will engage with, or impact upon, Relevant Customers as part of the Project. The Licensee and its Project Partners cannot initiate any form of Customer engagement until the plan has been approved by the Authority, and must comply with the approved plan at all times. The plan must include:

- a communications strategy which sets out inter alia:
  - any proposed interaction with a Relevant Customer or premises of a Relevant Customer or proposed interruption to the supply of any Customer for the purposes of the Project, and how the Customer will be notified in advance;
  - ongoing communications with the Relevant Customers involved in the Project; and
  - arrangements for responding to queries or complaints relating to the Project from Relevant Customers; and
- information on the Priority Services Customers who will be involved in the Project and how they will be appropriately treated (including providing information to any person acting on behalf of a Priority Services Register Customer in accordance with condition 26 of the Electricity Supply Licence, where applicable);
- details of any safety information that may be relevant to the Project; and
- details of how any consents that may be required as part of the Project will be obtained

4.8. The Licensee must publish the plan by making it readily available on its own website.

- 4.9. The Licensee and its Project Partners must also:
- not visit a premises of any Customer for sales or marketing activities in connection with, in the context of or otherwise under the guise of the Project, and
  - have regard to the implementation of the smart meter roll-out in the geographical area connected to the Project to ensure that the Project does not impede the implementation in any way.

### **Data protection Requirements**

4.10. Where the Project involves the collection of any personal data (as defined in the Data Protection Act 1988) the Funding Licensee must submit a strategy for dealing with this personal data to Ofgem at least two months prior to collecting or using the data. The Funding Licensee or its Project Partners cannot collect or use any personal data until the strategy has been approved by the Authority. The strategy must set out the following:

- what personal data will be collected for the purposes of the Project;
- how this personal data will be used;
- how consent for use of the personal data will be obtained;
- what information will be provided to the Customer prior to consent being sought;
- if Priority Services Register Customers are included in the Project, how their personal data will be obtained;
- who owns the personal data;
- how long the personal data will be retained; and
- how this personal data will be managed (which should be based on a “privacy by design” approach, as advocated by the Information Commissioner’s Office<sup>10</sup>).

### **Unrecoverable NIA Project Expenditure**

4.11. Unrecoverable NIA Project Expenditure cannot be recovered from Eligible NIA Project Expenditure. Unrecoverable NIA Expenditure is any Eligible NIA Project Expenditure arising from a failure to conform to technical requirements or arising from an increase in payments associated with a reduction in standards of performance.

### **Bid Preparation Costs**

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<sup>10</sup> See [http://www.ico.gov.uk/news/current\\_topics/privacy\\_by\\_design\\_conference.aspx](http://www.ico.gov.uk/news/current_topics/privacy_by_design_conference.aspx)

4.12. As set out in ETC 11 the Licensee can use up to a maximum £175,000 or 5% of the NIC funding requested, whichever is smaller from its NIA to cover expenditure it incurs submitting bids to the NIC where submissions which have passed the NIC Initial Screening Process (ISP). The Licensee must be able to demonstrate that it has used the amount claimed under Bid Preparation Costs for the purposes listed above. Where the Licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the Licensees in that group cannot be more than £175,000.

## **Technical requirements and standards of performance**

4.13. Meeting the criteria for NIA Projects does not exempt the Licensee from complying with its licence obligations to conform to all technical requirements or standards of performance or any other legislation. If the Licensee wishes to seek derogation from technical requirements or incentive schemes it must do so through the relevant existing mechanisms. Without a derogation any increase in payments resulting from a reduction in performance that occurs through undertaking a NIA Project is deemed an Unrecoverable NIA Project Expenditure.

## **External NIA Funding**

4.14. If the Licensee receives funding from a Project Partner or External Funder that covers Eligible NIA Project Expenditure then they cannot use their NIA to fund the activities paid for by a Project Partner or External Funder.

## **Revenue allowed for within the RIIO: T1 settlement**

4.15. Direct Benefits are any benefits of the Project accruing to the Licensee during the Project implementation, and comprise expenditure included in the Licensees Business Plan for the RIIO: T1 Period that will be saved through undertaking the Project.

4.16. Where the Licensee receives a Direct Benefit because of undertaking the Project the amount saved should be used to cover the expenditure incurred on the NIA Project and so must be deducted from the Eligible NIA Expenditure.

## **Internal Expenditure**

4.17. The proportion of NIA expenditure the licensee can spend on their own internal resources is set out in ETC11.

## 5. Annual regulatory reporting for NIA Projects

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5.1 The Licensee must report the required details for its NIA Expenditure as set out in Standard Licence Condition (SLC) XX and the NIA reporting instructions and guidance (RIGs).

Draft

## 6. Knowledge Transfer

### Chapter Summary

Facilitating knowledge transfer is one of the key aims of the RIIO Innovation Stimulus. Learning should be shared among all Licensees. This section sets out the knowledge transfer requirements of the NIA.

6.1. There are four requirements relating to knowledge transfer set out in this document: the Summary of Project Progress, the Annual Summary of NIA Activity, and the Annual Conference described in this section and the treatment of IPR (which is comprehensively set out in Section Seven). The Licensee should also seek other mechanisms to ensure effective dissemination of learning.

### Awareness of Learning Portal Deadline

6.2. The Licensee must publish the required Project Progress Information on the Awareness of Learning Portal by 31 July 2014 and each year thereafter. If a NIA Project is halted, then Project Progress Information must be published by 31 July in the year the Project is halted.

### Required Project Progress Information

6.3. The Licensee must publish Project Progress Information for each NIA Project where new learning has been developed on the Awareness of Learning Portal. This publication should provide sufficient information for third parties to understand what has been learnt from the Project and should be sufficient to minimise the likelihood that other Licensees will unnecessarily duplicate the Project using their NIA in future. If the NIA Project generates IPR that Ofgem has agreed at Registration do not need to be shared, the NIA Annual Report must provide sufficient information for other Licensees to determine whether the IPR would be of value.

6.4. Where the Licensee has explained in their PEA why it (or Project Partners) will face commercial harm from disclosure of any of the information required in Table 6.1 then it is not required to publish this information on the Project Registration Page. If the Authority later considers information has been unreasonably withheld then NIA Expenditure up to the value of the Project may be declared ineligible.

6.5. The Project Progress Information should include the following sections in the order that they appear below.

**Table 6.1: Required Project Progress Information.**

Section	Description
Project Title	As per Registration
Scope and objectives	As per Registration
Success criteria	As per Registration



Section	Description
Performance compared to the original Project aims, objectives and success criteria	Details of whether and how the Project is investigating/solving the issue described in the NIA Project Registration Pro-forma. Details of how the Project is performing/performed relative to its aims, objectives and success criteria.
Required modifications to the planned approach during the course of the Project	The Licensee should state any changes to its planned methodology and describe why the planned approach proved to be inappropriate.
Lessons learnt for future Projects	Recommendations on how the learning from the Project could be exploited further. This may include recommendations of what form of trialling will be required to move the Method to the next TRL. The Licensee should also state if the Project discovered significant problems with the trialled Methods. The Licensee should comment on the likelihood that the Method will be deployed on a large scale in future. The Licensee should discuss the effectiveness of any contractual Methods that formed part of the Project.
The following sections are only required for those Projects which have been completed since the previous since the 1 April 2013 or since the previous NIA Annual Report was published.	
The outcomes of the Project	Comprehensive details of the project's outcomes are to be reported. Where quantitative data is available to describe these outcomes it should be included in the report. Wherever possible, the performance improvement attributable to the Project should be described. If the TRL of the Method has changed as a result of the Trial this should be reported.
Planned implementation	Details on whether and how the Licensee plans to modify its operations based on learning from the Project. If the Method is not ready to be used or implemented, the Licensee should explain what needs to happen before the Method can be implemented. The Licensee can break down the requirements into actions required by Licensees and actions required by non-Licensee parties. If the Licensee intends to submit a notice under ETC9 (The Innovation Roll-out Mechanism)
Other comments	

## Compliance

6.6. In the event that Ofgem considers that the Project Progress Information does not conform with the requirements of this Governance Document, it may ask the Licensee to reproduce the Project Progress Information. If Ofgem considers that the Project Progress Information still does not comply with this Governance Document, Ofgem may reduce the Licensee's Network Revenue by an amount up to the level of funding allowed for the Project concerned.

## Annual Summary of NIA Activity Requirements

6.7. The Licensee must produce an annual summary of its NIA activity. This summary should:

- describe the progress of the Licensee's NIA activities in the Relevant Year;
- describe how the NIA activities link to the Licensee's Innovation Strategy; and
- highlight areas of significant new learning.

6.8. The Licensee should publish this summary on their website by 31 July 2014 and 31 July each year thereafter. This summary should be signed by the senior person responsible for implementing NIA Projects.

## Annual conference Requirements

6.9. The Licensee must work collectively with such other Licensees as are subject to this Governance Document to organise an annual conference. The annual conference will be held every Relevant Year for Licensees, Project Partners and interested third parties. Expenditure incurred in organising this annual conference can form part of Internal NIA Expenditure. The Licensee must (subject to any confidentiality or IPR arrangements approved before Registration) highlight the key learning that has been developed by the Licensee since the previous annual conference.

6.10. This conference may form part of the same event as any NIC or LCN Fund conferences.

6.11. The NIA conference may be of a single event for gas and electricity or multiple events, we expect Licensees to work together to agree the format of the annual conference.

## 7. Intellectual Property

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### **Chapter Summary**

To facilitate Knowledge transfer we have created default treatment for Intellectual Property Rights (IPR). This chapter sets out these default arrangements and sets out how royalties generated from IPR should be treated.

[This text will be consulted on a slightly different timetable. See the cover letter for more information]

Draft

## 8. Definitions

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### Allowable NIA Expenditure

Allowable NIA Expenditure is the total expenditure that can be recovered from the NIA. It includes Bid Preparation Costs and Allowable NIA Expenditure.

### Awareness of Learning Portal

An online portal for sharing learning from NIA Projects that complies with the requirements set out in Section Two of this document.

### Background IPR

Means all the intellectual property owned or licensed to a Participant at the start of a Project.

### Base Case Costs

The lowest cost method of delivering the Solution (on the scale outlined as part of the Project) which has been proven on the GB Transmission System.

### Bid Preparation Costs

Means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition that appear to the Authority to have been spent in such a way that satisfies the requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.

### Customer

Means any person supplied or requiring to be supplied with electricity at any premises in the national electricity transmission system operator area but shall not include any authorised electricity operator in his capacity as such.

### Development (TRL 4-6)

Means activity on generating and testing solutions to the Problem.

### Demonstration (TRL 7-8)

Activity focussed on generating and testing solutions on the network and take it to a stage where they can be transferred to business as usual.

### Direct Benefits

Direct Benefits are the benefits of a Project accruing to the Licensee during the Project implementation and comprises any expenditure included within the Licensees Business Plan for RIIO: T1 that will be saved as a result of undertaking the Project.

### Direct Impact

Where the deployment or use of the Method (will in the case of Research) lead to a directly related measurable change or (in the case of a Development or Demonstration) cause a directly related measurable change in the operation of the distribution/transmission system in a controllable way.

### Electricity Transmission/Gas Transmission / Gas Distribution Group

Means a group of Transmission Owners or System Operators in which the Licensee and every other Licensee within the group are affiliates of each other.

### Eligible NIA Project

A Project that satisfies the criteria set out in Section Three and the requirements set out in Section Four of this Governance Document.

### Eligibility Requirements

Specific requirements used to assess whether a project is eligible to be funded using the NIA.

### Energy Supplier

The holder of a Gas or Electricity Supply License.

### Foreground IPR

Foreground IPR is means all intellectual property created by or on behalf of the Participants, their sub-licensees, agents and sub-contractors, as part of, or pursuant to the Project, including all that subsisting in the outputs of the Project.

### Funding Licensee

The Licensee that registers a NIA Project and uses their NIA to fund a Project.

### GB Transmission System

Means the system consisting (wholly or mainly) of high voltage electric lines owned or operated by transmission licensees within Great Britain and used for the transmission of electricity from one generating station to a sub-station or to another generating station or between sub-stations or to or from any interconnector and includes any electrical plant or meters owned or operated by any transmission licensee within Great Britain in connection with the transmission of electricity.

### Initial Screening Process (ISP)

All proposed Gas NIC Projects must pass the ISP before they are eligible to be developed into full submissions and considered by the Authority for funding. The purpose of the ISP is to reduce the risk of Licensees spending time and money developing "ineligible" projects by providing an early indication of which projects are eligible for funding.

### Internal NIA Expenditure

The proportion of NIA expenditure the licensee can spend on their own internal resources.

### Licensee

The holder of a Gas Transporter or Electricity Transmission Licence who is regulated through the RIIO price control framework

### Licensee Partner

All Licensee Participants except the Funding Licensee.

### Method

Means the proposed way of investigating or solving the Problem. This may be done by either:

- Research: which means activity undertaken to investigate the Problem based on observable facts;
- Development: which means activity focussed on generating and testing solutions to the Problem; or
- Demonstration: which means activity focussed on demonstrating and testing technologies/practices on the network which address the Problem and take them to a stage where they can be transferred into BAU.

### Method Costs

The costs of replicating the Method, at the scale being tested in the Project, once it has been proven successful.

### Micro-Business

A micro business is defined as a company which meets one of the following criteria –

- consumes less than 200,000 kWh of gas a year;
- consumes less than 55,000 kWh of electricity a year; or
- has fewer than ten employees (or their full-time equivalent) and an annual turnover or annual balance sheet total not exceeding £2m.

### NIA Project Registration Information

The information which Funding Licensees must publish on the Awareness of Learning Portal in order to use funding under the NIA.

### Participant

A party who is involved in a Project. A Participant will be one of the following: Licensee, Licensee Partner, Project Partner, External Funder, Project Supplier or Project Supporter.

### Problem

The issue that needs to be resolved.

### Project

Means the Research, Development or Demonstration being proposed or undertaken.

### Project Eligibility Assessment (PEA)

Documentation prepared by the Licensee prior to initiation of a NIA Project, demonstrating that the Project and funding comply with all criteria and conditions set out in this document.

### Project Method Costs

The costs of replicating the Method at the scale being tested in the trial once the Method has been proved successful.

### Project Progress Information

A summary of Project progress which complies with the requirements set out in Section Six of this document.

### Project Partner

A non-Licensee Participant that makes a contractual commitment to contribute equity to the Project (e.g. in the form of funding, personnel, equipment etc.) the return on which is related to the success of the Project.

### Project Registration Page

The page on the shared portal where the Project Registration Information is published.

### Project Supplier

A non-Licensee Participant that makes a contractual commitment to supply a product or service to the Project according to standard commercial terms that are not related to the success of the Project.

### Registration

Registration is the process by which a NIA Project is registered with Ofgem, before the Project can start.

### Relevant Year

Means a period of twelve months commencing on 1 April at 06:00 hours, the first such Formula Year (t=1) commencing 1 April 2008.

### Related Undertaking

In relation to any person means any undertaking in which such person has a participating interest.

#### Relevant Customer

A domestic or Micro-Business Customer.

#### Relevant Network Licensee

Is a Licensee that holds a licence of the same type as the Licensee which has generated new learning as a result of a Project.

#### Research (TRL 2-3)

Is activity undertaken to investigate the problem based on observable facts;

#### Specific Requirements

The criteria a Project must meet to qualify as a NIA Project.

#### System Operator

Means the holder for the time being of a transmission licence in relation to which licence the Authority or the Secretary of State, where appropriate, has issued a Section C (system operator standard conditions) Direction and where Section C remains in effect (whether or not subject to any terms included in a Section C (system operator standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject).

#### Technology Readiness Levels

Technology readiness level is a measure used to assess the maturity of evolving technologies. It is graded on a scale from 1 to 9, where, for the purposes of the NIC:

- TRL 1: Pure research that is theoretical or experimental work undertaken to acquire new scientific or technical knowledge for its own sake rather than directed towards an application
- TRL 2-3: Applied research driven by a desire to broaden scientific and technical knowledge for application on the network, related to an identified problem. It typically includes investigating the underlying foundation of phenomena and observable fact
- TRL 4-6: Development activities with a more commercial application including technology validation and or demonstration in a working environment
- TRL 7-8: Full scale demonstration in an working environment to test and improve technologies so they are ready for commercial deployment
- TRL 9: Application of technology in its final form, i.e. the technology has been proven.

#### Transmission Owner



Means the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section D (transmission owner standard conditions) Direction and where Section D remains in effect (whether or not subject to any terms included in a Section D (transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the Licensee may be subject).

#### Project Progress Information

A summary of Project progress which complies with the requirements set out in Section Six of this document.

#### Ultimate Controller

Means:

- (a) a holding company of the Licensee which is not itself a subsidiary of another company;
- (b) any person who (whether alone or with a person or persons connected with him) is in a position to control, or to exercise significant influence over, the policy of the Licensee or any holding company of the Licensee by virtue of:
  - (i) rights under contractual arrangements to which he is a party or of which he is a beneficiary; or
  - (ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him or of which he is a beneficiary,but excluding any director or employee of a corporate body in his capacity as such; and
- (c) for the purposes of sub-paragraph (b), a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph;

#### Working Day

Means any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday within the meaning of the Banking and Financial Dealings Act 1971.

## Glossary

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### A

#### Authority

The Gas and Electricity Markets Authority is the governing body for Ofgem, consisting of non-executive and executive members

### D

#### Demand side management (DSM)

Demand side management is any mechanism that allows a Customer's demand to be intelligently controlled in response to events on the power system. Such events would include lack of network capacity or insufficient generation.

### E

#### Energy Networks Association (ENA)

ENA is the industry body funded by UK gas and electricity transmission and distribution and gas transporter licence holders. It lobbies on common issues in the operating environment, both at domestic and European levels, and provides technical services for the benefit of members.

### G

#### Great Britain (GB)

### I

#### Independent Distribution Network Operator (IDNO)

Any electricity distributor whose licences were granted after 1 October 2001. IDNOs do not have distribution services areas.

#### Innovation Funding Incentive (IFI)

Scheme established under previous price control settlements. The IFI is intended to encourage Licensees to invest in appropriate Research and Development activities that are designed to enhance the technical development of networks and to deliver value (i.e. financial, supply quality, environmental, safety) to end consumers.

### L

#### Low Carbon Networks (LCN) Fund

Funding to encourage the DNOs to innovate to deliver the networks we will need for a low carbon economy.

## **N**

### [Net present value \(NPV\)](#)

Net present value is the discounted sum of future cash flows, whether positive or negative, minus any initial investment.

## **R**

### [Reporting instructions and guidance \(RIGs\)](#)

A document that is published as part of the price control settlement which sets out further detail on how the price control is to be implemented and how compliance with it will be monitored.

### [RIIO \(Revenue = Incentives + Innovation + Outputs\)](#)

Ofgem's new Relevant framework, stemming from the conclusions of the RPI-X@20 project, to be implemented in forthcoming price controls. It builds on the success of the previous RPI-X regime, but better meets the investment and innovation challenge by placing much more emphasis on incentives to drive the innovation needed to deliver a sustainable energy network at value for money to existing and future consumers.

## **T**

### [Technology Readiness Level \(TRL\)](#)

Technology readiness level is a measure used to assess the maturity of evolving technologies. It is graded on a scale from 1 to 9. TRL 1 occurs when scientific research begins to be translated into applied R&D with TRL 9 describing a proven technology.

## **U**

### [United Kingdom \(UK\)](#)