



Promoting choice and value
for all gas and electricity customers

Innovation Working Group

6 February 2013

Agenda

- **Introductions 10:00**
- **Update**
 - Innovation Stimulus
 - Low Carbon Networks (LCN) Fund
- **Network Innovation Competition and LCN Fund process**
 - Milestones and key dates
- **Network Innovation Allowance**
- **Lunch 13:00-13:30**
- **RIIO-ED1**
 - Recap of proposals and overview consultation responses
- **LCN Fund**
 - This year's competition
- **A.O.B**



Promoting choice and value
for all gas and electricity customers

The background features a collage of images: solar panels on the left, a glowing lightbulb on the right, and a close-up of a gas burner at the bottom. A large, white, stylized arrow points from the left towards the center of the slide.

Progress update

RIIO-T1 and GD1

phase	year	month	milestone
Fast-Track Final Proposals	2012	April	Fast track decision made
Initial Proposals (Non Fast-Track)		September	First informal licence consultation closes Initial Proposals consultation closes
		October	Informal consultation on NIC and NIA Governance documents published (6 weeks) Second informal licence consultation published (4 weeks)
Final Proposals (Non-Fast Track)		November	Informal consultation on governance document closes Second informal licence consultation closes
		December	Final Proposals published Statutory consultation on licence conditions and associated documents
		2013	February
Price control period commences	2013	April	Start of GD1 and T1



Published final licence conditions and Governance Documents
on February 1st 2013

RIIO-ED1

phase	year	month	milestone
Strategy Development	2012	February	Open letter consultation published (8 weeks consultation)
		September	Strategy Consultation published (8 weeks consultation)
		November	Strategy Consultation closed
Initial Business Plan Assessment and fast-track decision	2013	March	Strategy Decision published
		July	DNOs submit & publish business plans (including IS) invitation for comments (4 weeks)
		October	Initial Assessment and fast-track Draft Determination published (8 weeks consultation)
Draft and Final Determination and launch	2014	February	Fast-track Final Determination published
		March	Non-fast-track DNOs resubmit & publish business plans Invitation for comments (4 weeks)
		July	Non-fast-track Draft Determination published (8 weeks consultation)
		November	Non-fast-track Final Determination published
	December	Statutory Consultation (28 days) on licence modifications	
	2015	April	Wednesday 1 st - new price control (RIIO-ED1) commences

The strategy decision will be published in early March

Low Carbon Networks (LCN) Fund – 2012 competition

- Seven projects bids received
 - £75.9m requested
- Decision announced 23 November 2012
- £45.5m funding awarded to five projects
- Year four of the competition being held this year
- Some projects due to finish in 2013
- Consultation on v6 of the governance document and closedown report guidance this year

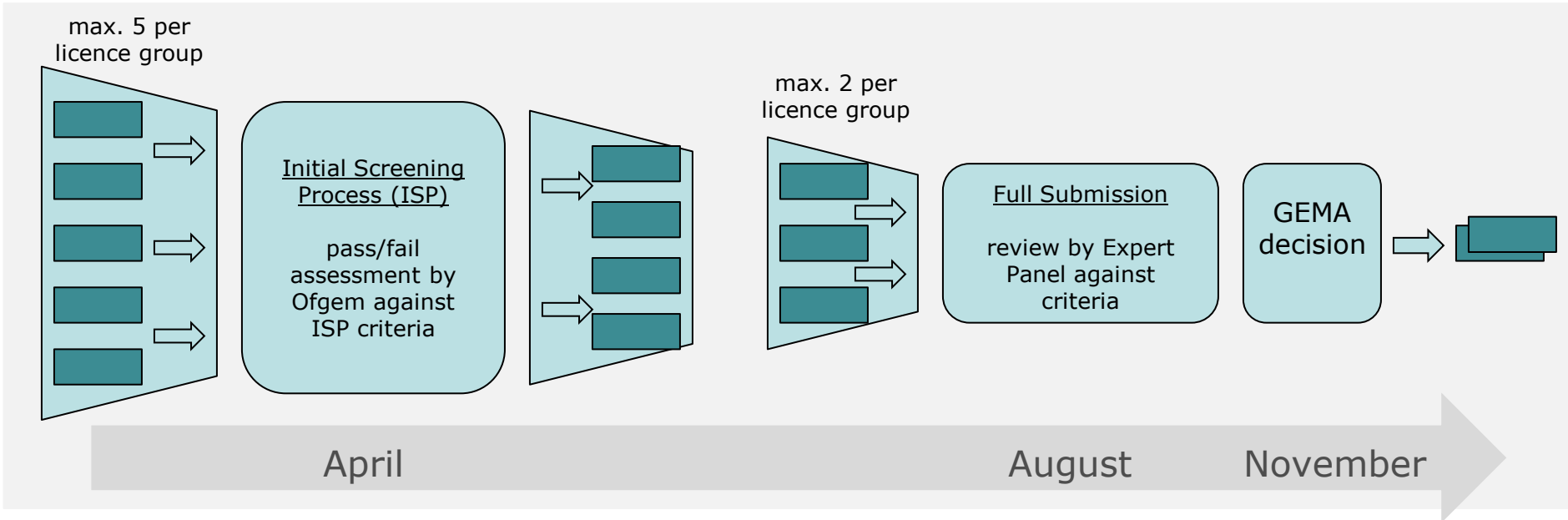
The background features a composite image. On the left, there are rows of solar panels under a bright sky. On the right, there is a glowing, incandescent lightbulb. A large, white, stylized arrow points from the left towards the center, partially overlapping the text.

Competitive process LCN Fund and NIC

Overview of stages

- Three competitions will run in parallel
 - Gas NIC, Electricity NIC and LCN Fund
- This will facilitate cross sector projects
 - Process for these project explained later
- Follow the same structure as outlined below

ISP deadline – 19 April
FS deadline – 9 August tbc



Initial screening process

- Each licensee group can submit five projects to ISP
 - Deadline for submissions: 19th April 2013
 - Submissions will be screened against specific requirements and evaluation criteria
 - Decided on a Pass/Fail basis
 - We will write to licensees whose projects have failed ISP within 20 working days of receipt
 - All submission proformas will be published on our website
 - Licensees will not be allowed to substantially alter the high level solutions or the method they wish to use following ISP
 - Following ISP, licensees will be able to merge similar projects
- ISP proforma will remain largely unchanged, but we welcome high level comments

Full Submissions

- Licensee groups can progress two projects, that passed ISP, to full submission
- Full submission consists of 50 page proforma, 50 pages of appendices and a financial spreadsheet
- Deadline for full submissions: 9 August - tbc
 - Electronic copy of the full submission to be submitted by 5pm of the day of the deadline and eight hard copies to be submitted on the same day
- These projects will be evaluated by the Authority and an independent Expert Panel against the evaluation criteria contained in the Governance Document
- The original and revised full submissions, Expert Panel recommendation report, the consultant's report, ISP proformas, Q&A and our decision, will all be published on our website
- Full Submission proformas will be similar to LCN Fund. We will develop NIC versions over the next couple of months and circulate drafts to the group for comments

Indicative milestones – Full Submission*

	Purpose	Present	Date
Full Submission deadline	Companies submit bids to Ofgem	N/A	9 August - tbc
Early bilateral meeting	Short meeting with each of the companies for them to present their projects	Expert Panel, companies, Ofgem	w/c 16 August
Consultants meeting	Opportunity for consultants to ask questions. Agenda will be circulated beforehand	Consultants, Ofgem, companies	w/c 26 August
Further bilateral meetings	45 minutes with each company for the Expert Panel to ask questions about the projects	Expert Panel, Consultants, Ofgem	w/c 23 and 30 September
Resubmission	Following bilateral meetings opportunity to resubmit full submission	Companies	before 18 October
Decision	Notification of who is awarded funding	Ofgem	End November

*May be subject to change

Resubmission

- As a result of our questions, the consultants' reports or concerns raised by the panel, licensees may wish to amend their submissions
- The licensee will have three working days after the final panel meeting to notify us that they wish to amend their project
 - Licensees must state which areas of the project they wish to alter
- Licensees will then have 10 working days to resubmit their full submission proforma
 - They should also send us an addendum identifying the changes they have made
- We will issue guidance on this process prior to the full submission deadline

Cross sector projects

- Projects requesting joint funding will need to submit an application to two (or more) competitions
- The bids would need to demonstrate that funding requested from each competition was commensurate with the benefits to customers in that sector
 - Benefits can be shared across sectors
- Either both projects are funded or neither will receive funding
 - The expert panel for both competitions will discuss the merits of both projects and whether they deliver value for money for both sectors
- Licensees will need to identify which deliverables each is responsible for

This year's competition

The Authority and Expert Panel made a number of observations:

- Would like to see evidence that submission teams have reviewed work undertaken outside the UK
- Would like to see involvement of a wider range of partners
- SDRCs should be tied to outcomes and not just stages
- There should be a clear evidence of competitive pricing (tendering, market testing, benchmarking)
- Relevant customers must benefit – ensure costs reflect benefits
- Would expect to see costs reflect a common approach to project management, governance and knowledge transfer across all innovation projects

The background features a composite image. On the left, there are rows of solar panels under a bright sky. A large, white, 3D-style arrow points from the left towards the center. On the right, there is a glowing lightbulb with a warm, yellowish light emanating from it. The overall aesthetic is clean and modern, representing energy and innovation.

Network Innovation Allowance

NIA: Project Registration

- Registration Information
 - Required to be published (requirements pages 17-18).
 - Expect the level of information required here to be equivalent to the information provided in the First Tier Registration Proformas
<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/ftp/Pages/ftp.aspx>
 - Legacy IFI projects: Only projects that use NIA funding needs to be registered.
- Project Eligibility Assessment (PEA)
 - Also required to publish a PEA at time of registration.
 - By completing companies certify that their project complies with the eligibility criteria.

NIA: Project Benefits Guide

- Required to have a guide for calculating the benefits of NIA projects.
- The requirements of the guide are set out on page 15 of the Governance Document
- Recognise the work that has already been done by industry and Ofgem developing previous documents.
- The scope of the NIA is broader than previous schemes. We consider that where there is an overlap from previous documents should be able to retain content that continues to be applicable.

NIA: IFI Transition to NIA

- Consider that the IPR requirements are now sufficiently broad and would be surprised if anyone sought permission to use alternative arrangements.
- Research programmes, eg EPRI: Would expect licensees to be contributing to programmes in a focussed way and able to justify spending on specific projects.
- Having reviewed example projects that have been provided, we have also identified other potential issues that have been raised:
 - Safety: Should be able to quantify how much is spent mitigating risk or paying for its consequences compared to the new method.
 - Replicability and Roll Out Costs: Expect companies to be able to say if other licensees operated their network in the same way then it would be applicable to x% of the network and cost £y to roll out.
 - Direct Benefits: Business Plans are high level. We would expect that licensees have a plan that allocates the high level costs to more detailed line items.
 - Justifying the scale of the project: Expect all licensees to be able to justify the scale of projects no matter the type.



Promoting choice and value
for all gas and electricity customers

RIIO-ED1



ED1 strategy consultation proposals

- Proposed to implement the innovation stimulus broadly the same as being implemented under RIIO-T1 and GD1
 - Network Innovation Allowance
 - Network Innovation Competition
 - Innovation Roll-out Mechanism
- Proposed to set NIA based on quality of innovation strategy
- Consulted on a funding range of £60-90m per annum for electricity NIC from 2015-16
- Proposed to review level of funding in 2016
- Consulted on what DNO innovation strategies should include

Respondents

- We received 21 responses to the innovation questions
- Majority of respondents in favour of our proposals
- Respondents mainly in favour of proposed level of funding
- All respondents agree with review following LCN Fund
- Comments from stakeholders on appropriate contents of innovation strategies

Innovation Strategies

Innovation strategy minimum requirements:

- the high-level problem(s) or challenge(s) which the sector/company expects to face over the period, and the justification for initiating projects to address these
 - the process or methodology by which the company will decide the focus for innovation during RIIO-ED1
 - demonstrate that the problems/challenges have been identified/prioritised and justified in consultation with stakeholders
 - discuss the relative priorities, risk, benefits, value for money and potential customer impacts
 - the consequences of innovation(s) not occurring
 - 'deliverables' and potential deliverables from the research or development or trials, such as defined learning on an issue, revised codes, new charging methodologies etc
- evidence of how DPCR5 funding (ie IFI & LCN Fund) has been used effectively and resulted in improved outcomes for a DNO
 - a description of the processes for reviewing and updating innovation strategies within the price control period
 - a description of the approaches to ensuring the efficient roll-out of successful innovations in to business as usual (including innovation developed by other DNOs).

Next steps – ED1

- Strategy decision announced in early March 2013
- DNO business plans and innovation strategies to be submitted in July 2013
- Fast track final decision in February 2014
 - Level of NIA for fast tracked companies set at this time
- Begin licence drafting for new conditions



Promoting choice and value
for all gas and electricity customers

Low Carbon Networks Fund



Last year's competition

- We would appreciate feedback on last year's competition and any areas for improvement:
 - Process in general (Q&A, meetings)?
 - Experience of the resubmission process?
 - Documentation (proformas, spreadsheets, guidance)?
- We do not intend to revisit policy/evaluation criteria other than areas covered by development of NIC and consultation on electricity demand reduction

Changes for governance document v6



Collaboration at ISP



Electricity demand reduction



Evaluation of “business as usual” at Full Submission



Hard copies of Full Submissions



Housekeeping changes

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.

ofgem

Promoting choice and value
for all gas and electricity customers