

Innovation Working Group: July 2012

Notes and issues from the July meeting of the Innovation Working Group.	From Date and time of Meeting Location	Neil Copeland 1000-1500 16 July 2012 Ofgem 9 Millbank	23 July 2012
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1. Present

Margaret Douglas (am only)	NGN
Roger Hey	WPD
Richard Pomroy (am only)	WWU
Chris Goodhand	NPG
Insaf Ahamed (am only)	SGN
Gus McPherson (am only)	SGN
David Fidler	NG
Dave Oram	NG
Martin Hill	SP
Martin Wilcox	UKPN
Gaynor Jones (am only)	NG
Steve Cox	ENWL
Gareth Shields (Telephone)	SSE
John Christie	DECC
Dora Guzeleva	Ofgem
Sam Cope	Ofgem
Neil Copeland	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 draft sections of the Network Innovation Competition (NIC) and Network Innovation Allowance (NIA) Governance Documents and (2) to discuss RIIO: ED1 and innovation.

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 at the end of the month. He added that alongside these initial proposals there would also be an informal consultation on the licences for both price controls. He added that Ofgem will circulate full drafts of the NIC and NIA Governance Documents during August to overlap with the informal licence consultation.

2.2. SC also noted that Ofgem would be publishing a 'Consultation on Strategy' for the RIIO: ED1 price control in September adding that one of the issues to be addressed in this document would be innovation.

3. Item 2 – Network Innovation Allowance Draft Governance Document

3.1. Neil Copeland (NC) summarised slide six of the slide pack¹ setting out the timetable for drafting the NIA Governance Document. He noted that in the course of this meeting two

¹http://www.ofgem.gov.uk/NETWORKS/NIC/IWG/Documents1/2012_July_IWG_slides.pdf

main sections of the Governance Document would be discussed: the Introduction and the Eligibility Criteria.

Post Meeting Note: Ofgem has recorded the detailed drafting points made by members of the working group for both the NIC and NIA Governance Documents 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.

a) Issue A – Introduction

3.2. NC summarised slide seven setting out the contents of the introduction of the NIA Governance Document and the key differences between the introduction of the NIA and the equivalent sections of the Low Carbon Networks (LCN) Fund and Innovation Funding Incentive (IFI) governance and guidance documents respectively. Martin Wilcox (MW) commented that the introduction does not refer to the IFI as a predecessor to the IFI while it does refer to the LCN Fund.

3.3. NC asked whether it would be useful to hold a review of the NIA a certain amount of time into the price control. NC added that this review would be similar in scope and scale to the recent LCN Fund two year review. Members of the working group were largely of the opinion that a review would be a useful exercise so that lessons could be learned and changes incorporated into the governance of the NIA.

b) Issue B – Eligibility Criteria

3.4. NC summarised slide eight setting out the eligibility criteria for the NIA and noted the key differences between the eligibility criteria for the NIA and those that already exist for the IFI and LCN Fund First Tier.

3.5. A number of members of the group suggested that the proposed criteria may be too narrow. MW and Gaynor Jones (GJ) added that the criteria needed to be broadened to cover research projects.

3.6. NC asked the group whether the phrase 'direct impact' was suitable for the purposes of the NIA. Discussion took place around the table and members of the group commented that the use of this phrase may limit the activities that can be undertaken under the NIA. DG commented that the criteria did not state when the direct impact would need to take place. DO commented that it may be possible to interpret the drafting broadly, as it is not clear whether the output of the project needed to have a direct impact on the current configuration of the network or a future network configuration.

3.7. SC asked members of the group if they could provide alternative drafting for sections of the document they were uncomfortable with. DG added that it would be useful if members of the group could review the defined terms to check whether any useful terms from the IFI guidance document could be incorporated or were missing.

Actions

Members to provide comments on the NIA Governance Document and alternative drafting by 30 July 2012.

4. Item 3 – Network Innovation Competition Draft Governance Document

4.1. Nicola Meheran (NM) summarised slide eleven of the slide pack setting out the timetable for drafting the NIC Governance Document. She noted that in the course of this meeting three main sections of the Governance Document would be discussed: Project Implementation, Funding Direction, and Royalties.

a) Issue A: Funding Direction

4.2. NM summarised slide twelve setting out the contents of the Funding Direction section and the differences between the draft and the corresponding section of the LCN Fund Governance Document. She then went on to summarise how the electricity transmission 'Funding Mechanism' and the 'Funding Return Mechanism' would work.

4.3. David Fidler (DF) asked when funds would be transferred to the winning licensees. NM noted that funds would be transferred from the system operator to the winning licensees on a monthly basis in the regulatory year following the award of a project. Simon Brooke (SB) asked from which element of transmission use of system charges funds for the NIC would be raised. SC responded that Ofgem was in discussion with the charging team at NGET and that the funds for the NIC would come from the socialised element of transmission charging.

b) Issue B: Royalties

4.4. NM summarised slide fifteen setting out the contents of the Royalties section and the differences between the draft and the corresponding section of the LCN Fund Governance Document. Gus McPherson (GM) questioned whether or not licensees would be incentivised to protect intellectual property for consumers. SC responded, noting that because licensees would receive a proportion of the royalties generated then they were incentivised to protect the intellectual property generated as a result of NIC projects.

4.5. Richard Pomroy (RP) commented that there may be legal issues with regard to the regulation of income from royalties. SC noted that this was something that would be checked.

Actions

Ofgem to consider legality of regulating income from royalties before next iteration of Governance Document.

c) Issue C: Project Implementation

4.6. NM summarised slide sixteen setting out the contents of the Project Implementation section and the differences between the draft and the corresponding section of the LCN Fund Governance Document. MW asked whether the requirements in this section had been developed based on experience of the LCN Fund. NM commented that the reporting requirements in the draft incorporated the guidance currently in place for LCN Fund Second Tier Project Reporting.

4.7. GM questioned whether Ofgem should be assessing the activities after the award of a project. SC responded that it was appropriate because consumers money was being invested and Ofgem require confidence it is being spent appropriately.

4.8. Discussion took place around the table regarding the appropriateness of the drafting regarding customer engagement plans for transmission customers which impact upon relevant customers. SB commented that he understands the drafting for distribution projects but that he does not understand how the drafting related to transmission projects. NM noted that this was an issue that Ofgem would consider further.

Actions

Members to provide to provide comments on the NIC Governance Document drafting by 30 July 2012.

Ofgem to consider drafting of customer engagement plan section before next iteration of Governance Document.

5. Item 4: Innovation and RIIO: ED1

5.1. NM summarised slide nineteen setting out the four issues that need to be addressed as DNOs transition from the DPCR5 price control to RIIO: ED1. These are (1) the level and duration of innovation funding, (2) transition from IFI/LCN Fund to NIC and NIA, (3) the roll out of proven LCN Fund methods, and (4) RIIO: ED1 Innovation Strategies.

a) Issue A: Level of duration of funding

5.2. NM summarised slides twenty and twenty one setting out the possible funding profiles for the NIC during the ED1 period. Martin Hill (MH) commented that he would expect ideas for Second Tier type projects to dry up after a certain amount of time. Roger Hey (RH) disagreed and commented that he saw merits in the tapered option where NIC funding is reduced over time. He commented that as the amount of explicit funding made available by Ofgem for innovation was reduced you should see the drop off taken up by the businesses investing on their own.

5.3. DG moved discussion to the level of funding available, and commented that the amount available under the electricity NIC after 2015 could be either £64m or £94m. However, evidence would be needed to justify the final amount that was decided upon. DO commented that the Department of Business Innovation and Skills (BIS) had published research indicating that utilities should be spending around 1% of their revenues on research and development.

5.4. DG noted that it would be useful for licensees to provide evidence for the level of funding they are seeking. She also added that licensees should provide case studies of where they have transferred innovations from IFI or LCN Fund projects into businesses as usual.

Actions

Members to provide to provide evidence supporting the level of NIC funding that should be provided during ED1 by 30 July.

Members to provide case studies showing where they have transferred learning from innovation projects to business as usual by 30 July.

b) Issue B: Transition from LCN Fund to NIC

5.5. NM summarised slide twenty two setting out what would need to be in place to for LCN Fund projects which would be implemented during the RIIO: ED1 period.

5.6. A number of members of the group asked whether or not IFI projects that have been started and which will continue into the next price control period would be eligible for funding. DG commented that if a project was eligible under the IFI then it would be eligible for the NIA. A number of members of the group questioned whether ongoing IFI projects would need to conform with NIA registration and reporting requirements. SC responded that they would.

5.7. SC added that Ofgem were considering requiring licensees to register and report on projects through the ENA portal. He asked whether DNOs would be able to follow the registration and reporting requirements that are being put in place for the NIA for IFI projects until the start of the ED1 period. Members of the group agreed that the G85 Guidance Document could be amended to reflect the requirements of the NIA governance document in this regard. RH commented that the management group for the portal did not currently include any GDNs and Ofgem would need to consider how to involve these companies so that the portal could be in place for the start of GD1 and T1. SC added that a meeting was organised with the ENA so that Ofgem could understand more about the detail of the portal.

c) Issue C: Rollout of LCN Fund Projects

5.8. NM summarised slide twenty three setting out the two ways DNOs will be incentivised to rollout innovative methods into business as usual. She noted that where an innovation would allow licensees to reduce costs then they would be able to keep half the savings resulting from the rollout through the sharing factor. However, where licensees cannot pay for the rollout within the price control period they will be able to apply for funding where the innovation will deliver proven carbon and/or environmental benefits through the Innovation Rollout Mechanism.

Actions

Ofgem to circulate current IRM drafting to members of the working group by 20 July.

d) Issue D: Innovation Strategy

5.9. NM summarised slide twenty four of the slide pack setting out the purpose of the Innovation Strategy. NM noted that ED1 offers an opportunity to consult on changing the guidance provided to companies when producing their innovation strategies. NM added that one change being considered was to ensure each companies' innovation strategies are used and updated regularly. MH commented that updating the strategy annually was too frequent and that it would better to revisit this document at the midpoint of the price control. CG commented that he thought it would be appropriate for companies to review their strategies against the projects they implement on an annual basis, where projects are outside the scope of the innovation strategy then the strategy may need to be changed. RH commented that WPD's strategy is fixed but the programme of work that goes into delivering against the strategy may change.

5.10. SB commented that he does not see where in the current guidance companies would get a reward for having good ideas. DG commented that the innovation strategy is intended to set out the systems and processes companies have for finding, developing and implementing innovative ideas. NM emphasised that the innovation strategy should not be a list of planned projects but should be a strategy of systems and processes for managing innovation.