

# Innovation Working Group

30/05/2013

ofgem

# Agenda

- **Introductions**
- **The Expert Panel**
- **General Update**
- **Full Submission Process**
  - Evaluation process and timings
  - Evaluation Criteria
- **Break**
- **Full Submission Documents**
  - Pro-forma and Spreadsheet

# Expert Panels – the Chairs

- **LCN Fund and Electricity NIC – Dr Robin Bidwell CBE**

Robin is founder of the global consultancy ERM and Chairman of the ERM Foundation Low Carbon Fund. He is also Chairman of the Green Alliance, a Non Executive Director for ICE (an environmental rewards company). From 2002 to 2009 he was a member of the Gas and Electricity Markets Authority (GEMA).

- **Gas NIC – Miriam Greenwood OBE**

Miriam is co-Founder and Partner at SPARK Advisory Partners Limited. She was previously Head of Debt Advisory at Brewin Dolphin Investment Banking and holds various non-executive roles including Mithras Investment Trust. Her term as a member of GEMA recently ended.

# Expert Panels - structures

<b>LCN Fund</b>	<b>Gas NIC</b>	<b>Electricity NIC</b>
Robin Bidwell (chair)	Miriam Greenwood (chair)	Robin Bidwell (chair)
David Newbery	David Newbery	David Newbery
Nicholas Jenkins	Gas Expert (finalising recruitment)	Nicholas Jenkins
Sean Sutcliffe	Sean Sutcliffe	Electricity Transmission Expert (finalising recruitment)
Sharon Darcy	Sharon Darcy	Sharon Darcy

- **Interviews for panel vacancies held w/c 13/05. Ofgem will confirm appointments shortly.**

# General Update - Competitions

- ISP decision – all projects passed ISP
  - Press notice issued: 20 May
  - Proformas published on our website
  - Clarifications - some submissions lacking certain information asked for in the governance document
  - Option for feedback to be provided
- A new logo....
- Network Innovation Allowance



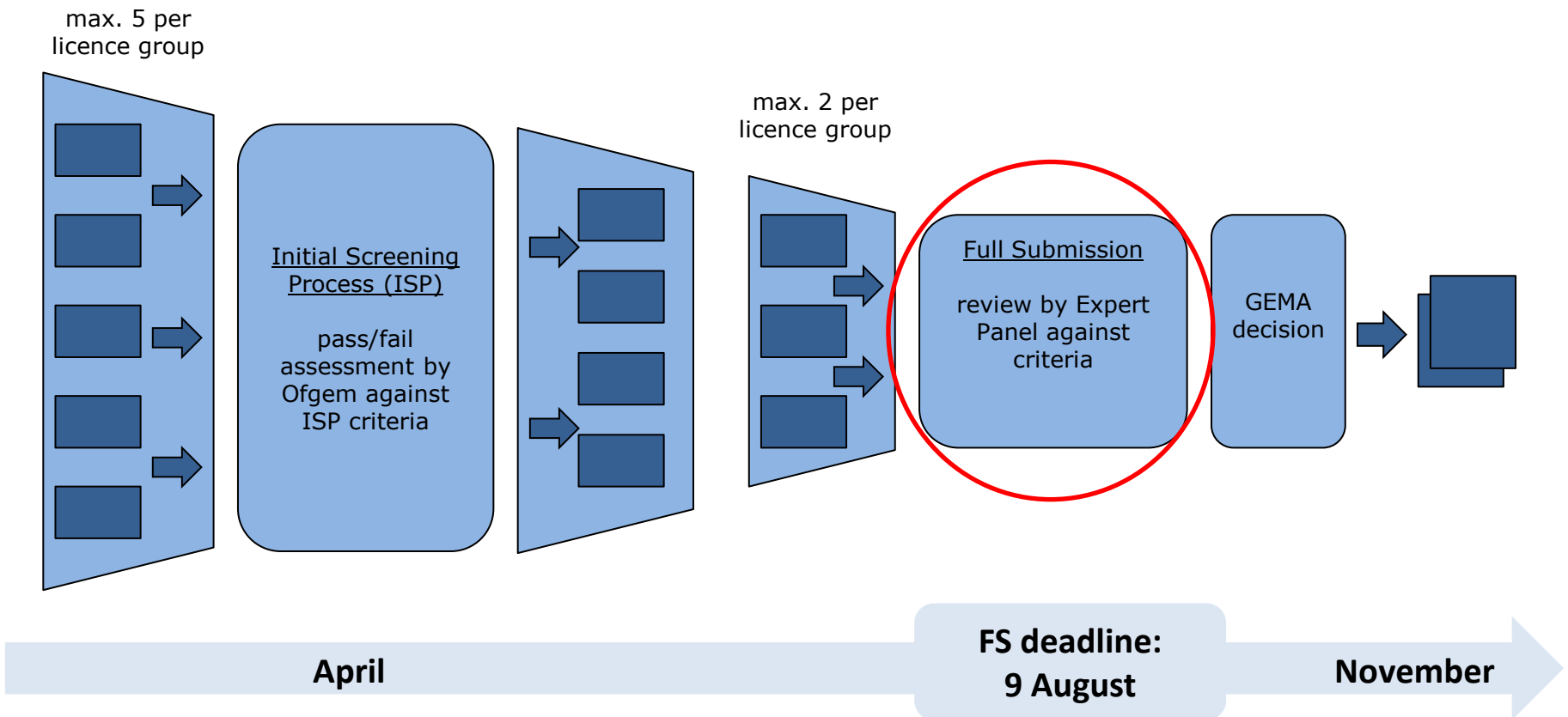
# General Update - RIIO ED1

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



Condition	Action	Reason	Effect/changes
Low Carbon Networks (LCN) Fund (CRC-13)	Modify	<ul style="list-style-type: none"> <li>LCN Fund runs from 2010-2015</li> <li>Some projects funded under Second Tier competition will continue into early ED1</li> <li>Projects under Tier 1 will need to be registered under NIA arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Retain LCN fund condition and governance document modify both to facilitate:               <ol style="list-style-type: none"> <li>Project monitoring</li> <li>Raise funds for final competition and discretionary reward funds if awarded</li> <li>Allow funding returns to continue (Royalties, and disallowed expenditure)</li> </ol> </li> </ul>
Innovation Funding Incentive (IFI)	Remove	<ul style="list-style-type: none"> <li>IFI is being superseded by NIA</li> <li>Existing IFI projects will need to be registered under NIA arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Remove IFI condition (CRC-10)</li> <li>No IFI term</li> </ul>
Network Innovation Allowance (NIA)	New condition	<ul style="list-style-type: none"> <li>The NIA to replace Tier 1 of LCN Fund and IFI.</li> <li>Replicates T1 and GD1 mechanism</li> <li>Decision to introduce in ED1 strategy decision</li> </ul>	<ul style="list-style-type: none"> <li>Introduce NIA condition and include DNOs in NIA governance document</li> <li>Based on the T1/GD1 NIA condition</li> </ul>
Network Innovation Competition (NIC)	New condition	<ul style="list-style-type: none"> <li>The NIC replaces Tier 2 of LCN Fund and IFI.</li> <li>Decision to include DNOs into existing Electricity NIC in ED1 strategy decision</li> <li>Replicates T1 and GD1 mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Introduce NIC condition and include DNOs in NIC governance document</li> <li>Based on GDNs NIC condition</li> <li>Minor changes to associated network companies licence conditions as well</li> <li>Very similar provisions to existing LCN fund provisions</li> </ul>
Innovation Roll-out mechanism (IRM)	New condition	<ul style="list-style-type: none"> <li>Decision to introduce the IRM to in ED1 strategy decision</li> <li>Replicates T1 and GD1 mechanism</li> <li>No equivalent mechanism in DPCR5</li> </ul>	<ul style="list-style-type: none"> <li>Introduce IRM condition</li> <li>Details the criteria for funding, timing of reopener windows and how impact changes to revenues</li> </ul>

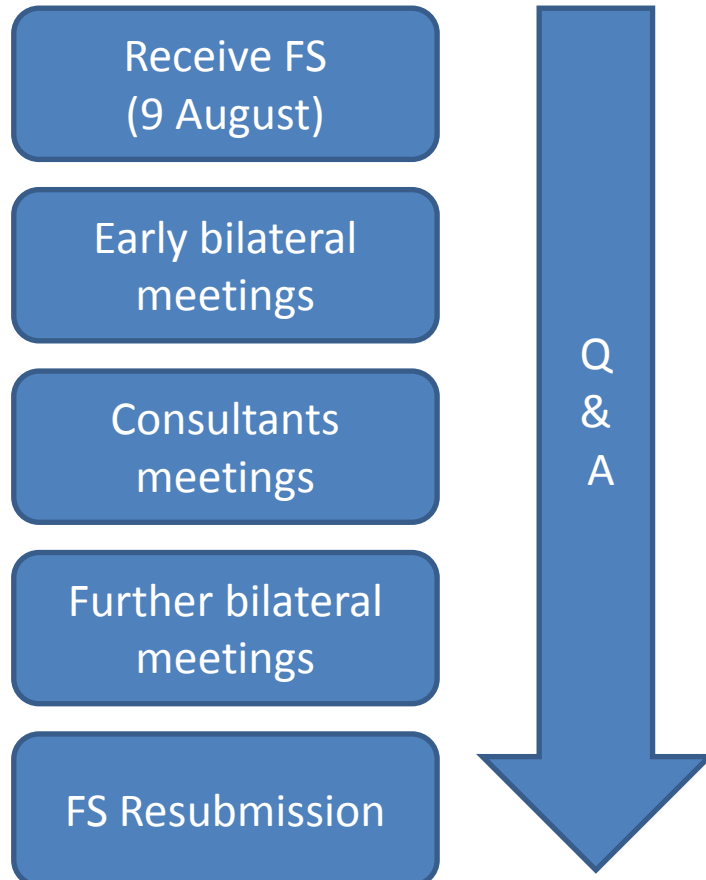
# Innovation Competitions Process





# PART 1- Full Submission (FS) Process

## Process Steps



## Outputs



# Indicative milestones\*

	Purpose	Present	Date
Full Submission deadline	Companies submit bids to Ofgem	N/A	9 August
Early bilateral meeting	Short meeting with each of the companies for them to present their projects	Expert Panel, companies, Ofgem	w/c 26 August
Consultants meeting	Opportunity for consultants to ask questions. Agenda will be circulated beforehand	Consultants, Ofgem, companies	w/c 2 September
Further bilateral meetings	Expert Panel and network companies. Expert Panel will ask questions about the projects	Expert Panel, Consultants, Ofgem	w/c 16 and 23 September
Resubmission	Following bilateral meetings opportunity to resubmit full submission	Companies	before 18 October
Decision	Notification of who is awarded funding	Ofgem	End November

\*We will circulate competition specific dates after the meeting

# Early bilateral meetings

- Meeting between network company and Expert Panel → One meeting per Project.
- Opportunity for network companies to provide a high level overview of their Project to the Expert Panel.
  - Expert Panel may highlight any specific areas of the Project that they will be looking to discuss at the bilateral meetings.
- Consultants may also attend.
- Structure:
  - The meeting will last approximately 45 minutes.
  - Includes a 15-20 min presentation from the network company (no PowerPoint or videos).
  - Followed by a general discussion/questions or comments from the Panel.

# Consultants' Meetings

- Meeting between network company and consultants. → One meeting per Project.
- Opportunity for the consultants to ask detailed questions.
  - We will send the agenda to network companies at least 2 days prior to the meeting.
- The meeting will last one hour.
- The meeting may result in further written Q&A.
- **Consultants' reports:**
- The report will contain information from the FS, answers to questions and information from the meeting with the network companies.
- The report will be submitted via the secure portal. Companies will get a chance to comment on factual inaccuracies in draft report. Ofgem will also review it for factual inaccuracies.
- Report provided to Expert Panel

# Further bilateral meetings

- Meeting between network company and Expert Panel → One meeting per Project.
- Network companies provide answers to questions provided by Panel and expand further.
  - We will send the questions before the meeting at staggered times so each company has the same amount of time to prepare.
- Structure:
  - At each meeting the network company will have 15-20 mins to present answers to the questions which have been posed (and make other points).
  - The Panel will then have 30-40 mins to ask further questions.
    - The Panel members usually take it in turn to ask questions in their area of expertise.

# Resubmission

- Following the final meeting with the EP, Licensees will have three Working Days to notify us of whether they wish to make any changes to their submission in light of questions raised by the EP or points raised in the consultants' report.
  - Licensees must state which areas of the Project they wish to alter.
- Licensees will then have **10 working days** to resubmit their FS Proforma.
  - They should also send us an addendum identifying the changes they have made.

# The Q&A process

- We, the consultants and the Expert Panel can ask questions throughout the evaluation process (after submission has been received but before decision).
- We send an excel log with questions on a per project basis.
- We also provide a template form for answers.
- Licensees have two days to respond.
- Non confidential questions and answers published on Ofgem website.

## PART 2 - Evaluation Criteria

- Projects will be evaluated by an independent Expert Panel against the evaluation criteria contained in the Governance Documents.

### LCNF

- (a) Accelerates the development of a low carbon energy sector and has the potential to deliver net financial benefits to future and/or existing customers
- (b) Provides value for money to Distribution customers

### NICs

- (a) Accelerates the development of a low carbon energy sector **and/or delivers environmental benefits whilst** having the potential to deliver net financial benefits to future and/or existing customers
- (b) Provides value for money to Gas Distribution and Transmission/Electricity Transmission customers



# Evaluation Criteria

## LCNF

(c) Generates knowledge that can be shared amongst all DNOs

(d) Involvement of other partners and external funding

## NICs

(c) Generates knowledge that can be shared amongst all relevant Network Licensees

(d) Is innovative (ie not business as usual) and has an unproven business case where the innovation risk warrants a limited Development or Demonstration Project to demonstrate its effectiveness

(e) Involvement of other Project Partners and External Funding

# Evaluation Criteria

## **LCNF**

(e) Relevance and timing


(f) Demonstration of a robust methodology and that the project is ready to implement

## **NICs**

(f) Relevance and timing

(g) Demonstration of a robust methodology and that the Project is ready to implement

# Full Submission Documents

- **FS Deadline: 9 August**
  - Electronic copy to be submitted by 17:00 on the day of the deadline and eight hard copies to be submitted within two Working Days (by 17:00 on 13 August)
- Full submission consists of:
  - Pro-forma (54 pages max);
  - Appendices (46 pages max); and
  - Financial spreadsheet.

100 pages total
- 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.

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**