

Innovation Working Group

Minutes from the Innovation Working Group meeting 30 May 2013

From
Date and time of Meeting
Location

Arun Pontin
30 May 2013
10:00 – 13:00
Ofgem

1. Present

Robin Bidwell	Chair LCN Fund Expert Panel
Simon Brooke	ENWL
Herb Castillo	ENWL
Sean Kelly	TCP
James Yu	SP
Colin Bayfield	SP
Angus McIntosh	SGN
Steven Gough	WPD
Steve Stead	Toshiba
Andy Newton	NGGD
Chris Hole	TTP
Mark Thompson	EIC
Dave Fidler	NG
David Hearn	TCP
Chris Goodhand	NPg
Andrew Spencer	NPg
Fiona Fulton	SP
Richard Pomroy	WWU
Dora Guzeleva	Ofgem
Sam Cope	Ofgem
Sam Williams	Ofgem
Nicola Meheran	Ofgem
Giulia Buttini	Ofgem
Arun Pontin	Ofgem

2. Introduction and Welcome

2.1. Dora Guzeleva (DG) welcomed the attendees and thanked members of the group for their attendance. Robin Bidwell (RB), chair of the Low Carbon Networks (LCN) Fund Expert Panel, was welcomed to the meeting and DG highlighted that this meeting was an opportunity to hear the views of the panel.

2.2. DG then explained that the purpose of the meeting was to –

- provide an update on progress with the competitions and the electricity distribution price control, RIIO-ED1¹,
- explain the full submission process and evaluation criteria for the innovation competitions, and
- explain the full submission documents for the competitions.

¹RIIO (Revenue = Incentives + Innovation + Outputs) is our approach to setting price controls for network companies.

- 2.3. DG announced that changes to the Gas Act 1986 had been made that would allow running of the Gas Network Innovation Competition (NIC). She also stated that the three innovation competitions – the Gas NIC, the Electricity NIC and the LCN Fund – would run in parallel this year.
- 2.4. DG explained that in order to ensure the relevant expertise was present on the Expert Panel for each competition, new panel members with knowledge of the Gas and Transmission industries were in the process of being recruited. This would supplement the members of the LCN Fund Expert Panel. She added that once recruitment was finalised there would be an announcement.
- 2.5. DG then explained that RB would chair the Electricity NIC Expert Panel and Miriam Greenwood would chair the Gas NIC Expert Panel. She stated that both had knowledge of the energy industry and were both previous members of the Gas and Electricity Markets Authority².

3. Update

- 3.1. Nicola Meheran (NM) then provided an update on the innovation competitions and RIIO-ED1. She summarised slides five, six and seven of the slide pack³.
- 3.2. NM stated that the 23 projects submitted had passed the Initial Screening Process (ISP). She noted that clarifications had been asked on several projects and that there was the opportunity for Ofgem to provide feedback on bids.
- 3.3. NM stated that the new Energy Networks Association (ENA) Smarter Networks Portal would soon be live and that licensees should publish their Network Innovation Allowance (NIA) registration documents on this portal.
- 3.4. Angus McIntosh (AM) queried if links to registration documents published on licensee websites would be acceptable. DG responded that this would be acceptable. She also commented that there should be visibility of Innovation Funding Incentive (IFI) projects on the Smarter Networks Portal.
- 3.5. Mark Thompson (MT) asked whether the portal had a key word search function. Stewart Reid (SR) responded that it did.
- 3.6. Colin Bayfield (CB) commented that it might be difficult to populate the portal before the IFI to NIA registration deadline as the portal was still being tested. NM responded that the portal was due to go live at the end of June and the deadline for registration was the end of July. She highlighted that this would allow five weeks for registration. DG stated that it was important for projects to be present on the portal so that there was visibility of what customer money was being spent on.
- 3.7. David Fidler (DF) asked if projects transitioning from IFI to NIA would need to be registered using the new proforma. DG responded that yes, this was required and the deadline for registration was the end of July.
- 3.8. NM stated that business plans and innovation strategies for RIIO-ED1 were due on the 1st of July. She reminded the group that there would be an opportunity for Distribution Network Operators (DNOs) to resubmit innovation strategies in March 2014.

² Biographies of the LCN Fund Expert Panel can be found on our website –

<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/ExpertPanel/Pages/ExpertPanel.aspx>

³ The slides presented at the meeting can be found on our website –

<http://www.ofgem.gov.uk/Networks/nic/iwg/Documents1/May20IWG.pdf>

⁴ Guidance on the submission of innovation strategies can be found on our website –

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=422&refer=Networks/nic>

3.9. NM explained that DNO licence drafting for ED1 had begun with two working groups in June. She stated that conditions relating to the NIA and NIC would be discussed at those working groups and the governance documents would be discussed at future Innovation Working Group meetings. She said that the LCN Fund licence condition would be retained as some projects will run into ED1. She explained that the IFI condition would be removed, as ongoing IFI projects will need to register under the NIA. She also stated that licence conditions relating to the NIC and NIA added to the distribution licences, as these schemes will apply to DNOs under ED1.

4. Full submission

4.1. Arun Pontin (AP) explained the competitive process for all three competitions. He also provided an overview of the stages for the competitions, discussing slides eight to 15.

4.2. AP reminded the group that each licensee group is able to submit two projects to full submission.

4.3. AP requested that licensees provide contact information for users of Ofgem IT systems, so that user accounts can be set up.

Action

Companies to confirm FTTP contact details by COP 30 May.

By

Licensees

4.4. AP explained the purpose of each meeting that forms part of the competitive process and gave an indication of when the meeting would be held.

4.5. SC clarified that consultants may attend the bilateral meetings at the discretion of the Expert Panel. DG reaffirmed that a maximum of five attendees per project were able to attend the meeting. She stated that it is for licensees to decide on the most appropriate attendees.

4.6. DG stated that there may be more than one consultant dealing with all three competitions and as such different consultants will be present for each of the competitions. The process of appointment is in its final stages. The consultants will have a range of appropriate skills.

4.7. AP stated that, following the Authority's decision, all documents relating to the full submission will be published by 30 November 2013. Companies must let us know early on which confidential information should be redacted. If it is easier, companies may submit two versions of the proforma and appendices, one confidential and one non-confidential.

4.8. AP stated that, following feedback from the group, Ofgem will indicate, who had asked the questions that were part of the Q&A process.

4.9. AP noted that there would be a short time frame for agreeing project directions for successful projects. He stated that it would be beneficial for gas and electricity transmission licensees to circulate existing project directions internally to familiarise legal departments and others with the format, to facilitate timely acceptance of the directions following the competitions.

Action

Ofgem circulate existing project directions
Licensees circulate project directions internally

By

Ofgem
Licensees

4.10. RB then provided his perspective of previous LCN Fund competitions. He advised that for the bilateral meetings, network companies should provide clarity on what the project is going to do, how it will do it and who is going to do it. He also mentioned that the Expert Panels will be looking to understand how the money will be spent and how the project will work. Value for money is a key issue that the Expert Panel will assess.

4.11. Richard Pomroy (RP) asked that the process for cross industry projects be clarified.

Action

Ofgem circulate guidance on the assessment of cross sector industry projects

By

Ofgem

5. Evaluation criteria

5.1. Sam Williams (SW) gave a high level overview of the evaluation criteria that projects will be assessed against, summarising slides 16, 17 and 18 of the slide pack. SW noted that it is essential that all licensees review the detail of the criteria in the relevant governance documents and provide all required information in their bids.

5.2. SW explained that under evaluation criterion (a)⁵, projects will be evaluated on the potential carbon reduction, and/or environmental benefits in the NIC, compared to the best alternative. He also stated that the potential financial savings of the project compared to the best alternative would be evaluated.

5.3. RB commented that it is important that the method is replicable for other licensees. He also stated the method needs to have the potential to reduce carbon emissions and save money compared to the best alternative.

5.4. AM stated that it may be difficult for licensees to indicate replicability in their bids, as they have limited knowledge of the conditions of other licensees' networks. DG responded that licensees should be able to form a view of the whether the problem the project was seeking to address would be experienced on other networks.

5.5. AM also stated that estimating the cost of replication for other licensee networks would be difficult. SW responded that the assumptions used to estimate these costs were one of the things that the technical consultants would scrutinise.

5.6. SW explained that under evaluation criterion (b)⁶, projects would be evaluated on the level of financial benefits that would accrue to the customers of that sector. He also stated that the potential benefits to other parties would be scrutinised.

5.7. RB commented that the costs of projects should be reasonably allocated to the organisations involved, with contributions from parties that are likely to benefit.

5.8. DG reiterated that where other parties are likely to benefit from a successful project, the level of their contribution will be evaluated under this criterion.

5.9. There was then a discussion amongst the group as to which parties were considered customers, particularly on transmission networks. It was explained that customers include any parties that pay Transmission Network Use of System (TNUoS) charges. It was confirmed that if the project could reduce network charges, then it would be considered to be benefitting customers. Additionally it was noted that projects with the

⁵ Accelerates the development of a low carbon energy sector and has the potential to deliver net financial benefits to future and/or existing customers

⁶ Provides value for money to network customers/distribution network customers.

potential to reduce System Operator (SO) charges would be considered to provide financial benefit to customers.

- 5.10. RB reminded the group that there could not be cross subsidy between customer groups, so if a transmission project had the potential to provide substantial benefit to distribution customers, the distribution customers would be expected to account for a commensurate proportion of the costs of the project.
- 5.11. SW then described evaluation criterion (c)⁷. He explained that under this criterion, projects would be evaluated on the level of new learning generated, the licensees approach to disseminating that learning and how Intellectual Property Rights (IPR) would be treated.
- 5.12. RB commented that the criterion also tested whether the method trialled by a project should already be part of licensee business as usual. He added that licensees need to be aware of developments under other initiatives such as IFI or elsewhere in the world.
- 5.13. RB stated that treatment of IPR needed to be fair and abide by the governance document. He noted that where a product was being proven, the developer of that product would be expected to bear the proportion of costs that was commensurate with the level of benefit they were likely to receive.
- 5.14. SW then described evaluation criterion (d)⁸ of the NIC. He stated that the aspects of the project evaluated by this criterion were evaluated under criterion (b) in the LCN Fund. He explained that this criterion evaluated how innovative the method proposed by the project was and also the justification that specific innovation funding was required. He commented that it is expected for licensees to identify specific risks to the project that preclude the method being trialled using other sources of funding.
- 5.15. SW then described evaluation criteria (d)⁹ of the LCN Fund and (e)⁹ of the NICs. He explained that under these criteria the partners selected for the project and the level of external funding would be evaluated.
- 5.16. RB commented that appropriate partners were an important part of a project. He also noted that there were often the same partners involved in numerous projects.
- 5.17. Martin Wilcox (MW) asked if DNOs had previously brought the right people to panel meetings. RB responded that this was an area that DNOs had improved in over the previous competitions. He also stated that all attendees needed to serve a role. He noted that previously, one DNO had only brought two attendees to panel meetings – and been successful.
- 5.18. DG commented that it was important to see senior staff attending some panel meetings as it demonstrated the licensee's commitment to the project. She also stated that it was important that licensees described the method for selecting project partners and ideas. She stated that it is important that licensees maintain an open door to new ideas and partners, in order to build a wider base of expertise.
- 5.19. SR stated that many projects are stakeholder initiated and that lots of time was spent with stakeholders. He queried whether this method of project selection was valued in the evaluation. DG responded that it was.

⁷ Generates knowledge that can be shared amongst all relevant Network Licensees/DNOs.

⁸ 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.

⁹ Involvement of other partners and external funding

- 5.20. SW then described evaluation criteria (e)¹⁰ of the LCN Fund and (f)¹⁰ of the NICs. He explained that under these criteria the likelihood and impact of the problem being addressed would be evaluated.
- 5.21. RB commented that the panel will look closely at how likely the problem is to materialise. He also stated that where problems were not projected to appear for many years, then the project would not perform well under these criteria. He summarised that licensees need to ensure that the project 'makes sense' at the current time.
- 5.22. SW then described evaluation criteria (f)¹¹ of the LCN Fund and (g)¹¹ of the NIC. He explained that under these criteria the project plan, risk mitigations, robustness of methodology and successful delivery reward criteria (SDRC) were evaluated.
- 5.23. RB stated that the panel would review the feasibility of the project, particularly the plan and whether the SDRCs were linked to outcomes of the project, rather than stages. He also noted that some projects did not have detailed plans for the later stages, as these stages were informed by the early work of the projects. He stated that in these situations, conditions may be placed on projects so that funding for the later stages was only available once the first stages had been successfully completed and a detailed plan was in place.
- 5.24. CB asked whether the criteria were equally rated. SW responded that projects could fail on any criteria and there were no weightings on the individual criteria.
- 5.25. RB commented that licensees should be able to infer from the questions asked by the panel which areas of the project the panel was concerned about.
- 5.26. RB then stated that the process has run smoothly previously and that the submissions had gotten better in each subsequent competition.

6. Full submission documents

- 6.1. Giulia Buttini (GB) provided an overview of the full submission documents, summarising slide 19 of the slide pack. She explained that there were three main documents, the full submission proforma, the full submission appendices and the financial spreadsheet. She stated that there was a maximum page limit of 100 pages for the full submission proforma and appendices. She explained that the deadline for electronic copies of these documents was 9 August 2013.
- 6.2. GB stated that the documents had been amended slightly based on feedback provided by licensees. She reminded licensees that the full submission proforma was now a word document, as opposed to previous versions which had been pdf. She noted that there were strict rules in the guidance and that licensees were not allowed to change the formatting of the proforma. She stated that the final versions of the full submission documents would be circulated to licensees by 9 June 2013.
- 6.3. Simon Brooke (SB) asked if the proforma allowed for 'track changes' to be made to the document. GB stated that she would respond on that point following the meeting¹².
- 6.4. MW asked if it was possible to remove pages from certain sections and have extra pages in the appendices. GB responded that this was possible, but reiterated that there was a 100 page limit for the proforma and appendices.

¹⁰ Relevance and timing

¹¹ Demonstration of a robust methodology and that the project is ready to implement

¹² Since the meeting it has been confirmed that licensees are able to put track changes in the full submission proforma.

- 6.5. GB then highlighted the other change to the proforma since consultation. She explained that there was a new text box for licensees to input information if their project was a cross industry venture.
- 6.6. MW asked if there were any restrictions on where diagrams could be placed in the proforma. GB responded that there were no restrictions on placement of diagrams in the new proforma.
- 6.7. GB then described the financial spreadsheet. She explained that the spreadsheet was the same for the NICs and was very similar to the LCN Fund spreadsheet. She stated that the spreadsheet would be locked, but licensees would be able to add extra columns for additional project partners. She also stated that licensees should refer to the guidance provided as this included definitions of cost categories.
- 6.8. The group asked whether it would be possible to add extra year tabs to the spreadsheet or if the spreadsheet covered all the possible years. GB responded that she would check this and respond following the meeting¹³.
- 6.9. SB asked if the full submission proforma should be submitted in word. GB confirmed that it should be submitted in word.

7. Date of next meeting

- 7.1. It was agreed that the next meeting would be held following the conclusion of the competitions.

¹³ Following the meeting it has been confirmed that the spreadsheet contains tabs with sufficient years so that licensees do not need to create new tabs.