

## Minutes – Innovation Working Group - 19 February 2014

Minutes from the Innovation Working Group meeting held at Ofgem on 19 February 2014	From Date and time of Meeting Location	Ofgem 19 February 2014 13.00-17.00 Ofgem, 9 Millbank	28 February 2014
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### 1. Present

Robin Bidwell	Chair – LCN Fund and Electricity NIC panels
Miriam Greenwood	Chair – Gas NIC panel
Nicholas Jenkins	Rapporteur – Electricity NIC panel
Ron Chapman	Rapporteur – Gas NIC panel
Alec Breen	Northern Gas Networks
Andrew Newton	National Grid Gas (Distribution)
Richard Pomroy	Wales and West Utilities
David Mcleod	Scotia Gas Networks
Martin Watson	National Grid Gas (Transmission)
Stewart Reid	SSE Power Distribution
Simon Brooke	Electricity North West
Roger Hey	Western Power Distribution
Chris Goodhand	Northern Powergrid
Martin Wilcox	UK Power Networks
Martin Hill	Scottish Power Energy Networks/ SP Transmission
Jenny Rogers	Scottish Hydro Electric Transmission
Paul Aukland	National Grid Electricity Transmission
Sean Kelly	Transmission Investment
John Christie	Department for Energy and Climate Change (DECC)
Ron Loveland	Welsh Assembly Government
Jamie McWilliam	Energy Networks Association (ENA)
Denise Massey	Energy Innovation Centre (EIC)
Simon Sutton	Electric Power Research Institute (EPRI)
Dora Guzeleva	Ofgem
Sam Cope	Ofgem
Neil Copeland	Ofgem
Arun Pontin	Ofgem
Andrew White	Ofgem

### 2. Apologies

James Yu (SP Transmission)

### 3. Introductions and welcome

3.1. Dora Guzeleva (DG) welcomed the attendees to the meeting. DG thanked the members of the Expert panel for their attendance and noted the opportunity for the companies to hear the panels' views on the 2013 NIC and LCN Fund competitions.

3.2. DG proposed covering agenda Item 3.1 on the 2014 Competitions first, before moving onto the panels' feedback.

### 4. Overview of 2014 Full Submission process

4.1. Andrew White (AW) presented slides 3-10 on the process for the 2014 competitions.

4.2. AW brought the group’s attention to the ISP submission deadline of 4 April 2014. AW informed the Network Licensees of the opportunity to discuss potential bids with Ofgem before the ISP deadline. AW noted that ISP proformas will be published by 4 March 2014.

4.3. AW detailed the changes to the full submission evaluation timetable in 2014. AW noted that these changes aim to address the challenges of running three competitions in parallel. AW gave an overview of the amended process, including the revised role of the consultants and the indicative timings for 2014. DG invited the group to ask questions about the process outlined.

4.4. Martin Wilcox (MW) commented that he considers the consultants’ meetings to be useful and asked for additional clarification of drivers behind the changed role of the consultants. Robin Bidwell (RB) responded that in the previous year it had been difficult, due to timings, for the value from the consultant-licensee meeting to feed back into the panels’ assessments. Miriam Greenwood (MG) noted that the consultants will have the opportunity to ask questions in bilateral meetings. Simon Brooke (SB) asked whether the initial meeting with the panel would be longer to allow time for consultants to ask questions. Sam Cope (SC) responded that Ofgem would look to increase the length of the meetings, but noted that this would depend on the total number of bids received.

4.5. Jenny Rogers (JR) asked whether the revised role of the consultants would mean a change to the written Question and Answer process. AW responded that the process would remain but noted that the process will likely focus on clarifications. The volume of question through the Q+A process is expected to be lower.

4.6. RB asked whether Ofgem would update Full Submission proformas. SC responded that Ofgem would update the proformas to enable financial and carbon benefits to be presented consistently. He committed to circulate the revised Full Submission proforma to the Network Licensees in April.

Action	Person
Update Full Submission proformas to enable financial and carbon benefits to be presented in a consistent way	Ofgem

## 5. Expert panel feedback on 2013 Competitions

5.1. RB gave feedback on the LCN Fund competitions, Nicholas Jenkins (NJ) gave feedback on the Electricity NIC, and MG and Ron Chapman (RC) gave feedback on the Gas NIC.

RB noted that the panel was impressed by the bids to the LCN Fund in 2013. In particular, he noted that the bids were clearer, better and addressed a greater variety of issues than in previous years. However, RB also noted that there were existing concerns and stated that in preparing bids the DNOs should consider that -

- The panels judge projects against the criteria in the Governance Document.
- The cost of the project should be justifiable given the benefits it will achieve.
- The Solution should be a more cost efficient way of addressing the Problem than other existing solutions.
- Cross-industry projects must be considered by the panels separately.
- Presentations help the panels to understand projects and the commitment of partners.
- The panels are pleased to see senior level representation at the bilateral meetings.

5.2. NJ supported RB’s comments and also stated that -

- Submissions should present a clear, consistent and quantified understanding of financial and carbon benefits.

- A clear explanation and presentation of objectives and methods is helpful to the panel.
- Companies should demonstrate competitiveness in procurement of suppliers for projects.
- Submissions should provide clear explanation of the roles of the TSO and SO in projects.
- Successful Delivery Reward Criteria should be linked to outputs rather than process.
- Evidence of how the IFI or NIA has been used to develop a concept before submission to the NIC should be provided, where appropriate

5.3. MG noted that the Gas panel was also generally impressed with the quality of the 2013 Gas NIC submissions. MG noted that many of the comments provided by RB and NJ apply to the Gas NIC as well. In addition to these comments, MG noted that project teams should ensure that they give clear responses to the questions circulated by the panel in advance of the second bilateral. MG also noted that project teams should be open to the panels’ questioning and acknowledge where improvement could be made to a project. She also stressed that it was acceptable for a licensee to set out areas of its proposal where there were elements of uncertainty around assumptions. RC supported this, noting that the panel wants an open discussion about what has been done before and how the proposed project is different. MG and RC stressed that as much information as possible about existing projects/ technology should be given up front. RC also noted that projects which build on IFI and NIA are generally of a higher quality.

5.4. RB noted that the panels have concerns about the way universities are used in NIC and LCN Fund bids. RB stated that universities have a key role to play in expanding the research base and disseminating learning from LCNF and NIC projects. However, RB also stated that the panels do not feel that the full value of universities is being realised. In particular, he was concerned at the level or cost associated with the universities where outputs were not clearly defined. MG supported the importance of using universities but noted that their involvement had been virtually absent from bids to the Gas NIC. NJ noted that universities and research councils view the NIC as an important funding stream. RB stressed that use of universities must be effective and efficient, and the role of a university must be clear.

5.5. NJ noted that there seems to be a perception that the NIC is not accessible to SMEs. He stated that this is a barrier to wider participation in the research and innovation which the competitions are designed to stimulate. NJ concluded that there is a need to overcome this perception in order to broaden the research base. Stewart Reid (SR) noted that NIC/ LCN Fund Tier 2 projects are often not SME friendly because of the long timeframes they entail. He suggested that it is likely that there is a higher proportion of SME involvement in IFI, NIA and LCN Fund Tier 1 projects. Roger Hey (RH) noted that there may also be more SME involvement in NIC/ LCN Fund projects than is visible to the panel.

Action	Person
Send a list of all SMEs currently engaged in innovation projects with Network Licensees	Network Licensees

## 6. Opportunity for Licensee Feedback

6.1. DG invited comments and feedback on the 2013 competitions from the network companies.

6.2. Richard Pomroy (RP) commented that more guidance on the assessment of cross-industry projects would be welcome. RH supported this comment, but also noted that some of the uncertainty arose because 2013 was the first year of cross-industry projects. DG stated that Ofgem would recirculate the guidance on cross-industry projects which had been provided to the licensees in advance of the competitions. DG asked WPD and WWU to

provide some written comments to assist Ofgem in updating the guidance before it is recirculated.

6.3. SR suggested that feedback from Ofgem at the ISP stage would be useful, particularly in helping companies decide which projects to bring to Full Submission. DG noted that ISP is intended as a pass/ fail process as there is limited detail in the ISP submissions and limited scope for in-depth assessment. SC also noted that it was not for Ofgem to determine which proposals should be taken forward – it is for the licensee to consider which proposals are of most value. DG noted, however, that Ofgem has written to proponents at the ISP decision stage to highlight potential issues for them to consider in addressing the Full Submission evaluation criteria. DG noted that Ofgem would expect to continue this practice. SR stated that more of the same would be welcome.

6.4. JR noted that licensees only receive a draft of additional conditions at the Project Direction stage. RH agreed, noting that it would be useful to see conditions before resubmission. RB explained that such conditions are included where the panels’ concerns have not been addressed by the changes at resubmission. MG supported this, noting that conditions should not come as a surprise because the panels indicate through their line of questioning where the concerns are. DG acknowledged that the time available to finalise the drafting of additional conditions in the Project Direction is difficult but noted that the alternative would be to not fund projects which do not fully address the panels’ concerns. SC noted that Project Directions could allow more time for projects to consider the impact of additional conditions by including a clause requiring projects to resubmit updated timelines and SDRC through a change request within a specified time. DG noted that further discussion is needed on the impact of conditions precedent on projects.

<b>Action</b>	<b>Person</b>
Send written comments to Ofgem on 2013 cross-industry project evaluation and guidance	WPD/ WWU
Update and recirculate guidance on cross-industry project evaluation process	Ofgem

## 7. Closedown Report review process

7.1. SC presented slides 11-12 on the closedown report review process. He explained Ofgem’s proposed review process, noting that it will likely include peer review, as other DNOs are best placed to judge the quality and usefulness of a project closedown report. SC invited the group to comment on the proposed approach and to provide thoughts on how the timing of the peer review might work.

7.2. Chris Goodhand (CG) suggested that this would effectively formalise what already occurs when DNOs read each other’s reports. RH noted that the review will need to come between the end of a project and final publication of the report. Specifically, he noted the need to ensure that peer review occurs before a project team is broken up so that comments can be incorporated and changes made where necessary.

7.3. SR suggested that there is a risk of putting too many requirements on closedown reports. SR noted that closedown reports need to be clear, precise, understandable and to address key questions. He agreed that peer review would provide a good step to achieving this but noted that there is also a need to avoid an overload of feedback.

7.4. It was agreed that Ofgem would write a letter setting out the approach that the licensees should follow in having their closedown report peer reviewed. The licensees also accepted SR’s view that each company’s innovation strategy should detail its assessment of the applicability of each innovation project to its business.

7.5. DG acknowledged that closedown reports which have already been submitted will need to be assessed differently. Ofgem will arrange to meet with the relevant DNOs about this separately.

Action	Person
Approach DNOs that have already submitted closedown reports to agree approach for approval	Ofgem

## 8. Two-year review

8.1. Neil Copeland (NC) presented slides 13-14 on the two-year review of the NIA and NIC. NC informed the group that a consultation on the review will be held in autumn 2014 and a final decision will be made in early 2015. Any changes to the Governance Documents will be in place for 1 April 2015.

8.2. NC noted three issues that Ofgem had already identified for consideration: the timing of ISP, the potential risk barrier to OFTO involvement in the NIC and the inclusion of closedown report requirements in the governance document. NC invited the group to comment on these issues and raise any others that Ofgem should consider.

8.3. Sean Kelly (SK) explained to the group the nature of the potential risk barrier to OFTOs bidding in the NIC. This related to the nature of the financing of OFTOs. SK stated that customers should not miss out on potential innovation and benefits because of this barrier. SK proposed that OFTO project delivery could be broken up into milestones which would receive sign-off from Ofgem. This sign-off would confirm that funds spent up to the milestone would not be subject to claw-back. DG noted that this is not possible under the current governance arrangements and any changes to enable it would need to be consulted on.

8.4. In the interest of time, SC invited the group to e-mail any further comments on the two-year review to [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk)

Action	Person
Provide further comments regarding the two-year review	All

## 9. Discretionary Reward Scheme

9.1. Arun Pontin (AP) presented slides 16-24 on the discretionary funding mechanisms. AP brought the group's attention to the open consultation on the Second Tier Successful Delivery Reward. The consultation closes on 28 March 2014 and Ofgem will publish its decision in summer 2014. AP also noted that further consultation on the First Tier Portfolio Reward and Second Tier Reward will be held in summer 2014, and welcomed early views on these other rewards in responses to this consultation.

9.2. AP explained the three proposals for the Second Tier Reward that were being consulted on. The first proposal is to introduce an annual application window, to manage the risk of resource constraints with the annual competition for both Ofgem and DNOs. A window of January to March was proposed.

9.3. Applications to the reward will be assessed on performance against project specific Successful Delivery Reward Criteria (SDRC). The second proposal in the consultation is to assess SDRC outcomes against the common project management areas of timeliness, quality and cost effectiveness. The consultation is seeking views on the appropriateness of this approach and the types of evidence that could be provided by DNOs. The final proposal is whether and how to assess the effectiveness of change management.

9.4. AP invited comments from the group on the proposed approach.

9.5. The group discussed whether the Second Tier Successful Delivery Reward<sup>1</sup> should solely be based on whether the DNO has met the Successful Delivery Reward Criteria. MW stated that the tools to assess whether a project has met its targets are already in place, through SDRC submissions made regularly to Ofgem. DG responded that Ofgem need to understand the quality of project outcomes and develop a clear framework for measuring this.

9.6. SR noted the need to consider how the relative complexity of projects would be taken into account. He noted in particular the need not to discriminate against bolder, more complex projects. SR commented that the Successful Delivery Reward has to reward the quality of projects and should not be a box-ticking exercise. SR also stated that consideration should be given where SDRC deadlines have been missed, but the quality of the output improved as a result of the delay. MH stated that there is a need to focus on the outputs of a project when assessing its success. CG noted the need to consider the interdependency between the timeliness, quality and cost aspects of project deliverables.

9.7. DG noted that the group may revisit the discretionary reward scheme at a future meeting and encouraged the group to respond to the open consultation.

## **10. LCN Fund governance document**

10.1. NC presented slides 25-30 on the implementation of the ED1 innovation mechanisms.

10.2. NC updated the group on the progress of ED1 and summarised the changes that will need to be made to the LCN Fund governance as the DNOs move into the RIIO-ED1 price control period.

10.3. NC informed the group that there will be an informal consultation on the changes in September, followed by statutory consultation in December or January. Final notice of the changes is expected to be in February 2015.

10.4. SB questioned whether there is a fixed end date for the LCN Fund governance. NC stated that there will be no sunset clause as governance will need to remain in place for as long as there is potential income from royalties produced by LCN Fund projects.

## **11. Any other business**

11.1. No other business was raised. DG closed the meeting thanking the group for their attendance and contribution.

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<sup>1</sup> The Second Tier Successful Delivery Reward is one of the three reward mechanisms that are part of the discretionary funding mechanism. Applications for this reward will be assessed based on DNO performance against the Successful Delivery Reward Criteria.