

## Innovation Working Group – February 2014

**Ofgem**  
19/02/14

ofgem

## 1. Introductions

## 2. Feedback on 2013 competitions (Expert Panel) (13.10-14.15)

Coffee (14.15-14.30)

## 3. Other general issues (Ofgem) (14.30-15.30)

- A) 2014 Competitions
- B) Closedown Report review process
- C) Two-year review – scope of work
- D) Opportunity for Licensees to give feedback

Coffee (15.30-15.45)

## 4. DNO specific issues (Ofgem) (15.45-16.45)

- A) Discretionary Reward Scheme
- B) LCN Fund governance document

# Item 3a - PROCESS AND TIMETABLE FOR THE 2014 INNOVATION COMPETITIONS

- ISP
- Review of 2013 Full Submission process
- Changes for 2014 competitions
- Consultants' role in 2014 competitions
- Full Submission process
- Milestones and dates

- Deadline for submission – **Friday 4 April**.
- Same process as last year.
- Proformas will be published on the website by Tuesday 4 March.
- Option to discuss potential proposals with us ahead of ISP deadline.
  - Please notify us by **28 February** so that we can ensure there is time.

# Full Submission - Reflections on 2013 process and changes for 2014

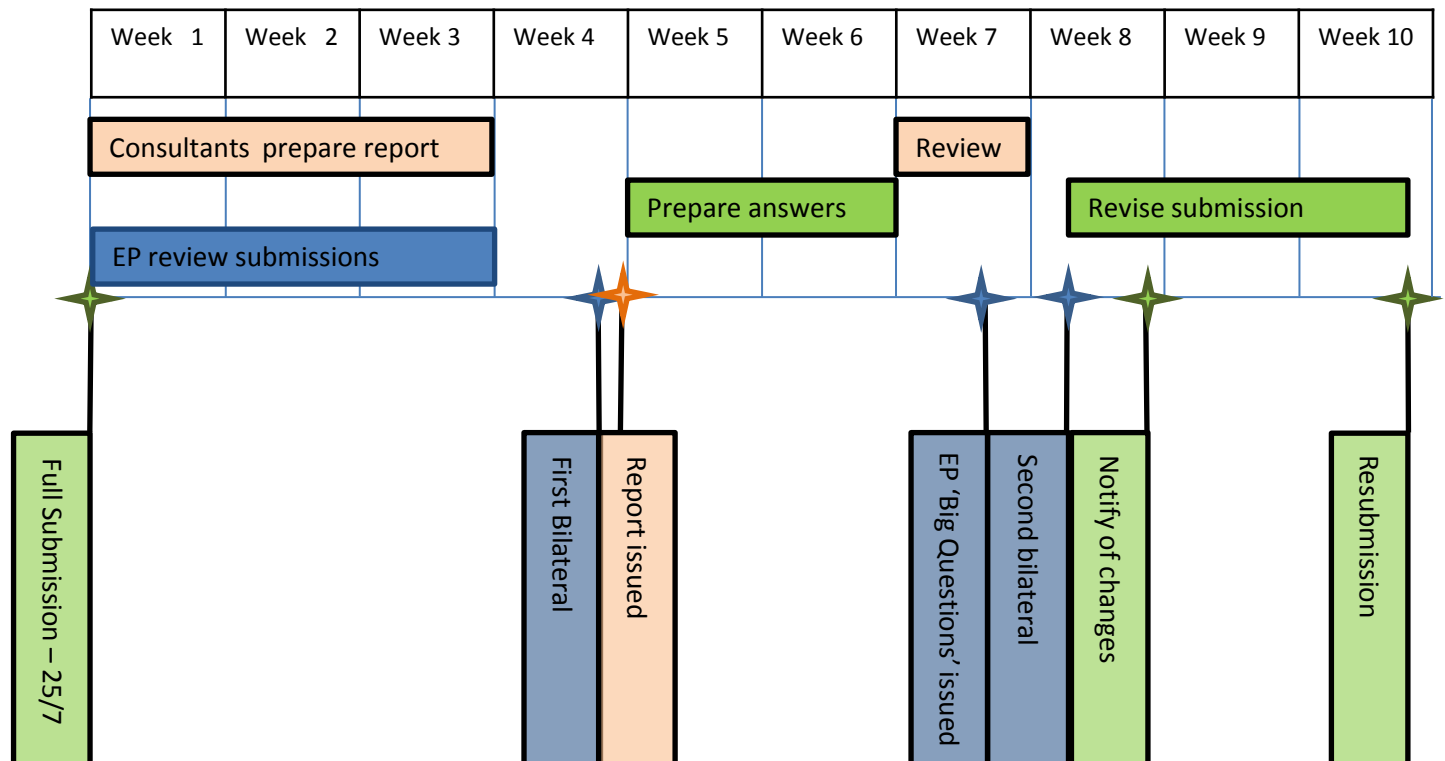
First time three competitions held in parallel -

- High volume of meetings - Creates peaks of work for companies, panel and Ofgem (especially those working on multiple bids/ across multiple panels).
  - Risk of short time available to review submissions at the start of the process (increases with volume of bids).
  - Short time available for EP to write three reports.
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- Minimise the number of meetings -
    - **No consultant-licensee meeting** – reduce time pressure on all, without taking away time between Panel and companies.
  - Maximise usefulness of meetings
    - **Earlier Full Submission deadline** – more time for Panel to scrutinise submissions and focus on key issues ahead of first bilateral.
    - **Revised role of consultants** – more analysis earlier in the processes.

- Consultants will produce an ‘interrogation report’, which will –
  - Identify questions or concerns which challenge the reasonableness, or credibility, of aspects of the full submission.
  - Identify potential gaps, weakness or significant risks of the proposed project.
  - These will be categorised in a report against the evaluation criteria in the relevant governance document.
- The report will be shared with the licensee at an early stage of the process. Companies will have (around) two weeks to submit a written response to the interrogation report. This response will be made ahead of the second bilateral.
- Consultants will review the companies responses and provide an amended version of the report to the expert panel.
- As before, the consultants will attend the bilaterals between the Panel and companies.

**Key**

- Licensee
- Consultants
- Expert Panel





Milestone	Purpose	Present	Date
Full Submission deadline	Companies submit bids to Ofgem	N/A	25 July
Early bilateral meeting	Short meeting with each of the companies for them to present their projects	Expert Panel, Companies, Ofgem, (Consultants)	w/c 18 and 25 August
Further bilateral meetings	Expert Panel and network companies. Expert Panel will ask questions about the projects	Expert Panel, Companies, Ofgem (Consultants)	w/c 15 and 22 September
Resubmission	Following bilateral meetings opportunity to resubmit full submission	Companies	Before 13 October
Decision	Notification of who is awarded funding	Ofgem	28 November

Milestones	Gas NIC	Electricity NIC	LCN Fund
ISP Submission	4 April		
ISP Decision	7 May		
Full Submission	25 July		
Bilateral 1	22 and 26 Aug (AM)	21 Aug	26 (PM) and 27 Aug
Bilateral 2	22 and 23 Sept	16 Sept	23 and 24 Sept
Notification	25 or 26 Sept	19 Sept	26 or 29 Sep
Resubmission	9 or 10 Oct	Fri 3 Oct	10 or 13 Oct
Ofgem Decision	28 November		

N.B. Dates subject to change depending on number of submissions

## Item 3b - Project Close Down Process

- It is critical that the learning gained from innovation projects is disseminated in the most effective manner possible.
- The closedown report must provide sufficient information for third parties to understand what has been learnt from a project.
- The closedown reports are likely to be a consideration of our 2016 value for money review, which will inform the level of innovation funding for the remainder of ED1.
- We intend to ask DNOs to seek peer review on their project close down reports.
- We expect to adopt a similar process for NIC closedown reports.

## Item 3c – NIC/NIA: Two year review

- We will undertake a review of the NIC and NIA this year with a consultation process starting towards the end of this year's competitions.
- Commitment to do this within the NIC and NIA Governance documents.
- Timing
  - Policy Consultation – Autumn.
  - Policy decision early next year.
  - Governance Document changes in place for 1 April 2015.
- Already aware of a number of issues that we will be addressing, these include:
  - Timing of the ISP.
  - A risk barrier for OFTOs participating in the NIC.
  - Incorporating Close Down Report requirements in the NIC Governance Documents.
- Other issues that attendees believe should be addressed?
  - Invite you to highlight issues – [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk)

## Item 4a – The discretionary funding mechanism

- Background
- Current consultation
- Policy under consideration
- Next steps



- The LCN Fund includes up to £100m of funding to incentivise DNOs to successfully deliver projects.
- There are three distinct rewards:

## First Tier Portfolio Reward

- Incentive for DNOs to deliver first tier projects in line with the Discretionary Reward Criteria
- Awards will be made on the basis of the DNOs entire portfolio of completed first tier projects
- There will be at most three assessments for the reward with 6 months prior notice

## Second Tier Successful Delivery Reward

- Incentive for DNOs to manage projects well and achieve the Successful Delivery Reward Criteria
- Maximum reward is equal to the DNO's compulsory contribution to the project (10% of project cost)
- Projects eligible to apply once closedown report approved by the Authority

## Second Tier Reward

- Incentive for DNOs to deliver second tier projects in line with the Discretionary Reward Criteria
- Intended to reward projects that deliver exceptional benefits to customers
- There will be at most three assessments for the reward with 6 months prior notice

- Currently developing our thinking on how to administer these rewards.
- Recently published a consultation seeking views on administering the Second Tier Successful Delivery Reward.

- Currently seeking views on our proposals for running the Second Tier Successful Delivery Reward.
  - We are developing our approach to administering the other rewards and intend to consult on these in the coming months.
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- The key areas we are **currently** consulting on are –
    - TIMING
    - ASSESSMENT OF PROJECTS AGAINST SDRC
    - CHANGE MANAGEMENT (where applicable)
  - Based on the responses received to the consultation, we will consider whether changes to the governance document are necessary.
  - Welcome early comments and discussion on our proposals.

## Timing

- DNOs allowed to submit an application following closedown report approval.
- Risk that resource constraints could affect quality of submissions and our assessment if submissions conflict with key stages in the annual competitive process.
- As such, we propose an annual applications window –
  - Possible deadline for submissions in January.
  - Allow two months for clarification and assessment.
  - Authority decision at end of March.

- Our consultation sets out areas that we propose to consider in assessing applications under the Second Tier Successful Delivery Reward.
- Governance document requires evidence that project has been well managed and achieved SDRC.
- Projects all working towards unique SDRCs, but common project management principles can be applied to all projects.
  - **Timeliness** - Is there evidence of the project delivering its SDRCs against the pre-defined timescales?
  - **Quality of outcomes** - Are the outcomes as set out in the Successful Delivery Reward Criteria of sufficient quality to merit additional funding under the Successful Delivery Reward?
  - **Cost effectiveness** - Are the costs incurred in delivery of these outcomes within the original project budget? Was there any project overspend? If so, how did this improve project outcomes?
- Consultation seeks views on this approach, the explicit criteria that could be used and the types of evidence that could be used.

# Issue 3 - Assessment of change management

- Recognise that projects may have to adapt to circumstances outside of the DNOs control.
- We consider that these projects should be eligible for reward –
  - Want to ensure that DNOs are encouraged to manage change effectively.
  - However, need to mitigate risk that DNOs that handle change poorly are rewarded.
- As such, propose to assess DNOs' management of change.
- For the avoidance of doubt, projects that undergo no change would be considered to have met this criterion.
- Seeking views on whether we should assess change management and how we should assess it.

Step	Indicative timetable
Consultation closes	28 March 2014
Publish decision on consultation	Summer 2014
Further consultation – including on First Tier Portfolio Reward and Second Tier Reward	Summer 2014
Publish decision on consultation	Autumn 2014
Based on consultation responses, we may need to implement changes to the governance document. Could be included as part of RIIO-ED1 LCN Fund governance document.	End 2014

- Questions in the current consultation are below. The consultation closes on 28 March 2014
- Responses should be sent to Arun Pontin at [Arun.pontin@ofgem.gov.uk](mailto:Arun.pontin@ofgem.gov.uk)
  1. Should we introduce an annual window for Successful Delivery Reward applications?
  2. Do you have any views regarding the proposed timing of an assessment window for the Successful Delivery Reward?
  3. Are the three principles of timeliness, quality of outcomes and cost effectiveness appropriate for assessing project performance and delivery of SDRCs?
  4. What sort of specific evidence do you think that you may be able to submit to us in order to allow us to assess against SDRCs?
  5. Do you agree that we should be assessing management of change when assessing Successful Delivery Reward submissions?
  6. Do you have any views on the most effective way to assess the management of change during a project?
  7. Do you have any views on the assessment of the Successful Delivery Reward submissions? 23

- We also intend to consult on the policy and process for assessment of -
  - First Tier Portfolio Reward
  - Second Tier Reward
- Issues we are considering (interlinked in many aspects) –
  - Allocation of funding between the two rewards
    - Should this be based on the levels of funding used in the two tiers?
  - Allocation of funding within reward scheme (i.e. should projects compete with peers?)
  - Number of competitions to be held for each reward
    - Governance document currently states maximum of three
  - Timing (when to hold competitions)
  - Relevant factors in assessment of the rewards
- Welcome early views and a discussion on these topics ahead of formal consultation.
  - Invite you to highlight issues – [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk)



## Item 4b – ED1 Implementation – innovation mechanisms

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 <sup>st</sup> - new price control (RIIO-ED1) commences



- ED1 Licence conditions for: NIC, NIA, IRM, LCN Fund and Innovation Strategy (IS).
- Other licence condition amendments to facilitate inclusion of DNOs in NIC.
  - NETSO – to allow transfer of funds
  - TO/OFTO – to require knowledge transfer
- Amendments to LCN Fund Governance Document.
- NIC and NIA Governance Document put in place for ED1 licensees.

We will also circulate drafts as the documents develop.

- No new project funding will be awarded during ED1. However, elements of the Governance Document will remain.
  - Projects awarded funding during the final competition may start and there may be other projects which continue.
  - It will be necessary to raise and transfer funding awarded in final year of the competition and as part of the Discretionary Reward Scheme.
  - It will be necessary to retain ability to claw back misspent funds and return royalty revenue to customers.
  - First Tier Projects will cease on 31 March 2015 – closedown report requirements.



## DPCR5 Governance Document

### •Introduction

### •Potential Project Partner Awareness

### Section One – First Tier Funding Mechanism

- Chapter 1: Introduction
- Chapter 2: First Tier LCN Project
- Chapter 3: Allowable First Tier Expenditure
- Chapter 4: Annual Regulatory Reporting for First Tier LCN Projects
- Chapter 5: Knowledge Transfer
- Chapter 6: First Tier LCN Project audits

### Section Two – Second Tier Funding Mechanism

- Chapter 1: Introduction
- Chapter 2: Initial Screening Process
- Chapter 3: Full Submission

### Section Three – Discretionary Funding Mechanism

- Chapter 1: Introduction
- Chapter 2: First Tier Portfolio Reward
- Chapter 3: Second Tier Reward
- Chapter 4: Second Tier Successful Delivery Reward

### Section Four – Funding Direction

### Section Five – Intellectual Property Rights

- Chapter 1: Introduction
- Chapter 2: Default IPR Conditions
- Chapter 3: Royalties

### Section Six – Definitions

## ED1 Governance Document

### •Introduction

### Section One – First Tier Funding Mechanism

- Chapter 1: Introduction
- Chapter 2: First Tier LCN Project

### Section Two – Second Tier Funding Mechanism

- Chapter 1: Introduction
- ~~Chapter 3: Full Submission~~ (Elements of this chapter not associated with running the competitive process will be retained but may be in a different section of the document)

### Section Three – Discretionary Funding Mechanism – Section may be amended and restructured

- Chapter 1: Introduction
- Chapter 2: First Tier Portfolio Reward
- Chapter 3: Second Tier Reward
- Chapter 4: Second Tier Successful Delivery Reward

### Section Four – Funding Direction

### Section Five – Intellectual Property Rights

- Chapter 1: Introduction
- Chapter 2: Default IPR Conditions
- Chapter 3: Royalties

### Section Six – Definitions

- Licence
  - Informal Consultation – September
  - Stat Con – December/January
  - Notice – February
- Governance Documents
  - In line with two year review
  - LCN Fund: informal draft to be shared in the summer