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NETSO, Gas Transporters, DNOs,
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Review of Network Innovation Allowance knowledge transfer, reports on Smarter Networks Portal

As part of the RIIO (Revenue = Inputs + Innovation + Outputs) framework for price controls we¹ introduced the Network Innovation Allowance (NIA). The NIA provides funding for each licensee fund small scale projects. This funding forms part of licensees' price control allowance. The NIA Governance Documents^{2,3} include a number of obligations licensees must comply with, including obligations regarding knowledge transfer. It is important that lessons from innovation projects are shared so that all customers can benefit from the funded innovative methods and technologies to drive down cost.

Purpose

We are concerned that the Project Progress Information (PPI) updates and Project Close Down Reports published by licensees so far – in line with these obligations - do not comply with all of the requirements set out in the NIA Governance Documents and are therefore not fit for purpose. We note that, the Annual Summary of NIA Activity documents so far have, generally, been of a good standard.

Project Progress Information and Project Close Down Reports

Licensees are required to publish PPI for each project where new learning has been developed. The PPI for each project must be published by 31 July each year. Where a project has been completed a Close Down Report should also be published. Chapter six of the NIA Governance Documents sets out the requirements for PPI updates and Close Down Reports. At a high level each annual PPI should describe:

- how the project is performing against the plan;
- any changes to the project from what was planned; and
- any lessons learnt for future projects.

In addition to the points above Close Down Reports should:

- explain the outcomes of a project;

¹ The terms "Ofgem" and "the Authority" "we" and "us" are used interchangeably in this letter. The Authority is the the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

² The Electricity NIA Governance Document is available [here](#).

³ The Gas NIA Governance Document is available [here](#).

- describe the planned implementation of the method into business as usual; and,
- include any other useful comments.

The level of information provided in the PPIs and Project Close Down Reports should include a sufficient level of detail. For example, the information in the Project Close Down Reports should be sufficient to allow other licensees to replicate a project.

We have reviewed a number of PPI updates and Close Down Reports. We welcome the fact that licensees have developed a common structure for the provision of Close Down Reports and PPI updates. However, licensees have not provided sufficient detail in these documents as required by the NIA Governance Documents. We are concerned at the level of detail that licensees have included in their reports would not allow other licensees to replicate projects that have been implemented.

Over a number of years electricity distribution network operators have developed close down reports for their Low Carbon Network (LCN) Fund First Tier Projects. These are equivalent to the NIA Close Down Reports. We consider that the level of detail in these documents has generally been sufficient to allow a licensee that was not involved in a project to replicate the projects on its own network. LCN Fund First Tier close down reports are available on the Ofgem website as subsidiary documents to the relevant First Tier project registration proformas. **This is the level of information we expect PPIs and Project Close Down Reports to contain. The standard of NIA reporting should not fall below that which is in place for the LCN Fund First Tier.**

Annual Summary of NIA Activity

The Annual Summary of NIA Activity is intended to give stakeholders a high level overview of the NIA activities that licensees have undertaken in the preceding year. These documents should be brief, relatively simple and highlight more detailed information in project specific reporting on the smarter networks portal.⁴ As part of the summary licensees should describe the work that has been carried out in the relevant year, explain how this links to the licensee's innovation strategy and highlight any areas of significant new learning.

We reviewed all the Annual Summaries. Some of the documents were stronger than others. However, we were generally pleased with the documents produced. We would encourage all licensees to review the documents published by other licensees and learn from these.

We were generally pleased with the content, structure and presentation of these reports. While, the requirement to explain how NIA activities linked to licensees' Innovation Strategies may have highlighted an issue. Where an Innovation Strategy that was submitted as part of the RIIO-T1 or GD1 process was weak it may be more difficult to explain how work carried out using the NIA links back to the strategy. We encourage all licensees to consider whether their innovation strategies are fit for purpose and where necessary to update these documents. Electricity distributors will be required, as part of their licence obligations, to review their strategies. We believe that all licensees should consider whether changes are necessary to these documents on a regular basis. Where licensees conclude changes are required then strategies should be updated.

Next steps

Given this is the first year of reporting under the NIA we do not intend to take any further action at this time.

However, in future years we will consider whether you have complied with all of the requirements set out in the NIA Governance Document. In light of these reviews we will

⁴ <http://www.smarternetworks.org/>

consider whether any NIA funding could be considered ineligible because the requirements set out in the NIA Governance Document have not been complied with.

It is critical that knowledge is transferred efficiently from NIA projects. We strongly encourage all licensees to review their PPIs and Project Closedown Reports published to date and consider whether these are adequate. Future audits and assessments of ineligible funding could include PPIs and Closedown Reports published before the date of this letter.

If you have any queries regarding the content of this letter please contact me on 020 7901 1851 or by email at dora.guzeleva@ofgem.gov.uk.

Yours sincerely,



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