

Innovation Working Group February 2015

Minutes from the Innovation Working Group meeting held at Ofgem on 3 February 2014	From Date and time of Meeting Location	Ofgem 3 Feb 2015, 9am-4pm Ofgem, 9 Millbank	10 February 2015
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1. Present

Robin Bidwell (Items 1-5)	Chair – LCN Fund and Electricity NIC panels
Miriam Greenwood (Items 1-5)	Chair – Gas NIC panel
Alec Breen	Northern Gas Networks
Angus Mcintosh	Scotia Gas Networks
Cara Blockley	Electricity North West Limited
Chris Goodhand	Northern Powergrid
Clare Cattle-Jones	Electricity Networks Associated (Gas)
David Oram	National Grid Electricity Transmission
David Pickering	National Grid Gas (Distribution)
James Yu	Scottish Power Energy Networks
Jamie McWilliam	Electricity Networks Associated (Electricity)
Jenny Rogers	SSE Power Distribution
Martin Watson	National Grid Gas (Transmission)
Martin Wilcox	UK Power Networks
Richard Pomroy	Wales and West Utilities
Roger Hey	Western Power Distribution
Sean Kelly	Transmission Investment
Dora Guzeleva	Ofgem
Tim Aldridge	Ofgem
Arun Pontin (Items 6-7)	Ofgem
Neil Copeland (Items 1; 6-7)	Ofgem
Nisha Doshi (Items 6-7)	Ofgem
Rhianne Ogilvie (Items 1-5)	Ofgem

2. Item 1: Introductions and updates

- 2.1. Dora Guzeleva (DG) and Neil Copeland (NC) presented slides 3 and 4 of the slide pack. DG reminded everyone that Ofgem will start the Low Carbon Network Fund review this year and is aiming to publish its decision next year. DG also reminded all licensees that a key output of the projects is the learning and the data generated by the project. She encouraged licensees to ensure that, from the start of their projects, learning and data is collected and disseminated in a timely manner.
- 2.2. One attendee asked if Ofgem could share any examples of good practice regarding the sharing of learning and data. DG offered to share the learning reports from the Low Carbon London (LCL) and Customer Led Network Revolution (CLNR) projects. Miriam Greenwood (MG) noted that the Expert Panels like to see projects that have taken advantage of the learning generated from other projects.
- 2.3. Ofgem explained that it reviewed the NIA knowledge sharing documents and was generally happy with the annual summary reports. NC then explained that there was not enough information provided in the project specific reporting and closedown reports. NC suggested that the licensees should think about the level of information that would be required to allow other licensees to replicate the method being trialled. Licensees should look at the First Tier close down reports.

- 2.4. One attendee thought there should be a distinction between sharing data with GB licensees and with the wider public. The attendee felt there was a risk that sharing all findings publicly could limit the potential for licensing arrangements with foreign network companies, which could be beneficial for GB consumers. It was suggested that there could be two levels of smarter networks portal – one where information is shared with other licensees and one for information to be shared with the public.
- 2.5. Another attendee noted that reporting is not the only form of learning dissemination and highlighted that gas projects are being presented and discussed at Gas Innovation Governance Group (GIGG) events. NC recognised this, stating that the reporting requirements of the governance document regarding knowledge transfer are the minimum licensees should be doing.

Action

Ofgem to circulate LCL and CLNR learning reports

Person - By

Ofgem,
completed

3. Item 2: Panel feedback

- 3.1. The Chairs of the Electricity and Gas Expert Panels (Robin Bidwell and Miriam Greenwood) provided feedback from the 2014 competition process.
- 3.2. Robin Bidwell (RB) began with observations from the electricity competitions. Firstly, he said that the 2014 submission were generally good, especially in the LCNF. He explained that the Panels were pleased to see projects which were challenging long-term industry orthodoxies but he said that it is also important to consider how the idea can be brought into business as usual.
- 3.3. RB said that the Panels were also pleased to see an increasing number of projects exploring the links between Transmission and Distribution networks. However, the Panels need to be convinced that the licensees on these sorts of projects would be collaborating well together. He said that it is particularly important for OFTO bids to convince the NIC Panel that the project can deliver value for money for customers. He said that the LCN Fund Panel was also happy to have a losses project in the competitions last year.
- 3.4. RB then explained areas where the NIC Panel would like to see continued progress. Firstly, he said a project needs to be well constructed with clear objectives and a clear methodology. Projects need to be innovative, and value for money is essential. He said that progress could be made on how the universities are involved in the process, including how any universities are selected as partners and how they participate in meetings. RB suggested there may have been a decrease in the number of project partners in recent years, but said that it is good to have project partners that can deliver technical expertise where needed. Finally, RB stressed the importance of the presentations at bilateral meetings. He said the relevant people for key parts of the project should be present and it is good to have senior attendance to show commitment from the company to the project.
- 3.5. Miriam Greenwood (MG) provided observations from the gas competition. She said that some projects struggled with demonstrating how they met the environmental benefits assessment criterion. She said that generally projects which had tested the idea through the NIA demonstrated that the sufficient thinking and development had been undertaken prior to seeking NIC funds. She explained that the Panel were pleased to see good involvement from universities and SMEs, and encouraged this to continue. She also encouraged licensees that are submitting risky projects to consider stage gates and how the money could be split between these stages in the project.

- 3.6. MG noted that some projects included very high day rates for consultants and explained that projects should carefully consider the amount allocated for consultants. MG then agreed with RB's point that the presentations at the bilaterals are very important. She said that although the number of attendees is limited, companies may want to consider bringing someone who will actually be conducting the work to the second bilateral. Finally, MG said the Panel would welcome more bids to the Gas NIC.
- 3.7. Attendees were then given the opportunity to ask questions of the Panel Chairs. Questions included whether anyone had used the mechanism for paying royalties from projects yet. Ofgem offered to send a link to a letter that explains the mechanism for paying royalties from one of the projects.
- 3.8. Another attendee asked the Panel Chairs if they had a preference for projects to partner with larger SMEs. MG explained that as long as the involvement from the SMEs is good and it delivers value for money then the Panel does not have a size preference for SMEs, nor indeed any type of project partner.
- 3.9. One attendee asked the Panel Chairs if they thought the projects which have been running for a few years are delivering what they set out to. The Panel Chairs and Ofgem agreed that over the years there has been a good range of projects, most of which are delivering good results. The Panel Chairs suggested that one area which could be improved is the number of service providers looking to get involved in projects.

Action

Ofgem to circulate link to published letter on mechanism for paying royalties from one of the LCN Fund projects.

Person – By

Ofgem, completed.

4. Item 3: Update on process for 2015 competitions

- 4.1. Rhianne Ogilvie (RO) presented slides 6 to 12 on the 2015 competitions. RO noted that the deadline for submissions to the Initial Screening Process (ISP) is 7 April. She explained that all companies planning to submit a project to the Full Submission stage of the competitions must submit a completed ISP proforma for their proposal by this date. In order to assist with planning, she requested that companies notify Ofgem if they plan to submit a project proposal this year by 27 February (albeit failure to notify will not preclude ISP submission).
- 4.2. RO highlighted the key reflections on the 2014 process. These were that the earlier Full Submission deadline worked well, and that the most valued parts of the consultant's role was the initial review and the technical questioning of the submissions. She explained for the 2015 process the consultants will no longer produce an interrogation report but will scrutinise the submissions, ask technical questions and report back to Ofgem and the Panels. She also explained that there will be two entirely separate Expert Panels, allowing each Panel member to focus on one competition.
- 4.3. RO explained the process and the timings for the 2015 competition. The Full Submission deadline is 31 July 2015. The full set of 2015 dates can be found in the meeting slides. Please note that the date for the first Gas NIC Bilateral meeting has changed this meeting. The first Gas NIC Bilateral will be 4 September 2015. The attached slide pack has been updated to reflect this change.
- 4.4. One attendee asked whether the process could allow for more flexibility regarding the page limit at resubmission. Ofgem explained that the purpose of resubmission should be to clarify errors in the submissions and that the project problem, methodology, and solution cannot change. Ofgem and the Panel emphasised that the initial Full Submission should be comprehensive and coherent as this, alongside the bilaterals, is

the main focus of the assessment. In updating the Full Submission proforma, Ofgem will consider whether the page limit at resubmission could be more flexible.

Action All licensees to inform Ofgem if they will be submitting a project proposal this year (this is optional but would be helpful).	Person - By All licensees, by 27 February.
Ofgem to consider the flexibility of the resubmission page limit	Ofgem, publication of FS proforma

5. Item 4 – Licensee feedback

5.1. Ofgem invited licensees to share any feedback on the competition process. One attendee said there could be more flexibility around project stage gates and conditions in the project directions. He suggested that the companies could have more autonomy to make decisions at specified stage gates on whether the project progresses or not (eg the project can progress as long as long as it continues to have a strong cost benefit analysis). Another attendee suggested that by designing the stage gates yourself then you can choose to take the decision making responsibility. Ofgem encouraged attendees to look at the stage gating adopted for the 2014 competition projects.

5.2. There was a discussion about the optimum number of SDRCs. The group agreed that there should be a benchmark that all licensees have to meet but if this is eight or another number could be reconsidered. Ofgem noted that some companies chose thematic rather than sequential SDRCs. It added that the appropriate number of SDRCs will be considered as part of the 2016 LCNF Review.

5.3. One attendee asked whether the interest rate stated in the Governance Document could be updated as it is now very difficult to find a bank account with a similar interest rate to that expected. Ofgem agreed to consider this issue, either as part of the two year review or earlier if possible. Licensees offered to share calculations of the best interest rate case they can find.

5.4. The group discussed whether companies were regularly reaching the limit on eligible bid costs. There was mixed experience from the group with a number citing the use of existing in-house staff to keep costs down.

Action Licensees to share any information/calculations they have on the best interest rates available to them.	Person - By Licensees
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6. Item 5 - Other General Issues

NIC/NIA Governance

6.1. Neil Copeland (NC) presented slides 16 to 18 of the slide pack. He explained that on 27 January 2015 Ofgem circulated proposed amendments to the NIA, NIC and LCN Fund governance documents for comment. Comments are requested by 10 February 2015. There will then be a formal consultation published at the end of February.

6.2. NC noted that the proposed amendments are primarily clarifications and corrections and do not change the effect of the documents. He then explained the two biggest changes to the NIC governance documents.

- 6.3. The first amendment is to specify the further detail needed for project selection criteria in ISP. This is to ensure that companies applying to the competitions provide sufficient detail regarding their approach to selecting project partners and ideas.
- 6.4. One attendee noted that in some circumstances, ideas and partners may be selected for a first tier or NIA project which is then developed into a NIC proposal. DG explained that in those circumstances, licensees should detail the approach to selecting that idea before beginning the NIA or first tier project.
- 6.5. The second amendment is to clarify what changes to the Full Submission are allowed during the competitive process. NC explained that changes should only be made where further clarity or information is needed in response to questions from the Expert Panel, the consultants or Ofgem. He noted this was not an opportunity for licensees to improve the general quality of their bids.
- 6.6. One attendee noted that, through the Q&A process, licensees gather additional information and analysis relevant to the bid. NC explained that only where an answer to a question changed part of the Full Submission it should be included in the resubmission.
- 6.7. Another attendee noted that the public consultation may receive comments from some groups regarding the changes to the Intellectual Property Rights (IPRs). In the NIA governance document any intellectual property created is proportioned by the funding, time and effort contributed by each party.
- 6.8. There was a discussion about the interpretation of the IPR arrangements. NC noted that this change has been proposed to add clarity to the existing arrangements and that these arrangements should be flexible, while protecting any IP funded by customers.

Innovation Roll-Out Mechanism

- 6.9. NC presented slides 19 to 20 of the slide pack. He explained that Ofgem would welcome ideas for the Innovation Roll-Out Mechanism (IRM) methodology on how to assess proposals for IRM and how to quantify non-economic benefits of IRM.
- 6.10. NC noted that Ofgem would like to know as early as possible if licensees are proposing to apply for the IRM. NC clarified that Ofgem does not expect all licensees to make use of the IRM and proposed usage of the IRM should be in the business plans.
- 6.11. During further discussions it was clarified that licensees should only apply to the IRM if they intend to roll-out a proven innovation (which is defined in a license condition), that cannot be funded by any other mechanism, has social and environmental benefits, and will not deliver a financial saving within the price control but will deliver longer term value. Additionally the value of the project must be over the materiality threshold in the licence; this is specific to each licensee.
- 6.12. NC noted that for transmission and gas distribution the application window will open on 1 May. Ofgem would like all Network Licensees to contribute to the design of the IRM assessment methodology, as the resulting process will impact future IRM assessments. The methodology used must be robust to justify the use of the IRM to consumers. Licensees need to make a strong and clear case when applying to the IRM.
- 6.13. There was discussion on the proposed methodology and it was highlighted that it is difficult to quantify social and environmental benefits. It was observed that other environmental benefits such as those which are visual amenity or regarding natural habitats have not been quantified. DG commented that it would be beneficial for

industry to work together on a solution for quantifying currently non-monetised environmental benefits.

- 6.14. Several suggestions were raised to help with quantifying non-economic benefits. One suggestion was using stakeholder's willingness to pay, for example, to reduce the impact on visual amenity. This has been used previously for T-Pylons, undergrounding cables and street furniture in London. A further suggestion was to approach organisations such as Friends of the Lake District to find out how they quantify social and environmental benefits. One attendee highlighted that SSE has a project which looks at commercialising these benefits, but dissemination of information from this project will not be ready before the closing deadline for consultation.
- 6.15. One attendee suggested that the IRM framework should not be too restrictive and should look at best practise of what other parties (for example, universities) do to quantify these benefits. DG explained that after the first IRM assessment there will be a lessons learnt action and if it is found that the process is too restrictive, changes would be incorporated in future IRM assessments.
- 6.16. One attendee asked if there will be consultation on the IRM funding decision. It was clarified that Ofgem is currently consulting on the methodology for assessing IRM proposals and consultation over funding decisions will be decided at a later stage.

Action

Relevant licensees to notify Ofgem if they intend to apply to the IRM in 2015.

Person - By

Licensees – ASAP

Successful Delivery Reward

- 6.17. Arun Pontin (AP) presented slides 21 to 23 of the slide pack. AP noted that some LCN Fund projects are now coming to an end and will begin applying to the Discretionary Funding Mechanism - Successful Delivery Reward (SDR). He explained that during 2014, Ofgem developed its approach to administering this reward. The decisions regarding the SDR are likely to affect the NIC, which has an equivalent reward in its Discretionary Funding Mechanism.
- 6.18. AP explained that there has been a longstanding requirement for applicants show the how the Successful Delivery Reward Criteria (SDRC) have been met. The work conducted by Ofgem in 2014 established a common framework for assessing delivery that can be applied to the variable innovation projects.
- 6.19. AP noted that amendments, detailed in the August decision letter for implementing the Discretionary Funding Mechanism under the LCN Fund, have made applied to the draft LCN Fund governance document which has been circulated for comments.
- 6.20. Following a query, it was clarified that the decision on the SDR will be made by 31 July, based on applications received by 1 May. A funding direction will then be made so the costs can be recovered from the following April. The original window had been August to November but following consultation with the network operators it was changed to May to July.
- 6.21. AP noted it is likely the applications for SDR will be made public. One attendee commented that there may be an issue with making the application public owing to the volume of evidence that companies may provide. DG explained that the application may have a page limit and should not be excessively long.
- 6.22. Another attendee asked for clarification on how the SDR would be applied to innovation project that clearly split into very separate sub-projects. Would failures in

one sub-project impact the chances of other sub-projects qualifying for the SDR? This query was noted by Ofgem to consider in developing the SDR assessment process.

- 6.23. It was noted that the assessment of project cost effectiveness for the SDR was not mentioned in the Gas NIC governance documents. The draft LCN Fund governance document needs to be sent to the Gas Distribution Networks so that the proposed amendments can be understood.
- 6.24. Nisha Doshi (ND) then presented slide 24 of the slide pack. She explained that Ofgem is now planning the assessment of applications for SDR. She added that an indication of which projects would be applying to this assessment would assist the planning process.
- 6.25. ND then explained that Ofgem is considering producing guidance for applicants. She asked the group whether this would be useful. Some participants said that they would prefer there not to be guidance to allow them flexibility in their applications, as long as the process was not competitive. Others suggested that simple guidance may be useful for the first assessment and may cut down on clarifications. One attendee stated that guidance would help non-DNO licensees better understand the process.
- 6.26. There was then a discussion on how applications should provide evidence that SDRC had been delivered, particularly whether they were of sufficient quality. It was noted that applications could become very large in size if evidence such as SDRC reports (which may have already been sent to Ofgem) are submitted.
- 6.27. DG concluded that high-level guidance for applicants would be useful. This may include a page limit but Ofgem would endeavour to allow applicants flexibility in the format and content of their applications.

Action	Person - By
DNOs to notify Ofgem if they intend to submit applications to the SDR in 2015.	DNOs – 20 th Feb
Draft LCN Fund governance document to be circulated to the Gas Distribution Network Operators	Ofgem - 06 Feb
Issue guidance for applications to the SDR.	Ofgem – mid March

7. Item 6 – DNO-specific issues

LCN Fund Governance in RIIO-ED1

- 7.1. NC presented slides 25 to 26 of the slide pack regarding changes to the LCN Fund Governance Document. NC noted that the changes were primarily structural. There were two substantive changes, the first was the requirement of peer review, by other licensees, for the project close down reports. The second is the introduction of the processes and criteria for the Discretionary Funding Mechanisms.
- 7.2. Attendees commented that peer review for close down reports may be an issue for transmission network operators and for a joint project with all four gas distribution network operators. This is because there would not be another licensee available to review the reports.
- 7.3. There was then a discussion on alternatives to peer review. DG explained that peer review was not to check the technical data but to assess whether enough information had been provided in a format such that other licensees could make use of it. The

group discussed the potential for the offshore transmission operators to review an electricity transmission project and for GDNs review a gas transmission operator project.

- 7.4. Further suggestions for alternatives for peer review were Transmission Network Operators from a different market (for example, Ireland). However, DG explained that the difference in the market may be a problem. Using an independent auditor or another department in the same company for peer review was also proposed. DG commented that there was a potential to use another department in the same organisation where the innovation would be implemented.

Action

When conducting the two year review of the NIC and NIA, Ofgem will consider the closedown report arrangements for NIC projects.

Person - By

Ofgem – during the two year review of the NIC and NIA