Innovation Working Group

February 2015

03/02/2015

Agenda

1. **Introductions and Ofgem updates (30mins)**

2. **Competition issues (10.30-13.00)**
   a) Expert Panel feedback on the 2014 competitions – 1hr
   b) 2015 competitions – 45mins
   c) Opportunity for Licensees to give feedback – 45mins

3. **Lunch (30mins)**

4. **Other general issues (13.30-15.30)**
   a) NIC/NIA governance – 1hr
   b) IRM consultation – 30mins
   c) LCN Fund Successful Delivery Reward– 30mins

5. **DNO specific issues (15.30-16.00)**
   a) LCN Fund Governance in RIIO-ED1 – 30mins

Item 1 – Introduction and Ofgem update

NIA Reporting

- Reviewed knowledge sharing documents on Smarter Networks Portal.

- Published a letter setting out our concerns.
  - Not enough information being provided in project specific reporting.
  - Information in the Close Down reports should allow other licensees to replicate the method being trialled.

- Generally pleased with Annual Summaries of NIA Activity.

Item 2 – Competition issues
a) Expert Panel feedback on the 2014 competitions

Item 2 – Competition issues
b) 2015 competitions

- Initial Screening Process

- Reflections on 2014 Full Submission process

- Changes for 2015 competitions

- Full Submission process

- 2015 Milestones and dates

- Deadline for submission – **Tuesday 7 April**.

- Same process as last year. The process is detailed in the Governance documents.

- Proformas will be published on the website by Friday 6 March.

- Option to discuss potential proposals with us ahead of ISP deadline.
  – We would appreciate notification by **27 February.**

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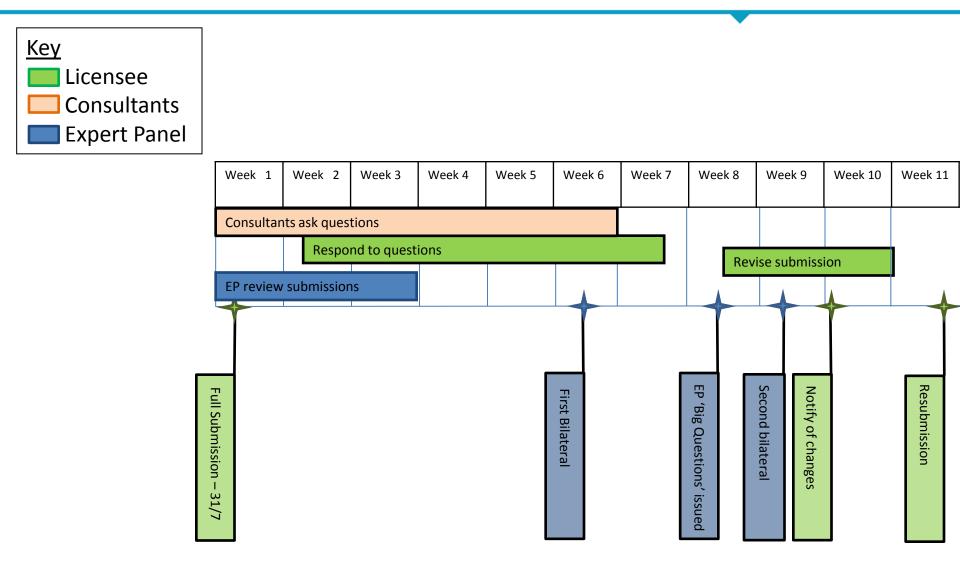
Reflections on 2014 process

- The earlier full submission deadline worked well. It allowed more time for Panel and consultants to scrutinise submissions and pick out key issues ahead of first bilaterals.

- The most valued parts of the consultants role were the initial review of the submissions and the technical questioning throughout the process.

Changes for 2015 process

- First year of DNOs participating in Electricity NIC.

- Two separate Expert Panels, allowing each panel member to focus on one competition.

- The consultants will not produce an interrogation report. The consultants role will be to scrutinise the submissions and ask technical questions and report back to Ofgem and the Panel.

- We will also use more internal technical expertise to support the assessment of the submissions.

Milestone	Purpose	Present
Full Submission deadline	Companies submit bids to Ofgem	
Early bilateral meeting	For each of the companies to present their projects and for the Panel to ask questions	Expert Panel, Companies, Ofgem, Consultants
Further bilateral meetings	Expert Panel will ask the "Big Questions" about the projects	Expert Panel, Companies, Ofgem
Resubmission	Following bilateral meetings opportunity to resubmit full submission	
Decision	Notification of who is awarded funding	Ofgem

Competition specific milestones

Milestones	Gas NIC	Electricity NIC
ISP Submission	7 April	
ISP Decision	6 May	
Full Submission	31 July	
Bilateral 1	4 September*	16 and 17 September
Bilateral 2	28 September	7 and 8 October
Notification	1 October	12 and 13 October (depending on bilateral day)
Resubmission	15 October	26 and 27 October (depending on bilateral day)
Ofgem Decision	27 November	

N.B. Dates subject to change depending on number of submissions
* This date was changed after the IWG meeting and will be different to the previous slide pack.

Item 2 – Competition issues

c) Opportunity for Licensees to give feedback

Item 3 – Lunch

Item 4 – Other general issues
a) NIC/NIA Governance

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Network Innovation Allowance

- Generally we think the NIA is working well.

- No substantive changes to NIA Governance Documents.

- Changes have been proposed to the electricity document to incorporate DNOs.

Network Innovation Competition

- We have proposed two changes in addition to the drafting which reflects our policy decision to include DNOs and IDNOs.

- No change in effect of documents.

- Have you identified any major issues?

- Currently circulating documents, please respond by 10 February.

- Plan to publish Formal Consultation on 23/24 February for 28 days.

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- Concerned licensees do not provide detail on the process used to select partners and ideas at the ISP stage.

- Proposed changes to clarify the drafting but not change the effect.

- Drafting allows for different approaches to selection and for projects where partners have not yet been selected at the ISP stage.

- Any initial comments on drafting?

- 4.14(v) – <u>The internal systems, procedures and processes used by the Network Licensee</u> to identify Project Participants and Project ideas.

- Table 4.1 – The Funding Licensee should provide <u>a description of the internal systems, procedures and processes used by the Network Licensee to identify Project Participants and Project ideas. The Funding Licensees should also include</u> details of any Project Partners, External Funders or Non-Network Licensees who will be actively involved in the Project and are prepared to devote time

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- Concerned licensees are using the chance to resubmit their Full Submission to make changes beyond what was intended when this process was introduced, eg changes to include unnecessary information not required during process or to improve readability.

- 5.38 (new sentence) Network Licensees should not amend the Full Submission except where it is necessary to provide information required as a result of the evaluation process or to correct factual errors in the original Full Submission.

- Any initial comments on drafting?

Item 4 – Other general issues
b) Innovation Roll-out Mechanism consultation

- IRM allows licensees to seek funding to roll-out <u>proven innovations</u> in to business as usual.

- The roll-out must deliver low carbon and/or environmental benefits as well as long term value for money for customers.

- There are two application windows in each price control.

- Licensees will need to demonstrate a robust methodology for calculating the benefits of each proposed roll-out.

- Asking licensees and other interested parties to: propose, explain and justify proposed methodologies.

- We would like to know as early as possible if licensees are planning to use the IRM.

- We would also welcome a discussion on proposed methodologies today.

Item 4 – Other general issues
c) Implementing the Discretionary Funding Mechanisms

Background

- The £500m LCN Fund contains a £100m discretionary funding mechanism

- Its purpose was to incentivise successful delivery of projects and reward exceptional performance

- There are three rewards -
    - the Second Tier Successful Delivery Reward (SDR),
    - the Second Tier Reward (STR), and
    - the First Tier Portfolio Reward (FTPR)

- In 2014 there were two consultations and two decisions on administering the rewards.

- The areas for which we have been developing the process are -
    - when to hold assessment of applications,
    - how to allocate funding between rewards,
    - how to assess applications, and
    - who should assess applications.

- Annual assessment window 1 May to 31 July

- Applications will be assessed on meeting the 'Successful Delivery Reward Criteria' which are set at the beginning of the project, and whether the project has been well managed
  - Consideration given to timely delivery, cost effectiveness and quality.
  - Consideration also given to management of uncertainty, risk and change.

- Applications will be made public – we do not expect confidential material, if any confidential material is included you should submit confidential and public versions

- Now seeking your views on our updates to the governance document (alongside the updates for the purposes of ED1)

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- We would be grateful if you could indicate if you intend to submit an application this May.

- The application structure will not be too prescriptive – would guidance on format be useful?

- Evidence types will not be mandated –would guidance on suitable evidence be useful?

- The quality of evidence will be crucial in the assessments. We would welcome your thoughts on what evidence you think would be sufficient and you are planning to submit for the following:
    - Fulfilling Successful Delivery Reward Criteria
    - Project's cost effectiveness
    - Management of uncertainty and change

Item 5 – DNO Specific Issues
a) LCN Fund Governance in RIIO-ED1

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- Number of changes to the LCN Fund Governance Document.

- Changes are primarily structural.

- Two substantive changes:
  - Introduction of process for close down reports.
  - Introduction of DFM processes and criteria

- We have removed parts of the document that won't be needed for RIIO-ED1.

Substantive new requirement:

- Requirement for peer review of Close Down Reports in line with letter published at start of year.

- Requires review by another licensee and an explanation of how any feedback was addressed.

- Have you identified any major issues?

- Currently circulating documents, plan to publish Formal Consultation on 23 February for 28 days.

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.