

To transmission companies,  
distribution companies,  
generators, suppliers, shippers,  
offshore transmission owners,  
customer groups and other  
interested parties.

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## Network Innovation Allowance Project Benefits Guide

Innovation is a key element of the RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls. Developing innovative approaches is crucial for network operators to deal with the challenges they will face. As part of RIIO, we introduced an Innovation Stimulus which consists of three measures:

- a Network Innovation Allowance (NIA) – a small allowance part of each licensee's price control framework to fund smaller scale innovation projects;
- a Network Innovation Competition (NIC) – a competitive process to fund larger flagship development and demonstration projects; and
- an Innovation Roll-out Mechanism (IRM) – to fund the transfer of innovations with carbon and/or environmental benefits into business as usual.

This letter explains our<sup>1</sup> decision to approve the Network Innovation Allowance (NIA) Project Benefits Guide (the Guide) proposed by the Energy Networks Association (ENA) on behalf of network licensees participating in the NIA.

### Background

One of the key innovation proposals for the RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls was the introduction of an NIA for gas and electricity, transmission and distribution. The purpose of the NIA is to encourage Network Licensees<sup>2</sup> to innovate in order to address issues associated with the development of their respective networks and as a result deliver benefits to customers.

The NIA Governance Documents<sup>3</sup> set out the regulation, governance and administration of the NIA for gas and electricity. Paragraph 3.17 of Governance Documents require Network Licensees to work together to develop a common guide for converting different types of benefit, eg carbon or environmental benefits, into financial terms in order to ensure a consistent approach in assessing the benefits of projects.

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<sup>1</sup> The terms "the Authority", "Ofgem", "we" and "us" are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

<sup>2</sup> The term "Network Licensees" has the meaning given to it in the relevant NIA Governance Document.

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/version-two-network-innovation-allowance-nia-governance-documents>

## Decision

We have approved the Guide published alongside this letter. Network Licensees can now consider implementing projects which have a broader scope than simply delivering financial benefits. In the absence of this Guide, Network Licensees have been limited to considering only financial benefits. Any future modifications or iterations of the Guide must be submitted for approval by us. This includes the ENA's intention to include a tool to assess the impact on network performance on a NIA project within the Guide.

## Reasons for our decision

We wanted Network Licensees to develop a guide that could be used to calculate the benefits of projects consistently. The ENA has submitted a Guide on behalf of all Network Licensees; it has worked with Network Licensees participating in the NIA to develop this Guide. We have provided feedback on earlier versions of the Guide, which the ENA has addressed in the version submitted.


We said the Guide must include a methodology for converting non-financial benefits into monetary values. The Guide provides a consistent methodology for Network Licensees to quantify the benefits of NIA projects across a number of areas, including: financial, carbon, environmental, and health and safety. It also explains how these benefits should be converted into monetary values. To do this it has drawn on source material developed by other directly relevant organisations. For example, it refers to the Department of Energy and Climate Change's guidance for deriving carbon footprints and the Health and Safety Executive's documentation on the cost to Britain of workplace injuries and work-related ill health.

The Guide also includes a balanced score card. This builds on tools used under the Innovation Funding Incentive. It will allow Network Licensees and other stakeholders to differentiate between project proposals which are calculated to deliver similar levels of financial benefit, when all benefits are presented in financial terms. The balanced scorecard approach may indicate a preferred project where two similar projects deliver similar levels of benefits. We consider that this increases the usefulness of the guide beyond the expectations we set out in the Governance Document.

## Next steps

We have approved the Guide published alongside this letter. Network licensees should submit any future iterations of the Project Benefits Guide for approval in accordance with Paragraph 3.17 of the Governance Documents.

If you have any questions on this letter, please contact Neil Copeland on 020 7901 7193 or by email at [Neil.Copeland@ofgem.gov.uk](mailto:Neil.Copeland@ofgem.gov.uk).



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