

Dear James,

The Energy Innovation Centre would like to thank Ofgem for the opportunity of responding to the RIIO2 framework consultation and are fully supportive of the broad aspirations and the 5 key changes detailed in the document.

Our response includes the comments from our innovation community of 2000 SMEs. The EIC shared the RIIO2 innovation questions with that community and we have received some exceptionally informed feedback which is included in the question section below.

By way of background the Energy Innovation Centre (EIC) has a 10 year history of successfully linking industry and innovators and is recognised and respected by both the industry and innovators alike. **It was established to provide a route to market for small to medium enterprises that struggle to gain a foothold into large network organisations.**

The EIC's unique proposition, bridges the gap between the corporate governance, procurement rules and regulatory requirements of larger organisations and the need for simplicity and low cost legal and procurement solutions for small enterprises, whilst supporting the protection of the IP position of innovators.

In doing so the EIC has linked two communities that otherwise would not have been able to collaborate. By acting as a filter and a conduit for ideas, **ALL POTENTIAL INNOVATORS have access to our partner networks.** Our unique proposition is unmatched anywhere else in the sector.

To date the EIC has initiated in excess of 150 innovation projects, many collaborative and facilitated £22.6 million of investment into the innovator community. In doing so, Ofgem regulation, our partner networks and the EIC have **supported the creation of jobs and growth of businesses and delivered better outcomes for customers.** Furthermore, the potential benefits to energy customer significantly exceed the level of investment into the EIC to date.

As a not-for-profit company the EIC is able to focus fully on engaging with a global network of thousands of innovative SMEs to meet the challenges that the energy and water sectors face.

Our feedback is based on our experience over the past 10 years and that of our innovator/SME community.

Stakeholder Engagement

Placing stakeholder engagement at the heart of the regulation to inform and monitor and advise practise is to be welcomed. **The EIC has a broad innovation community which is a key stakeholder group.** This community's consistent involvement in the suggested stakeholder engagement processes, would bring added value and fresh perspective by providing support and challenge to network companies, encouraging the development of open innovation cultures and their evolution into agile companies which will be ready to respond to any disruption and challenge presented to the industry over the next regulatory period. It is this stakeholder group that has contributed to the response to Ofgem's questions detailed below.

Alignment of funding and Interests

A key strand in the Innovation section of the consultation is in relation to alignment of mechanisms to support third parties and funding which again is to be supported. However, Ofgem are asked to consider how we leverage and develop what is already in existence to maximize the overall impact. Specifically in supporting innovation and 3rd party access, Ofgem has developed the Sand Box and more recently the R & D Hub. To achieve maximum benefit from such mechanisms, alignment is essential. For 3rd parties to access the industry quickly the EIC, and more recently supported by the Energy Systems Catapult has already:

- Developed systems and processes that have been refined in consultation with the sector (both networks and innovators) it has served over its 10 year history. These systems are simple and low cost while still maintaining the governance standards
- Has an extensive and established industry and innovator networks
- Focussed purely on effective innovation and delivering benefit to customers
- An absolute focus on collaboration to improve outcomes across the whole energy sector
- The ability to meet the innovation needs of the sector by growing and interacting with the innovator stakeholder community.
- In collaboration with the Energy Systems Catapult, an Innovator Impact Panel has been convened, which directly informs the work undertaken within the EIC to support the SME community wishing to operate within the energy sector.

The total number of EIC staff equates to 1.5 FTE per network licence of the companies invested in the EIC. This could not be achieved by any network company alone.

There is an opportunity for Ofgem to build upon these proven skills and attributes already available in a not-for-profit business, to create a mechanism for third parties to access innovation funding that would provide Ofgem with the level of accountability, control and assessment required when NIA investments are being made either through or without network involvement. This is possible without replicating existing resources to carry out this function.

We have answered the questions raised in the consultation with specific responses from our Innovator Community. Our response is attached. The EIC has aggregated the data to provide Ofgem with an overview. However, in doing so some richness of opinion may be lost. Therefore, the EIC can convene stakeholder webinars to engage with this community in a more meaningful way as the RIIO 2 framework develops should Ofgem wish to do so.

The EIC team would welcome the opportunity to support Ofgem and discuss our ideas and that of our innovator community, as you move forward with the development of the RIIO 2 framework.

Yours Sincerely

Denise Massey

ENERGY INNOVATION CENTRE INNOVATOR COMMUNITY RESPONSES TO OFGEM'S CONSULTATION QUESTIONS.

Q1 Do you agree with Ofgem's proposal to retain dedicated innovation funding, limited to innovation projects which might not otherwise be delivered under the core RIIO-2 framework?

The over whelming response from Innovators to this question was yes and that dedicated innovation funding should be retained and that NIA was working well. Some specific comments were:

- It is important that the new regime recognises and supports high risk innovation, which will provide answers to genuine challenges faced by the DNOs which are considered too risky by venture capitalists and banks and not "exciting" to Innovate UK competition assessors.
- I agree that dedicated innovation funding should be retained. Without it, many things wouldn't happen.
- There is a need for innovation funding for lower-TRL innovations. Focus should be on long term innovation, not short-term financial gains.
- It is still required as the innovation mindset is not universally adopted within the industry
- It provides much needed match funding to secure public-sector funding and it can pay upfront which compensates for Innovate UK funding which is in arrears which can stifle Innovation projects

Q2 Do you agree with Ofgem's three broad areas of reform:

- i) increased alignment of funds to support critical issues**
- ii) greater coordination with wider public-sector innovation funding**
- iii) increased third party engagement**

The following are some specific comments from our innovator community;

- Increased third party engagement is important for challenging existing assumptions, providing different perspectives and bringing in new skills and experience that is needed to genuinely drive innovation.
- I agree with these broad areas. Our sector can be somewhat siloed, and it can only be a good thing to bring in advancements from other areas and adapt them to different use cases.
- Greater alignment with wider public-sector innovation funding risks putting all the country's innovation eggs into a single basket, and public-sector innovation funding tends to be poorly and narrowly directed.
- Greater coordination with wider public-sector innovation funding is attractive but only if

mechanisms are put in place to properly coordinate - coordination not competition is required and a mechanism that increases pace and doesn't introduce delay

Q3 What are the key issues Ofgem will need to consider in exploring these options for reform at the sector-specific methodology stage, including:

- i) What the critical issues may be in each sector and how Ofgem can mitigate the bias towards certain types of innovation through focusing on these issues?**
- ii) How Ofgem can better coordinate any dedicated RIIO innovation funding with wider public-sector funding and support?**
- iii) How Ofgem can enable increased third-party engagement and what could be the potential additional benefits and challenges of providing direct access to third parties in light of the future sources of transformative and disruptive innovation?**

The following are some specific comments from our innovator community;

- Ofgem need to take a holistic approach to the framework. There is a danger that teams within the regulator work in silos. This, combined with time pressures may result in a fragmented less coordinated approach.
- Key Areas Ofgem will need to consider when looking at reforming these issues:
 - 1. Ensure there is a focus on distributional impacts and consumer vulnerability
 - 2. Networks need to increasingly think about their wider role as responsible businesses within the community.
 - 3. Ofgem needs to incentivise collaboration and leadership, and not just create mechanisms for competition.
- The Energy Innovation Centre has an excellent record of introducing companies with good ideas to solve problems and bring consumer benefits to the DNOs. They should be given every support to continue to this and the finance to extend the range and depth of their involvement of 3rd parties with innovations, especially those previously unknown to the Industry.
- The use of organisations such as the EIC will be very important to allow SMEs to connect with the networks
- I think Ofgem and all regulators need to act more in concert and collaboration, and engage across sectors to identify best practice and opportunities for cross-fertilisation.
- Improved coordination with public sector funding, could deliver learning from other public-sector research and innovation funding interactions such as that between the Research Councils and Innovate UK
- In terms of bias toward certain innovation, funding should be set aside for incremental innovations that can deliver tangible benefits quickly and are more accessible for SMES
- Engaging with a broad range of innovators to unlock the full potential of the UKs Innovator Sector will require an agnostic approach to technologies

- There is endorsement for third parties gaining direct access to RIIO funding which may require network engagement but not network approval of funding. A mechanism to ensure network involvement would be required

Q4 What form could the innovation funding take? What would be the advantages and disadvantages of various approaches?

The following are some specific comments from our innovator community;

- Small amounts of funding should be assigned to early stage ideas to develop use cases and prototypes in a rapid, agile manner and to quickly learn from them. This work should be conducted in a very open and collaborative manner, with a minimum of pressure to "succeed" at the early stages.
- I think much can be learned from the "start-up" mentality, particularly an ability to "fail fast".
- Currently, innovations have to wait until there is an appropriate call to apply.(Public)
- Any funding available must be flexible and responsive.
- Other mechanisms could also be considered which make use of existing innovation funding support organisations such as the EIC or Innovate UK which are already set up to handle the administrative requirements noting that the EIC rather than Innovate UK have better industry knowledge but IUK has stronger review capability, although this is set to change.
- There is a need to fast track regulatory change to ensure unintended consequences and perverse incentives can be remedied quickly
- There needs to be focus on what needs to be done in 20years+ not 5years+ as we need to be solving 2030 transmission plant problems now given the lead time for innovation in the sector

Q5 How can Ofgem further encourage the transition of innovation to BAU in the RIIO-2 period? How can Ofgem develop their approach to the monitoring and reporting of benefits arising from innovation?

The following are some specific comments from our innovator community;

- Innovation is about risk taking and learning from mistakes. Currently the culture in the Utilities is one of needing payback on investment and covering up of mistakes.
- By supporting:
 1. Any technology that the proposers can justify as substantially benefitting the system, even if it falls outside DNOs' TSO's published priorities and needs;
 2. Proposals whenever they are made, regardless of timetables of calls;

3. Discussions with proposers and experts prior to decision on support;
 4. Flexible support, such as letters of intent which may or may not be in conjunction with finance;
 5. IP ownership by the proposer / innovator, not the funder;
 6. Construction of commercial First-of-a-Kind (FOAK) plants, at both distribution and transmission scale;
- Domestic capability - innovators, grid security (not depending on imports, which is both uncertain as French nuclear outages proved last year, and especially risky in the Brexit era), manufacturing etc.
 - Innovation is too often judged on the bottom line – should be a nuanced approach to judging success
 - There is a role for the new Customer Engagement Groups. The idea of incentives was to stimulate the initial activity. The Customer Engagement Groups will be able to challenge companies on their innovative approaches ensuring innovation is embedded into company BAU.
 - To develop meaningful measure. ***The EIC and its Network Partners have commissioned a project to look at the development of an Innovation Outcome Measurement Framework to support both Ofgem and network companies to develop meaningful measures that support cultural change across the sector and provide meaningful yet simplified reporting.***
 - Reduced focus on delivery of defined benefits in the short term as this has killed lower TRL work in RIIIO 1.