

RIIO-2 Innovation Workshop

5 February 2019, 9:30-12:30

County Hall, Belvedere Road, London,
SE1 7PB



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**Is everyone wearing a
name badge?**

**9:30 : Introductions
and welcome**

9:30	Introductions and welcome	James Veaney / Graeme Barton
9:40	Overview and initial feedback on RIIO-2 innovation proposals, including <ul style="list-style-type: none"> • Our consideration of NIA 	Graeme Barton / Laura Hutton
10:45	Break	
11:00	RIIO-2 innovation forward workplan <ul style="list-style-type: none"> • Subject to May Decision, issues to consider re Network Innovation Strategic Challenge Fund 	Graeme Barton
12:00	Round up and next steps	Graeme Barton / Laura Hutton

**9:40 : Overview of
RIIO-2 sector
specific
methodology
proposals**

Technical and commercial innovation encouraged through:

Core price control incentives



Specific Innovation schemes

- **The totex approach** – to equalise incentives between capital expenditure and operational expenditure so companies not unduly incentivised towards ‘capex’ and consider novel ‘non-build’ solutions
- **The totex incentive mechanism (TIM)** – to encourage network company efficiency and innovation; sharing the resulting financial benefits between companies and consumers
- **Longer price control period** – to allow companies to retain the benefits from the TIM for longer

- **Network Innovation Allowance (NIA)** – part of each licensee’s price control allowance to be spent on smaller-scale research, development and demonstration projects
- **A Network Innovation Competition (NIC)** – to fund larger scale flagship development and demonstration projects
- **An Innovation Roll-out Mechanism (IRM)** – to fund roll-out of proven innovations with carbon and/or environmental benefits in to business as usual



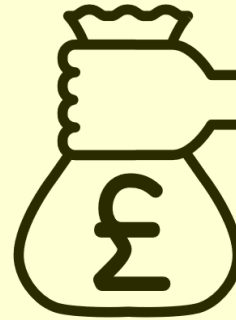
Incentivise innovation
as core business



Fund new technologies
that aren't BAU



Encourage collaboration
of companies and 3rd
parties



**Deliver financial benefits
for network customers**



**Facilitate transition to
low carbon economy**



Facilitate sharing of
learning

Gas Networks Innovation Spend (up to April 2018)

Overview of NIA (April 2013–April 2018) and NIC (April 2013–April 2018)*

Theme	ALL NETWORKS					
	NIA Projects		NIC Projects		All Projects	
	Number	Value (£M)	Number	Value (£M)	Number	Value (£M)
Future of Gas	40	£16.31	5	£32.74	45	£49.04
Safety and Emergency	58	£10.31	0	£-	58	£10.31
Reliability and Maintenance	145	£36.11	1	£6.30	146	£42.41
Repair	45	£9.47	2	£13.70	47	£23.17
Distribution Mains Replacement	65	£27.87	0	£-	65	£27.87
Security	0	£-	0	£-	0	£-
Environment and Low Carbon	49	£18.34	5	£21.17	54	£39.51
Totals	402	£118.42	13	£73.90	415	£192.32



* RIIO-1 runs for gas distribution and gas transmission companies between 2013-2021

Source: [ENA Gas Innovation Strategy, March 2018](#) (page 9)

Electricity Networks Innovation Spend (up to April 2018)

Overview of Low Carbon Network Fund (2010-2015), NIA (April 2013/2015 – April 2018) and NIC (April 2013/2015 – April 2018)*

Figure 9:
Number of innovation projects

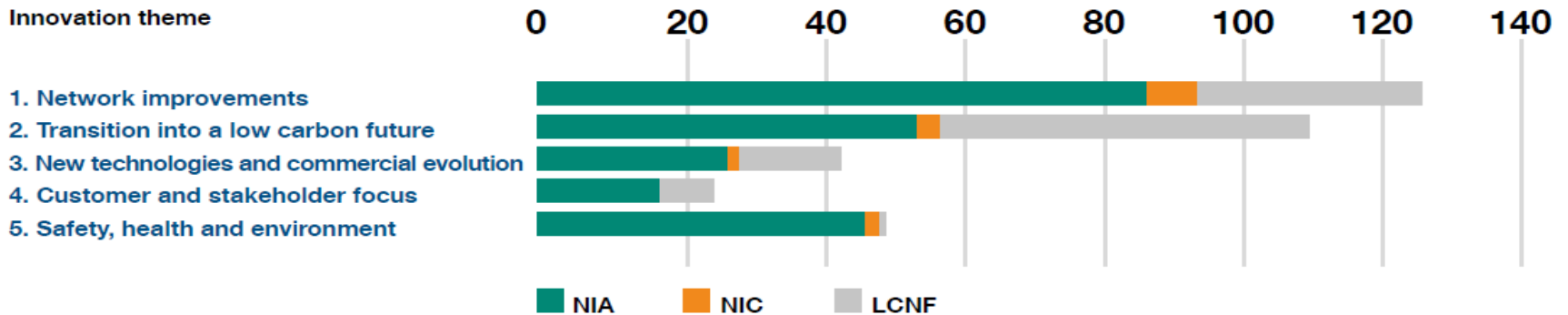
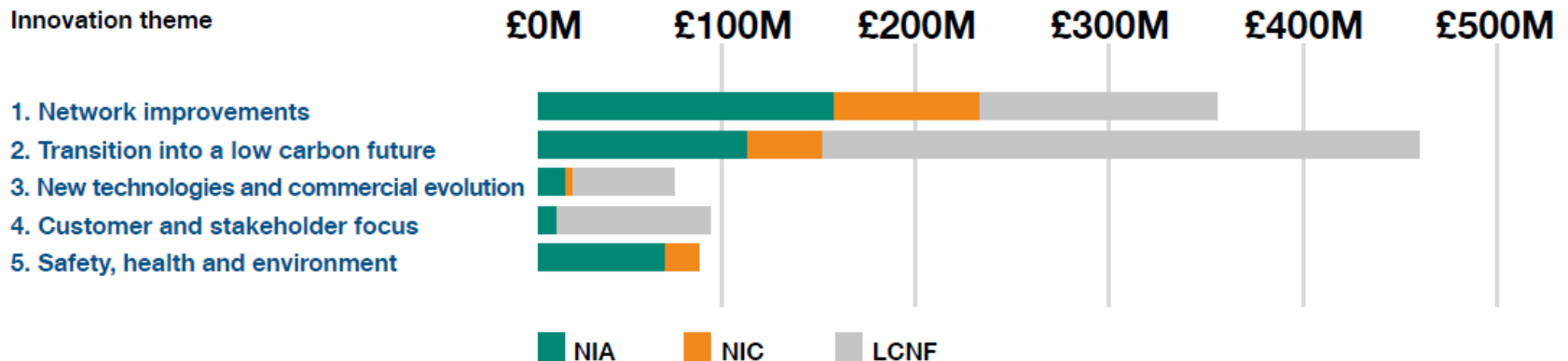


Figure 10:
Value of innovation projects



* RIIO-1 runs for Electricity Transmission between 2013-2021 and runs for Electricity Distribution between 2015-2023

Source: [ENA Electricity Innovation Strategy, March 2018](#) (page 16)

We will seek to encourage companies using the incentives framework to **transition more innovation spending to BAU**

We will **continue to provide an innovation stimulus** where projects can demonstrate long-term value to consumers but are at higher-risk of under-delivery by the core RIIO-2 framework

We propose **3** broad areas for reform:

Coordination

Greater coordination with wider public sector innovation funding and support where this is in the interest of GB network consumers

Balance of support

Increased alignment of funds to support critical issues associated with the energy transition

Role of 3rd parties

Enabling increased 3rd party engagement and exploring direct access in light of disruptive innovation

1) Measures to ensure network companies do more innovation as BAU

2) Removing the IRM reopener

3) Introducing a new innovation funding pot to replace the NIC and better focus on the big strategic innovation challenges within networks and system operation (*will cover in more detail in later slides*)

4) Considering the need for NIA in RIIO-2 (*will cover in more detail in later slides*)

5) Increasing third party involvement to support potentially new and transformative business models and solutions

Mapping RIIO-2 innovation proposals against reform areas [RIIO-2 sector specific methodology consultation](#)

Encouraging more innovation as BAU

- Totex incentive mechanism
- Increased competition (subject to legislation)
- Customer Engagement Groups, User Groups and Customer Challenge Group challenge level of ambition within business plans
- Business plan incentive will reward/penalise companies' level of ambition
- Removing the IRM
- Network innovation funding pot for strategic EST-challenges
- Considering the need for NIA

Increasing coordination with other public sector innovation funding

- New network innovation funding pot (to replace NIC) to focus on set strategic EST challenges
- Innovation challenges set via consultation with other public sector bodies, third parties, network companies etc

Increasing support for EST innovation challenges

- New network innovation funding pot (to replace NIC) to focus on set strategic EST challenges
- Considering the need for NIA

Increasing third party involvement in network innovation

- Increased competition (subject to legislation)
- Business plan incentive will reward/penalise companies' level of ambition, including third party involvement in BAU innovation plans
- Innovation challenges set via consultation with third parties, other public sector bodies, network companies etc
- Strong expectation of third party involvement in any projects funded via the network innovation funding pot
- Considering the need for NIA

Do you think our proposals will achieve the desired reforms?

NIA has supported over 900 projects so far. As noted in consultation, we have identified issues in RIIO-1 that need to be addressed if the NIA is to be retained in RIIO-2:

- Some projects could deliver efficiency savings. Why couldn't these be funded through totex?
- Project reporting is variable and in some cases minimal
- Poor visibility of project learnings, their application and interrelation with other projects
- Impact of third party involvement is not fully understood

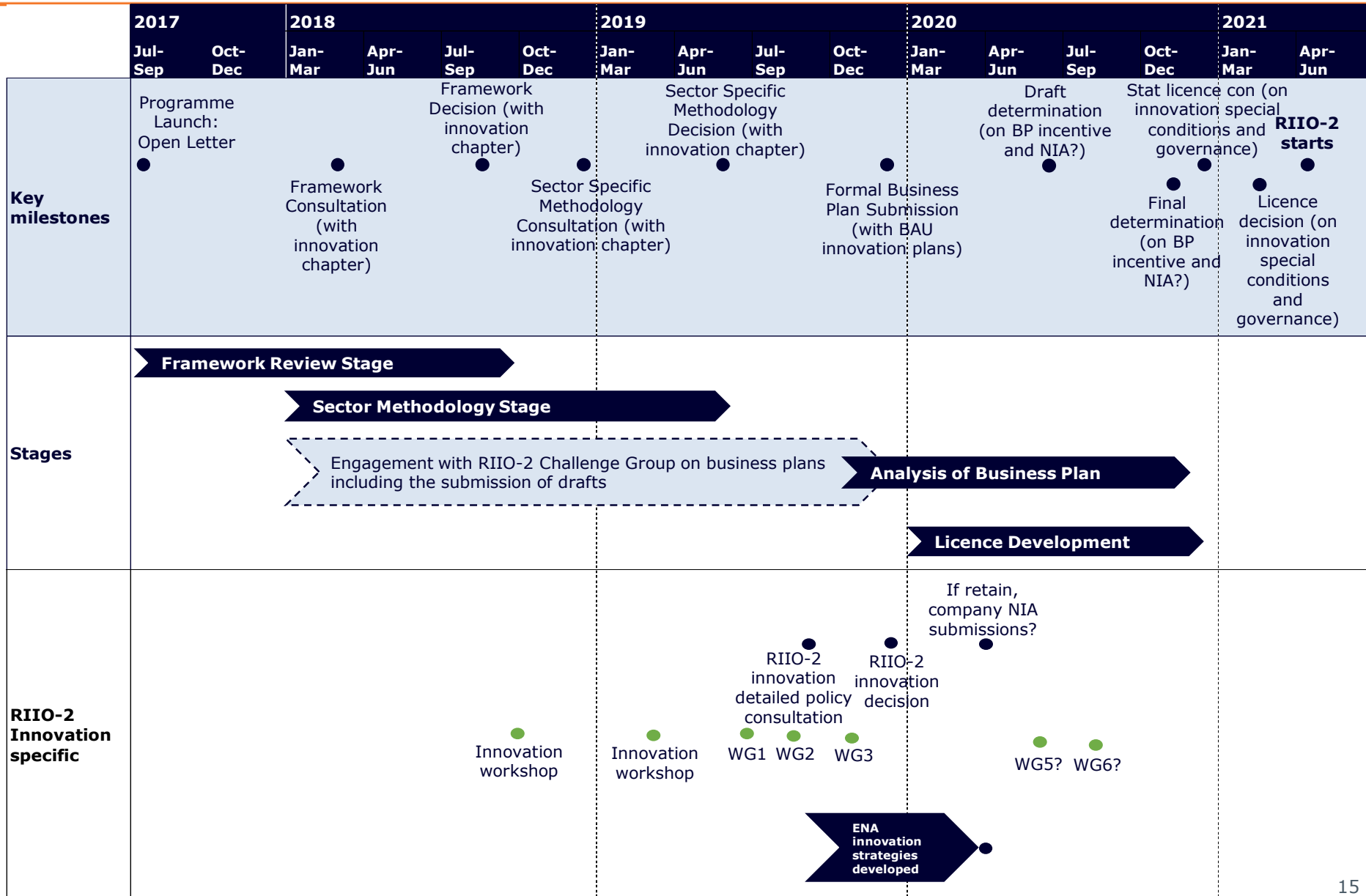
As we consult on the need to retain NIA for RIIO-2, **we need to see the full picture, not just the successes** to understand what and how learning is being shared, as well as understanding why projects might not progress.

- **Do you think there is a continued need for the NIA in RIIO-2? We welcome information on:**
 - types of project NIA may be used to fund
 - why these could not be delivered through totex allowance, and
 - what the benefits of these projects would be.
- **If we were to retain the NIA, what measures could be introduced to better track the benefits delivered?**

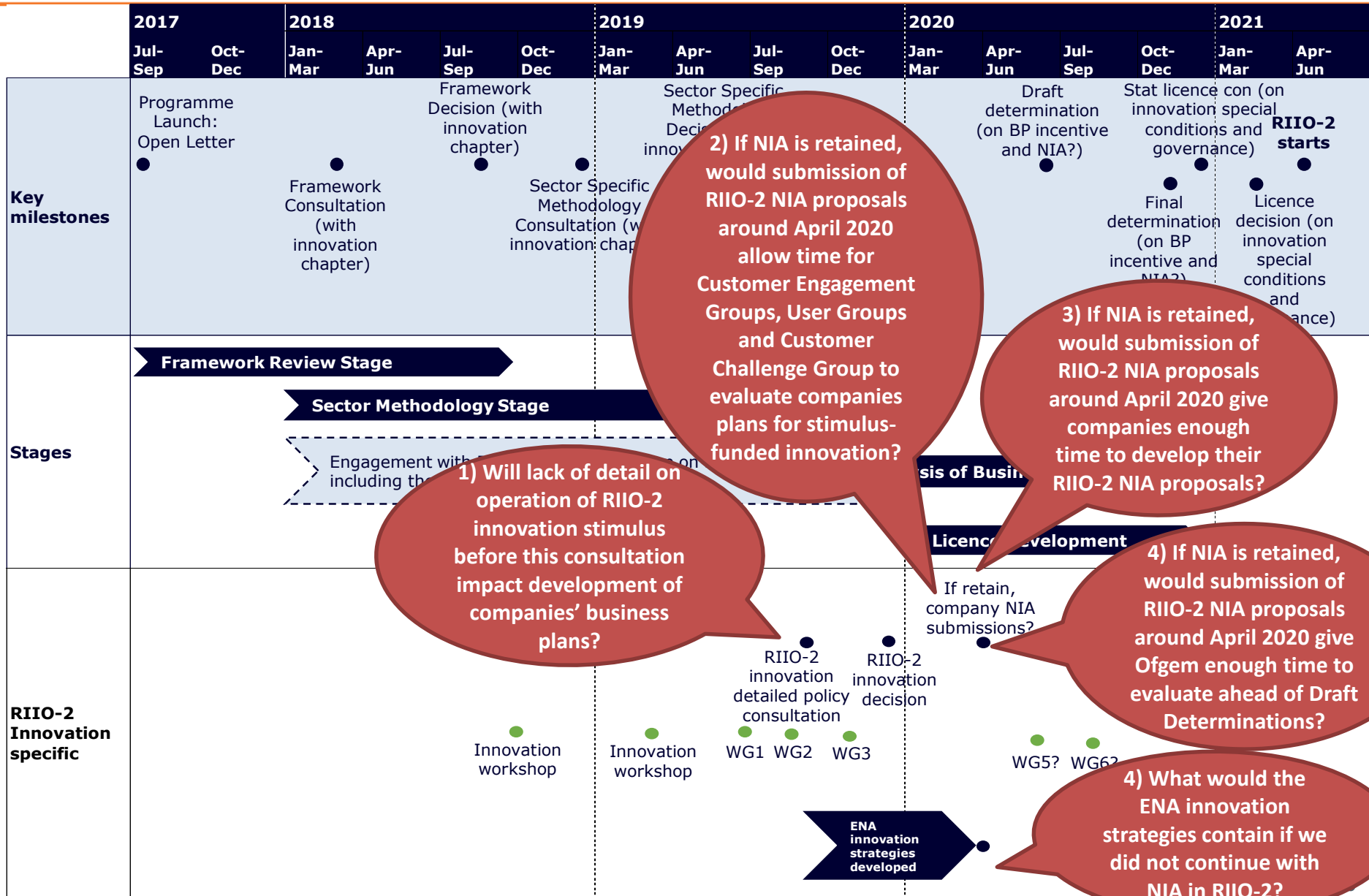
10:45 Coffee break

11:00 RIIIO-2
innovation forward
plan

RIIO-2 innovation forward plan – illustrative for discussion (1)



RIIO-2 innovation forward plan – illustrative for discussion (2)



Ofgem Network Innovation Panel / Board

Panel independently identifies high-level EST-related priorities for forthcoming competition

Call for evidence / consultation with network companies, third parties, other public sector bodies etc

EST-related challenges confirmed by Panel, along with funding available for specific challenges

Companies submit proposals on identified challenges

Proposals evaluated

Funding awarded

Projects start

Monitoring / evaluation

Subject to May decision, issues to consider after May

Governance framework

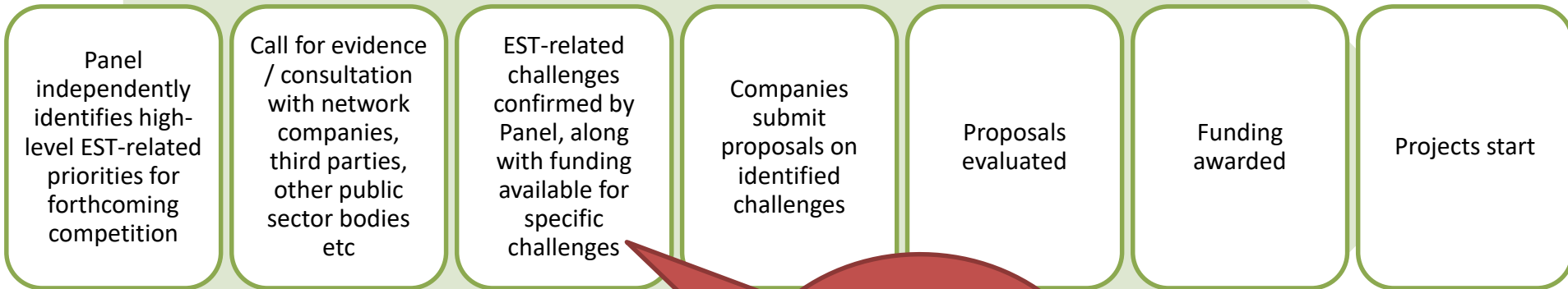
Funding available

Type of projects

Frequency setting priorities, challenges and competitions

What are your thoughts on this illustrative example ?

Ofgem Network Innovation Panel / Board



Monitoring

How long would companies need after challenge is confirmed to submit proposals?

Subject to May decision, issues to consider after May

Governance framework

Funding available

Type of projects

Frequency setting priorities, challenges and competitions

**12:00 Round up and
next steps**

- Thanks for your time today
- Responses to RIIO-2 sector specific methodology consultation by 14 March 2019. Send responses to RIIO2@ofgem.gov.uk
- However, before that, we still welcome continued engagement and early feedback. You can send that directly to graeme.barton@ofgem.gov.uk
- We aim to publish sector methodology decision in May 2019
- We will convene innovation working group to inform detailed development of innovation stimulus on back of decision
- Aiming to issue detailed innovation consultation in summer 2019

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.