

RIIO-2 Innovation Stakeholder Workshop – Summary of discussions

From: Laura Hutton, Graeme Barton, James Veaney

Date: 5 February 2019

Time: 0930 - 1230

Location: County Hall,
Belvedere Road, London,
SE1 7PB

1. Attendees

Matthew Billson	BEIS
Rob Mitchell	Cadent
Gregory Edwards	Centrica
James Kerr	Citizens' Advice
Paul Barnfather	EA Technology
Evie Trolove	ENA
Denise Massey	Energy Innovation Centre
Geraldine Paterson	ENWL
Carolina Tortora	NGESO
Iliana Portugues	NGET
Tom Neal	NGGT
Richard Hynes-Cooper	NGN
Julian Brown	Nortech
Iain Miller	NPG
James Veaney	Ofgem
Graeme Barton	Ofgem
Laura Hutton	Ofgem
Stephanie Santayana	Orxa Grid
David Handley	SGN
Andrew Urquhart	SHET
Geoff Murphy	SPEN
Priyanka Mohapatra	SPEN
Frank Clifton	SSEN
Chris Hole	TTP
Ian Cooper	UKPN
Roger Hey	WPD
Lucy Mason	WWU

2. Introductions and welcome

2.1. James Veaney (JV) introduced the meeting.

3. Overview and initial feedback on RIIO-2 innovation proposals

3.1. Laura Hutton (LH) provided an overview of the existing RIIO innovation framework.

3.2. LH also referred to summaries from the ENA gas and electricity innovation strategies of network innovation spending to date.

- One attendee clarified the categorisation of projects in this document could be misleading. Some projects are categorised in more than one category, and as a result many projects are categorised as network improvements, even if they also consider the transition into a low carbon future for example.

3.3. Graeme Barton (GB) summarised the key points within Ofgem's consultation proposals in the sector specific methodology consultation document. The following feedback was provided in relation to the desire to increase third party involvement:

- One attendee queried why there was no specific consultation question about third party direct access to innovation funding. In response, GB clarified that the consultation does not put forward any specific proposals on this topic, and instead Ofgem is continuing discussions with BEIS to understand whether there would be any possibility of legislative change to permit direct third party access to innovation funding, should consultation on such a proposal suggest that there was merit in such an initiative. If legislative change is, in principle, feasible, we will fully consult on this issue. Stakeholders would have the opportunity to provide feedback in relation to any proposal in relation to direct third party access as part of that consultation exercise.
- Another attendee questioned Ofgem's continued rationale for increasing third party involvement in network innovation.
- Some attendees queried the scale of the problem, believing there is already a great deal of third party involvement. It was instead suggested this was a 'perception problem' and a misconception that could be corrected by increased visibility of existing third party involvement.
- One third party attendee noted that there is the occasional case of third parties proposing projects to network companies that are not then taken forward because they do not align with companies' business plans.

3.4. Attendees provided the following feedback on proposals to encourage more innovation being funded under business as usual (BAU):

- Although the totex incentive mechanism (TIM) is being retained in RIIO-2, it was questioned whether the incentive to innovate in RIIO-2 is being reduced as a result of proposed reduction in the sharing factor. JV replied that the proposal was to set the TIM at a level that would ensure there is continued incentive to innovate.
- If companies do more innovation as BAU, rather than through the stimulus, they may not share learnings as they currently do because of competition between companies.
- It would be helpful to have clarity on how much risk Ofgem expected network companies to take by delivering innovation as part of BAU.
- The introduction of totex served to equalise capital and operational expenditure, however one attendee questioned whether totex in and of itself was an incentive to reduce costs over the longer term.
- It was suggested that a perverse incentive of the TIM is that that innovation activities decrease towards the end of a price control period as companies look to hold back projects for the next price control, thereby maximising benefits to the company.

- Later stage demonstration and deployment projects might be unduly incentivised if the measure of success is their transition to BAU, and companies would focus less on early stage research projects which take a longer time to deliver benefits.

3.5. Attendees provided the following feedback on proposals to introduce a new network innovation funding pot, in place of the Network Innovation Competition (NIC):

- Some suggested this was a good idea and welcomed greater alignment with other public innovation funding, where that's possible.
- It was questioned whether it would be feasible to also fund smaller scale projects or projects from SMEs because of the resources needed to bid for funding. One network attendee suggested that they spend roughly £30k on the supplementary question process of the NIC alone, and that the resource required means it's not worth seeking NIC funding for anything less than a £3m project. There was caution around how likely a NIC-style competition would be to attract SMEs and smaller, earlier TRL ideas because of the cost of bidding for funding.
- It was suggested that an Ofgem governance body may only serve as another gatekeeper determining what the challenges are and a regulatory gatekeeper may not necessarily be preferable to a regulated company gatekeeper .
- Rather than setting up another body to determine challenges, it was suggested that any new body would be better to identify and fill gaps within the existing innovation funding landscape.
- Setting pre-defined challenges/problems could preclude disruptive ideas.
- It is important that any governance body retains ongoing engagement with industry. There should be flexibility determining challenges and considering proposals. Some Stakeholders attending the workshop broadly agreed that an approach for funding projects as and when good ideas come forward, could work better if all that the fund is intending to facilitate is increased third party involvement. Additionally, unsuccessful project bids could be logged for future potential funding opportunities.
- Any Panel determining challenges would have to be quite wide ranging in its expertise, and some attendees questioned whether network companies should sit on such a Panel.
- There was caution about too much changeability in targets, eg with a different set of challenges announced for each funding window.
- It was questioned whether the ENA innovation strategies would link in with the challenges, as they already identify challenges and companies want to prevent duplicated effort.
- Third parties will still need help to develop ideas and the viability of their projects on the network, so network involvement is still required. The timelines for setting challenges should build in adequate time to ensure third parties can engage in the process.
- A focus on energy system transition challenges may disproportionately benefit connecting customers, rather than existing users.
- Seeking input when determining challenges may be difficult as it will inevitably be met with lots of responses.

3.6. Attendees provided the following feedback on whether there is a continued need for Network Innovation Allowance (NIA):

- There was general agreement on the problems Ofgem have highlighted in relation to the NIA, such as inconsistent reporting and poor visibility of project information.

- Some stakeholders said they generally agree with raising the minimum reporting standards, and that reporting requirements under LCNF were higher
- It was suggested NIA was valuable because it can be used in conjunction with other public sector funding available to develop innovative ideas. As NIA can be used in conjunction with public funding, it has a wider impact that cannot be understood from looking at the NIA in isolation. A third party attendee gave an example of developing an early stage research with BEIS funding, and then subsequently progressing the same product using NIA funding.
- It was suggested that the idea that NIA spending is another 'perception problem' and it was a misperception that NIA was not delivering benefits. It was suggested this issue could be mitigated with increased visibility of projects to Ofgem.
- The benefits for many projects have not yet been realised because they are preparing for the future, eg the large-scale uptake of EVs.
- A third party stakeholder proposed that having different pots and different priorities was valuable because different funds have different agendas and restricting the number of pots can constrain the number of projects.
- A number of network stakeholders suggested that retaining the NIA ensured you had 'space to innovate', including dedicated resources and expertise to carry out innovation, whereas in the networks' core business the majority of staff are risk-averse and focused on network safety.
- If retained, measures that could be introduced to the NIA to improve benefits tracking, as is in place in with other funding mechanisms.
- Some third party attendees noted that, unless they have been involved in past projects or working closely with a network company, their visibility of wider NIA projects was close to zero.
- In response to discussion about how companies know whether or not someone has already done the same project, network companies noted they consulted with one another before proceeding.
- A third party stakeholder also suggested there was the opposite problem, and that the requirements to avoid duplication meant that competing technologies couldn't be developed in tandem, and meant waiting for the failure of other projects in order to proceed which itself slowed progress.
- The tracking of benefits can sometimes be more expensive than the project itself, particularly in the case of lower value projects.
- One attendee flagged that if we get rid of NIA, smaller value projects will not get taken forward and instead innovation will be focused on high value NIC-style projects or later TRL/low-risk projects that companies can fund themselves.
- Focusing solely on EST-related innovation may be undesirable as additional funding for other innovation projects is valuable. Projects not related to the EST still take a long time to progress up the technology readiness level scale and therefore cannot be financed through companies own revenue.

4. RIIO-2 Innovation forward workplan

- 4.1. GB discussed the forward workplan for developing policy on RIIO-2 innovation, beyond the publication of the sector methodology decision in May 2019. GB highlighted that, subject to the May decision, Ofgem would look to convene innovation working groups during summer 2019 to inform the detailed development of the RIIO-2 innovation stimulus preparatory to detailed innovation policy consultation around late summer 2019.

4.2. Attendees provided the following feedback on the impact of the current level of detail on operation of RIIO-2 innovation stimulus upon the development of companies' business plans:

- It was suggested that this would have a big impact as companies are expected to submit their full drafts of their business plans in July. It was suggested companies should know what additional funding is available via innovation stimulus mechanisms to help them develop their innovation plans.
- If there is a lack of detail about the innovation stimulus, then this will result in companies being unambitious.
- It will be difficult for innovation managers to encourage companies to present an innovative business plan with no clear understanding of returns, and that what might be seen as a move away from stimulus funding could hinder embedding innovation in the company culture.
- There was a discussion about whether it was possible to only provide detail for BAU innovation within business plans. One network stakeholder proposed the approach, 'this is what we'll do, and this is what we expect will need additional funding', in order to clearly flag in business plans which innovation is dependent on additional funding.
- Before companies develop business plans, they would like Ofgem to define how it would measure and incentivise innovation laid out in business plans.

4.3. Attendees provided the following feedback on engagement with Customer Engagement Groups, User Groups and the Customer Challenge Group to evaluate companies' plans for innovation:

- One stakeholder noted that the enhanced engagement groups have already asked to review innovation plans and engagement with the groups has to be well managed.
- It is possible for companies to develop an innovation strategy in a few months, setting out the challenges they wish to consider in RIIO-2.
- Some cautioned against companies submitting any detailed proposal for how companies plan to spend NIA to the challenge groups. Instead innovation strategies should define the broad challenges companies are considering rather than the solutions. On this point, it was repeated that the best thing about the NIA is its flexibility and that it's open all the time, so companies should not 'lock' in their innovation plans ahead of the start of RIIO-2.
- Some did see value in involvement of the CEGs critiquing companies innovation planning, even if this comes after business plans have been submitted.
- It was also noted that any plans for innovation spending should not be submitted while open hearings are taking place.

5. Round up and next steps

5.1. GB closed the meeting by reminding attendees that responses to the December consultation should be sent to RIIO2@ofgem.gov.uk by 14 March 2019. However, Ofgem welcomes continued stakeholder engagement and early feedback on proposals. That can be directly sent to graeme.barton@ofgem.gov.uk.

5.2. LH also repeated that Ofgem would be happy to meet with network companies to discuss their NIA project portfolios in greater detail to support their consultation responses and support analysis of whether there is a case for NIA in RIIO-2.