

**3<sup>rd</sup> September 2020**

## **Response to the Ofgem RIIO 2 Draft Determinations**

Dear Sir/Madam,

I am responding to the RIIO2 draft determinations document and this response specifically focuses on section 8, 'net zero and innovation'. My research expertise is around energy and climate policy and governance and I have specific expertise in issues around the future of heat/decarbonisation and the role of gas. Specifically, between 2016 and 18 I led [a research project investigating](#) incumbency in the UK heat sector which considered the behaviour of some network companies. More recently I have worked on priorities for heat decarbonisation and I am currently working as part of the 4<sup>th</sup> phase on the UK Energy Research Centre focusing on the governance of infrastructure transitions.

This response makes some general points and then considers the specific questions around innovation.

### **Overarching view**

Overall, the proposals do not appear transformative enough to support the UK's goal for net zero by 2050 around heat which requires upgrades to all of the UK's buildings, likely electricity system capacity expansion and a deeply uncertain future for the gas grid. While I appreciate that much of what happens around heat decarbonisation is the responsibility of BEIS, I would encourage much closer working between BEIS and Ofgem. There is a clear need for rapid change during this price control period. In particular a focus around off gas grid heat decarbonisation and the future of the gas grid would have value. This is a major issue and I would of course be more than willing to engage around more specific issues if that would have value.

### **Specific responses**

*Q24. Do you agree with our proposals for the RIIO-2 Strategic Innovation Fund?*

Overall I agree with the scope and design of the SIF and believe this could provide a valuable and collaborative innovation space. We are unsure why a 3<sup>rd</sup> party represents a better option for management than keeping this function 'in house'. This could lead to additional complexity and costs and potentially lower quality decision making.

I do however agree that an independent expert panel should advise/support on funding decisions under the SIF. Efforts should be made to ensure the independence and objectivity of this panel and setting clear goals for the panel and requirements form membership could help achieve this.

I am unclear as to exactly how funds will be managed and note that it is suggested that the level of funding will be flexed. I am concerned that this could lead to low quality projects being funded and would therefore encourage the use of minimum standards on projects, potentially through some sort of marking/scoring criteria.

Our UKERC incumbency research highlighted that some of the previous innovation work by gas networks had been of low quality, had received no peer review and had been produced for use in political lobbying/messaging. These are all issues which can be managed but which require additional control. The following may be of value:

- Baselines in terms of quality should be set for all projects and if these are not met, funding should be withheld. This could include:
  - Requiring an academic partner/support;
  - Showing experience of this sort of project/research across the team;
  - Demonstrating value for money in terms of project management;
  - Projects should clearly detail how they create new knowledge rather than PR value.
- Bids for funding should be reviewed on a blind basis where the expert reviewer should not know who is asking for funding.
- All project results should be peer reviewed for quality (this can be at the expense of the project) but if results are not supported funding should be withheld. This is a fairly basic requirement in professional research. Ofgem could also require results to be published in peer reviewed journals. This is a sign of quality research and is standard practice for much UKRI funding. Again, academic partners could support this.

*Q25. Do you have any comments on the additional issues that we seek to consider over the coming year ahead of introducing the Strategic Innovation Fund?*

If a third party is used to distribute funds, it makes sense that this is an existing 'public sector energy innovation interface'. I also believe this may support the final bullet point around building up other links. On this final point, part of the application process could also require applicants to explain how the project fits in with/builds on existing within networks and wider innovation activities to reduce replication and increase value.

*Q26. Do you agree with our approach to benchmarking RIIO-2 NIA requests against RIIO-1 NIA funding?*

Not necessarily, this funding should be linked to the quality of research rather than the how much was spent before. A flat level of innovation funding based on number of customers could encourage innovation across networks.

*Q27. Do you agree with our proposal that all companies' NIA funding should be conditional on the introduction of an improved reporting framework?*

Yes but I am concerned over the suggestion of other companies reviewing other companies projects. This should be independent and academia could play a role here.

*Q28. What are your thoughts on our proposals to strengthen the RIIO-2 NIA framework?*

Overall they are sensible. One suggested change is that rather than focusing on 'the energy system transition or addressing consumer vulnerability', projects should focus on both because both need to happen simultaneously. If they only focus on one, there should be justification as to why.

*Q29. Do you have any additional suggestions for quality assurance measures that could be introduced to ensure the robustness of RIIO-2 NIA projects?*

Overall the proposals sound sensible but many of the points we described in our response to Q24 may also have value here. I would add that we are slightly concerned by the idea of industry self-regulation in this area particularly in light of our research groups expertise [over the development and management of energy system codes](#).

I would be more than happy to continue engage with Ofgem on these issues.

Yours faithfully,

Dr Richard Lowes, Lecturer and UKERC Research Fellow

A handwritten signature in blue ink, appearing to be 'R. Lowes'.