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for energy consumers

Interested parties

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RIIO-2 Strategic Innovation Fund – Statutory Consultation on Licence Changes

In our RIIO-2 Final Determination,¹ we set out our decision to introduce the Strategic Innovation Fund (SIF) for the Electricity System Operator, Electricity Transmission, Gas Transmission and Gas Distribution sectors.

The SIF is intended to support network innovation that contributes to the achievement of Net Zero, while delivering real net benefits to network companies and consumers; and to promote the increased alignment of Net Zero-related innovation so that activities appropriately funded by energy consumers are coordinated with activities funded by Government.

To meet the above-mentioned objectives, we will set the strategic direction on SIF funding using Innovation Challenges, invite funding applications from network companies and the Electricity System Operator to address these Innovation Challenges, and seek to coordinate with other public funding bodies where appropriate.

We aim to introduce the SIF during 2021 and are currently considering feedback from recent workshops and surveys with stakeholders on innovation priorities. We are looking to set the first set of Innovation Challenges in the summer 2021, inviting bids for funding under SIF to be submitted by the Autumn 2021, with funding decisions issued at the end of the year. Our detailed proposals for requirements of Gas Transporter and Electricity Transmission licensees are set out in the draft SIF Governance Document which will be published separately to this licence change consultation.

¹ RIIO-2 Final Determination – Core Document, December 2020, pages 99-105:
<https://www.ofgem.gov.uk/ofgem-publications/170687>

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We issued an informal consultation on the licence conditions required to implement the SIF in April 2021.² We received eight responses in total. We have considered this feedback within the issues log published alongside this consultation and, where appropriate, updated the draft licence conditions and definitions and interpretations document. The majority of proposed changes related to typographical errors and in ensuring alignment between sectors in approach and wording.

The purpose of this statutory licence consultation is to seek stakeholder views on the proposed modifications to the licence conditions that are required to implement the SIF.

The licence conditions

The proposed modifications to the licence conditions that are required to implement the SIF are available alongside this letter. The six licence conditions that we are proposing to amend or insert in this statutory consultation are as follows:

- New Special Condition 5.8 for inclusion in each of the Electricity Transmission licences held by National Grid Electricity Transmission plc, Scottish Hydro Electric Transmission plc and SP Transmission Ltd
- Amended Special Condition 3.1 and new Special Condition 3.4 for inclusion in the Electricity Transmission licence held by National Grid Electricity System Operator Ltd (NGESO)
- New Special Condition 5.5 for inclusion in each of the Gas Transporter licences held by Cadent Gas Ltd, Northern Gas Networks Ltd, Southern Gas Networks plc, Scotland Gas Networks plc and Wales & West Utilities Ltd
- Amended Special Condition 5.1 and new Special Condition 5.7 for inclusion in the Gas Transporter licence held by National Grid Gas plc.

In addition, we have published a consolidated document containing the new definitions used in the SIF licence conditions that we are proposing to insert into Special Condition 1.1 for each sector.

Reason and effects

²

https://www.ofgem.gov.uk/system/files/docs/2021/04/informal_consultation_on_strategic_innovation_fund_licence_conditions.pdf

The reason for these proposed modifications is to establish the SIF in accordance with the decision set out in Ofgem’s RIIO-2 Final Determinations. The effect of these licence conditions will allow for Ofgem to direct NGENSO and NNGGT to recover funds via use of system charges, which will subsequently be distributed by NGENSO and NNGGT to other licensees in order to fund eligible SIF projects. The draft conditions also establish a mechanism through which funds can be returned by licensees to NGENSO and NNGGT under certain conditions (where directed by Ofgem). In our statutory consultation on the RIIO-2 Price Control Financial Models (PCFM) and Price Control Financial Handbooks (PCFH), we consulted on a placeholder for the introduction of the SIFF_t term into the PCFM and PCFH for National Grid Gas Transmission, to facilitate the recovery of SIF funding via this year’s annual iteration process.³

In addition, these new licence conditions will provide for the introduction of the SIF Governance Document. This document will set out in detail (among other matters) how the SIF will be governed, the eligibility criteria for and the process through which proposed projects will be assessed and approved.

Responding to this consultation and next steps

Stakeholders are invited to provide views on the proposed modifications published alongside this letter and the consolidated list of new definitions by no later than 5pm on 17 June 2021. Responses should be sent to timothy.wood@ofgem.gov.uk, and copying in RIIO2@ofgem.gov.uk

Subject to feedback received via this consultation, the table below provides an indicative view of the next steps towards the finalisation of the SIF licence conditions.

| Milestones on the SIF licence | Date |
|---|-----------------|
| Publication of this statutory consultation | 20 May 2021 |
| Deadline for responses to statutory consultation (28-day consultation) | 17 June 2021 |
| Ofgem decision to modify licence (thereafter 56-day standstill) | End June 2021 |
| Licence comes into effect | End August 2021 |

³ Changes to the PCFMs and PCFHs of other licensees are not required in order to implement the SIF.
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In the Electricity Distribution (ED) sector, we have confirmed that the SIF will be introduced in the RIIO-ED2 price control.⁴ We intend to consult on the introduction of the SIF licence conditions in this sector nearer to the commencement of RIIO-ED2 on 1 April 2023 as part of the wider RIIO-ED2 licence development process. ED stakeholders are nevertheless invited to respond to this current consultation.

Yours faithfully,

Steve McMahon
Deputy Director, ED Sector, Networks

⁴ RIIO-ED2 Sector Specific Methodology Decision: <https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-sector-specific-methodology-decision>

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