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### **Version 3 of the Network Innovation Competition Governance Documents**

This letter explains our approach to issuing version 3 of the gas and electricity Network Innovation Competition (NIC) governance documents (the "governance documents"). We intend to issue these governance documents pursuant to the "NIC Licence Conditions".<sup>1,2,3,4,5</sup> The governance documents contain the regulation, governance and administration of the NICs.

We reviewed the governance arrangements of the NIC and the Network Innovation Allowance (NIA) during 2016. We published a consultation<sup>6</sup> on proposed changes in December 2016 and made our decision in March 2017.<sup>7</sup> More detailed explanation on our policy decisions can be found within the decision document. We have attached draft governance documents to this letter which show how we intend to implement our policy decision. The proposed changes also reflect feedback we received when we informally consulted on the proposed changes to the governance documents in December 2016 and again in April 2017.

This letter constitutes formal notice that we intend to issue Version 3 of the NIC governance documents. We plan to issue each of the governance documents, incorporating the representations we receive in response to this letter.

**Please send any representations or objections to this letter to [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk) on or before 8 June 2017. We will consider representations or objections and will incorporate them as appropriate into each of the governance documents ahead of issuing the governance documents on or before 30 June 2017.**

### ***Changes to the gas and electricity NIC governance documents***

#### *Involvement of Non-Network Licensees*

There will be a new requirement on RIIO network companies intending to make an application for NIC funding to first issue an annual call to non-network licensees for NIC project proposals. We have decided to increase the number of projects that the RIIO

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<sup>1</sup> Electricity Transmission Licence – Special Condition 3I

<sup>2</sup> Electricity Distribution Licence – Charge Restriction Condition 5A

<sup>3</sup> Gas Transporters Licence – National Grid Gas Transmission (NGGT) Special Condition 2F

<sup>4</sup> Gas Transporters Licence – Distribution Network Operators (DNs) – Special Condition 1I

<sup>5</sup> Gas Transporters Licence – IGTs – Special Condition

<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-consultation-proposals>

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-policy-decision>

network companies can put forward as full submissions from two to four where the additional two projects will be implemented in partnership with the non-network licensee which initiated the idea. This is to help increase involvement of third parties in the NIC and deepen the pool of potential projects.

#### *The Successful Delivery Reward*

Network companies will not be able to apply for the Successful Delivery Reward in relation to projects that are funded through the NIC in or after the year beginning 1 April 2017. We are making these changes because we think it is appropriate that the companies make a non-refundable contribution to project costs given the significant benefits network companies are getting from implementing innovation projects.

#### *Bid preparation costs*

Network companies will not be able to recover bid preparation costs in relation to projects which pass the ISP in or after the year beginning 1 April 2018. The changes to the governance documents will remove the ability of non-RIIO network companies to seek bid preparation costs through the NIC.<sup>8</sup> Given the significant benefit the RIIO network companies are getting from implementing innovation projects we think it is appropriate that the companies fund the development of submissions to the NIC.

#### *Level of electricity NIC funding*

Under the electricity distribution price control, electricity NIC funding will be reduced from £60 million to £40 million per year over 2017-2023. This means the overall level of funding for the electricity NIC will be £70m until the end of RIIO-T1. We expect this to increase the quality of projects funded through the NIC as licensees are more likely to have to compete for funding. The historical levels of uptake have not exceeded the available funding. Therefore, we think a moderate reduction in funding is unlikely to cause detriment to consumers because the benefits are likely to be comparable, if not better due to higher quality project bids, to those that have been realised to date.

#### *Change requests*

Companies will be required to obtain 'independent verification' that project deliverables have been achieved. The cost of obtaining this will be capped at two percent of overall NIC funding and would be included as a specific cost item in future NIC submissions. If Ofgem is not satisfied with the independence or quality of an original verification report, we reserve the right to require an alternative report at the network company's own cost. This change is taking place because we recognise that the current requirement to seek Ofgem's permission to make changes to projects in flight is administratively burdensome.

#### *The contingency funding mechanism*

We are removing the contingency funding mechanism for projects which are funded in or after the year beginning 1 April 2017. Protection against cost over runs and shortfalls in direct benefits will be removed. This is to encourage network companies to take on more responsibility for innovation as part of business as usual activities.

#### *NIC alternative bank accounts*

We are removing the requirement for Ofgem to approve the use of alternative bank account arrangements for NIC projects. This is intended to reduce the resource requirements of network companies and Ofgem.

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<sup>8</sup> We are also making changes to the NIA Governance Documents and licence to remove the ability of RIIO network companies to recover bid preparation costs.

### *Ongoing NIC and NIA reporting*

We have made changes to the reporting requirements for both ongoing and future NIC projects. We have also reduced the frequency of project progress reporting from 6 monthly to annually. We have also made provision to allow network companies to merge the reporting requirements of NIC projects with reporting requirements under the NIA Governance Document. These could be combined in a single annual report summarising all of the network company's innovation activity each year. It should reduce the burden on network companies and make learning more accessible for interested parties.

### *Customer Engagement and Data Protection Plans*

We have removed the requirement for network companies to have customer engagement and data protection plans approved by us. In relation to customer engagement plans, we do not consider that we are best placed to add value by approving these, however we note there are incentives within the price controls for companies to engage effectively with customers and we would expect companies to plan carefully any interaction they have with customers through their internal governance procedures. In relation to data protection plans, the Data Protection Act 1998 places obligations on any organisation gathering and holding personal data and we do not consider it is necessary for Ofgem to approve the measures taken by network companies to ensure compliance with the Act.

### *Cross industry projects*

Projects requiring funding from both the gas and electricity NIC should make a single submission to both competitions stating the amount of funding they are requesting from each competition. There will then be a joint meeting of the gas and electricity Expert Panels to consider these cross industry projects. This is to reduce the resource requirements for network companies and Ofgem.

### *Sharing of trial data*

Innovation projects involve the gathering of large amounts of data which could deliver value beyond the scope of the original trial. Therefore, we the companies to make this data available. We have introduced requirements for network companies to have systems in place to be able to share data that is collected through customer funded projects. As set out in the governance documents, companies will be required to have in place by 30 September 2017 a publicly available data sharing policy setting out the terms on which data will be provided and a link to this must be included in the submission to the NIC as well as in project reports. This will help give consumers maximum value for their investment.

### **Next steps**

Please send any representations or objections to this notice to [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk) on or before 8 June 2017. We will consider representations or objections and will incorporate them as appropriate into the governance documents ahead of issuing each of the governance documents on or before 30 June 2017.

Yours sincerely,

**Geoffrey Randall,  
Associate Partner, RIIO Networks  
For and on behalf of the Authority**