

RIIO-2 Innovation Workshop – Summary of discussions

From: Graeme Barton, James Veaney, Laura Hutton

Date: 18 September 2018
Time: 13:30 – 17:00

Location: 200 St Vincent Street, Glasgow

1. Present

We had approximately 30 attendees from network companies, third party organisations and academia at the workshop. Organisations represented were:

Beama	Cadent	SSE	CNG Services
Citizen's Advice	Scottish Power Transmission	Energy Networks Association	Imperial College London
Electricity North West	Energy Innovation Centre	University of Strathclyde	Northern Power Grid
IGEM	Energy Utilities Alliance	Welsh Government	UK Power Networks
Energy Systems Catapult	National Grid TO	Western Power Distribution	Wales and West Utilities
National Grid ESO	Northern Gas Networks	National Grid Gas Transmission	DNV GL
Scottish Gas Networks	Scottish Power Distribution		

2. Future of Networks Innovation

For our first workshop discussion, we asked the room to discuss the drivers of networks innovation and what we might see emerging in the next five to ten years.

The groups noted the following parties as drivers of innovation in networks:

- supply companies;
- stakeholders;
- internal to business – attendees noted that this is one of the traditional drivers of innovation, however it may be less of a driver now;
- third parties – attendees noted that this is increasingly becoming a driver of innovation;
- government policy;
- Ofgem regulation;

- safety;
- efficiency;
- new technology; and
- reputation.

As there was considerable overlap between the discussion on emerging innovations and our second workshop discussion, we have combined these with our summary of discussion around the RIIO-2 Framework Proposal.

3. RIIO-2 Framework Proposal

Ofgem summarised the RIIO2 Framework Decision in July 2018 which decided to retain an innovation stimulus in RIIO2, but to lead reform in following four areas:

- i. Transitioning more innovation spending to business as usual (BAU);
- ii. Aligning funding with energy system transition;
- iii. Greater coordination with other public sector innovation funding; and
- iv. Increased third party involvement.

We asked the tables to provide their views on our emerging thinking and options on each of these reform areas. The main outcomes from this part of the workshop have been summarised below.

i. Transitioning more innovation spending to BAU.

- Stakeholders commented that incremental innovation is much more common than the 'trailblazing' innovations, though it was commonly viewed that both are needed to drive innovation. It was acknowledged that these incremental innovations could be done as part of BAU, but that in this way may vary considerably depending on company culture.
- Some attendees believed that network companies needed to be made accountable for not promoting innovation internally, citing as a barrier the discrepancy between the current BAU in certain network companies, and the technologies and ideas developed through the Innovation Stimulus.
- It was also noted that even if projects never progress to BAU, it should be recognized that they can still provide valuable learning and represent cost savings on future projects.

ii. Aligning funding with energy system transition (EST)

- The main concern expressed around the alignment of funding with EST challenges was the definition of those challenges, and the possibility that there is valuable innovation which does not sit within that scope. The group were however receptive to the possibility of higher and lower company contributions to project costs, depending on a sliding scale of the relevance of a project to EST.
- The majority of stakeholders were in favour of retaining the flexibility of the Network Innovation Allowance (NIA), which allows for a broad range of project focuses in a flexible timeframe.
- The proposal of an industry-wide innovation strategies was met with some doubt around its utility. However, it was noted that the existing Gas and Electricity Innovation

Strategies were a beneficial tool for coordination and a 'whole system' innovation strategy could help to support more joined-up thinking.

iii. Greater coordination with other public sector innovation funding

- This reform area was broadly supported. One potential concern identified was that closer alignment of funding could potentially mean government influence in the process of awarding network innovation funding. There were also questions whether issues would arise if intending to match RIIO funding with public money.
- Stakeholders responded positively to the idea of mapping innovation funding, and the provision of a Joint Advice Service. However, there was no clear agreement on who would take up this responsibility.

iv. Increased third party involvement

- On the consideration of direct access for third parties to Innovation Stimulus funding, the network company representatives had two main objections: the governance associated with direct access would likely preclude SMEs from engaging, while the network companies could end up bearing increased risk.
- Stakeholders were receptive to the proposal of a network company-led third party competition, potentially in the style of the existing Network Innovation Competition (NIC), as it would help mitigate their concerns around direct access.
- Stakeholders commented throughout the workshop that the flexibility of the existing NIA was of great benefit to all involved, and particularly for SMEs. This was in contrast to specific government funding calls that are time limited, which SMEs do not have the resource to meet.
- The inclusion of higher Technology Readiness Levels (TRLs) in the NIA was also cited as an opportunity to develop third party ideas further than possible via other funding routes.

4. Next Steps

Ofgem will continue to engage with industry ahead of the December consultation and continue to welcome any feedback or questions from stakeholders.

The detailed development of the operation and governance of any future innovation stimulus will follow the sector-specific decision being made in early summer 2018. We also plan to convene an Innovation Working Group to develop these detailed arrangements.

If any stakeholders have any questions or further feedback, they are advised to contact Laura.Hutton@ofgem.gov.uk and networks.innovation@ofgem.gov.uk.