

## RIIO-2 Innovation Stakeholder Workshop – Summary of discussions

From: Laura Hutton, Graeme Barton, James Veaney

Date: 26 July 2019

Time: 10:00 – 12:30

Location: Ofgem, 10 South Colonnade, Canary Wharf, E14 EPU

### 1. Attendees

James Veaney	Ofgem
Graeme Barton	Ofgem
Laura Hutton	Ofgem
Tom Neal	NGGT
Paul Turner	ENWL
Peter Papatiriu	UKPN
John Richardson	SGN
Iliana Portugues	NGET
Jon Berry	WPD
Stephen Hassall	Cadent
James Yu	SPEN
Priyanka Mohapatra	SPEN
Lucy Mason	WWU
Andrew Urquhart	SSE
Frank Clifton	SSE
Richard Hynes-Cooper	NGN
Carolina Tortora	NGESO
Randolph Brazier	ENA
Matt Hindle	ENA
Denise Massey	Energy Innovation Centre

### 2. Welcome and introductions

2.1. Graeme Barton (GB) introduced the meeting.

### 3. RIIO-2 Sector Specific Methodology Decision and Business Plan Guidance

3.1. GB ran through the slides providing an overview of the RIIO-2 Sector Specific Methodology Decision and Business Plan Guidance.

3.2. In response to questions and comments from attendees, GB clarified:

- The gas distribution sector team will further consider requirements for GD companies to review emerging heat decarbonisation evidence and these are likely to be discussed the Heat Decarbonisation Working Group in due course.
- An independent review of the RIIO-1 innovation stimulus will be conducted at the end of RIIO-1, but exact timings of this review have yet to be confirmed.
- We will further consider increased third party involvement as we develop the arrangements for the new innovation funding pot.
- Throughout companies' RIIO-2 business plans, companies should signpost the innovative activities they plan to conduct in RIIO-2, plus where they have cut costs and delivered benefits to consumers as a result of past innovation activities.

- As per SSMD and Business Plan Guidance, companies should tell us how much Network Innovation Allowance they need for RIIO-2. As part of this, companies can also tell us how much compulsory contribution they are willing to make towards projects.

### 3.3. The following points were also made:

- One attendee noted that proposing innovation within BAU activities can push up companies' costs, and suggested that companies should not be penalised for putting forward higher costs in such circumstances. In response, James Veaney (JV) noted this, but also made the point that we do not want to encourage innovation for innovation's sake, and therefore we want to encourage innovation that ultimately delivers benefits to consumers.
- One attendee suggested that companies need the flexibility to respond to emerging ideas and innovation during the course of RIIO-2 and suggested that it may be desirable to revisit companies' suggested focuses during the course of RIIO-2. In response, GB noted that companies should tell us how much innovation funding they need and can include a request for a re-opener for their innovation allowances during the course of RIIO-2 if they believe they need this.
- One attendee noted the example of Australian innovation funding which focused on set innovation themes. They noted that pre-identifying the focus of activities has resulted in projects falling through gaps and not progressing because there is a lack of flexibility.
- One attendee noted that varying compulsory contribution rates and increasing third party contributions may complicate default Intellectual Property Rights arrangements, and these arrangements may need to be revisited for RIIO-2.
- Another attendee noted that RIIO-2 innovation arrangements need to be simple to aid third party involvement, and warned against complex NIA arrangements which vary between companies as this could make third party involvement difficult.
- One attendee noted that further clarity regarding the arrangements to fund joint NIA projects will be needed before the start of RIIO-2 and what would be acceptable in terms of sharing benefits.
- Another attendee suggested creative approaches could be used to help encourage companies to roll-out innovation more widely, and suggested that the level of compulsory contribution expected from one company could be lowered as more companies roll out the proven innovation.

### 3.4. Randolph Brazier (RB) and Matt Hindle (MH) also presented their slide summarising additional feedback from network companies.

## 4. Improving innovation benefits tracking, reporting and reporting packs

4.1. GB ran through a slide summarising Ofgem's challenge to industry regarding the need to improve innovation benefits tracking and reporting. GB suggested that improving reporting and benefits tracking will increase transparency of innovation spending and help enable increased third party involvement. JV also emphasised the need to improve reporting and benefits tracking, and need to see companies make progress in this regard as this is one of big risks facing innovation.

4.2. RB and MH presented a slide introducing work taken forward by network companies to improve benefits tracking and reporting. They noted that network companies collectively agreed there was a need for an agreed methodology for reporting and tracking of innovation projects, and further automation of the ENA's Smarter Networks Portal would be possible with dashboard outputs for example. They also noted that gas

and electricity network companies are coming together on 5 August to discuss improvements.

4.3. The following points were also made:

- One attendee suggested that tracking innovation activities is a significant undertaking, considering the number of projects and therefore their own preference is for reporting rather than tracking individual projects.
- Another attendee suggested that industry wide industry reporting could be tied to joint innovation strategies.
- Another attendee noted that it is unlikely that BAU innovation would be reported in the same way as NIA innovation projects.
- Another suggested that headline reports providing overviews across the sector, rather than detailed breakdowns for individual projects are of particular value.

## 5. RIIO-1/2 transitional arrangements

5.1. GB introduced a slide introducing a discussion about the transition between RIIO-1 innovation funding and RIIO-2 innovation funding.

5.2. RB and MH followed this with a slide expanding on the problem by noting that there is evidence of a drop off in innovation activity towards end of price control period. They expanded on two possible options - merging NIA allowance over the last two years of RIIO-1 or extending NIA funding into the first year of RIIO-2 to enable project closure. They also noted they will further discuss this issue at their workshop on 5 August.

5.3. The following points were also made:

- One attendee suggested there is an annual rush to get things done and money spent on NIA as it is an annual use it or lose it allowance.
- Other attendees suggested there are additional transitional issues surrounding collaboration with ED companies during the final years of RIIO-ED1 and first two years of RIIO-2 for other sectors. In response, other attendees noted that funding should continue to be accessed by the lead network, but collaboration of other networks will still be encouraged.
- Another attendee noted that these transitional issues for RIIO-2 are not unique to innovation funding.
- Attendees suggested they could provide further detail to Ofgem on possible options following the ENA workshop on 5 August, and suggested that they would welcome any update on Ofgem's thinking as soon as possible as this impacts their activity planning during the remainder of RIIO-1.

1.2. GB confirmed that Ofgem would further consider this issue and noted that the preference from most attendees would be merger of 2019/20 and 2020/21 NIA funds or a continuation of 2020/21 NIA funds into 2021/22.

## 6. Next steps / wrap up

6.1. JV closed the meeting by presenting an overview of the RIIO-2 programme timeline. In response to a question, it was clarified that Ofgem will hold workshops and consult on the new innovation funding pot in due course. This is however unlikely to be imminent and is something that will be taken forward in the medium term.

6.2. Ofgem welcomes continued stakeholder engagement and this can be directly sent to [graeme.barton@ofgem.gov.uk](mailto:graeme.barton@ofgem.gov.uk) or [network.innovation@ofgem.gov.uk](mailto:network.innovation@ofgem.gov.uk)