

RIIO-2 Innovation Workshop

Room 1.16, Ofgem's London office (10 South Colonnade, Canary Wharf, E14 EPU)



10:00 – 12:30, 26 July 2019

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Topic	Time
1. Welcome and introductions	10:00
2. RIIO-2 Sector Specific Methodology Decision and Business Plan Guidance a) Ofgem overview (10 mins) b) ENA overview of feedback on this decision (15 mins)	10:05
3. Improving innovation benefits tracking, reporting and reporting packs a) Ofgem overview (5 mins) b) ENA overview of benefits reporting work (10 mins)	10:35
4. RIIO-1/2 transitional arrangements a) Ofgem overview (5 mins) b) ENA overview of problem and potential solutions (10 mins)	11:30
5. Next steps/wrap up	12:00

**2. RIIIO-2 Sector
Specific
Methodology
Decision and
Business Plan
Guidance**



Making a positive difference
for energy consumers

Decision

RIIO-2 Sector Specific Methodology – Core document

Publication date	24 May 2019	Contact:	RIIO Team
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In December 2018, we consulted on proposals to set the sector-specific methodologies for the Electricity Transmission, Gas Transmission, Gas Distribution and the Electricity System Operator RIIO-2 price controls starting on 1 April 2021. This document sets out our decision on the policy areas applying across these sectors, except where otherwise indicated. There is a separate annex setting out Finance decisions. Further information on decisions for each sector are set out in separate annexes to this document. Network companies will use this information to develop their Business Plans over the remainder of 2019.



Making a positive difference
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RIIO-2 Business Plan Guidance

Publication Date	03 June 2019	Contact:	RIIO Team
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This is an updated guidance document directed at gas and electricity network companies and their stakeholders. This provides an update on the information that should be included in companies' Business Plans for RIIO-2, including in relation to the RIIO-2 Sector Specific Methodology Decision published on 24 May 2019.

This replaces the previous version of the RIIO-2 Business Plans Draft Guidance published on 21 December 2018. It remains a live document which may be subject to change, as and when appropriate.

Encouraging more innovation as part of BAU activities

- Confirmed expectation that companies fund more innovation in RIIO-2 using their totex allowance.
- Confirmed use of totex incentive mechanism.
- Confirmed use of Business Plan Incentive.
- Confirmed challenge from RIIO-2 Challenge Group, Customer Engagement Groups and User Groups.

Network Innovation Allowance

- Confirmed opportunity for additional NIA funding.
- Confirmed focus primarily on energy system transition or consumer vulnerability.
- Confirmed innovation allowances based on justification and need for individual allowances in Business Plan submissions, rather than providing automatic allowances linked to revenues.
- Detailed process for setting individual innovation allowances, including challenge to improve reporting.

New strategic innovation funding pot

- Confirmed new innovation funding pot to refocus innovation funding on the energy system transition and what is strategically important.
- Funds will be recovered from use of system charges (further consideration of whether electricity innovation funds are also recovered from Balancing Services Use of System (BSUoS) Charges).

Other relevant issues

- For whole system projects within business plans, confirmed broad definition of whole systems, as long as produces net benefits for their sector's consumers.
- Confirmed sector-wide innovation strategies to ensure they consider whole system solutions.
- Company reporting on implications of heat decarbonisation (within GD document).
- ESO specific issues, such as conflict with ESO incentives regime and ESO third party spend.
- Increasing third party involvement, including consideration of direct third party access and imposing wider requirements on companies.
- Independent evaluation of RIIO-1 innovation stimulus at end of RIIO-1.



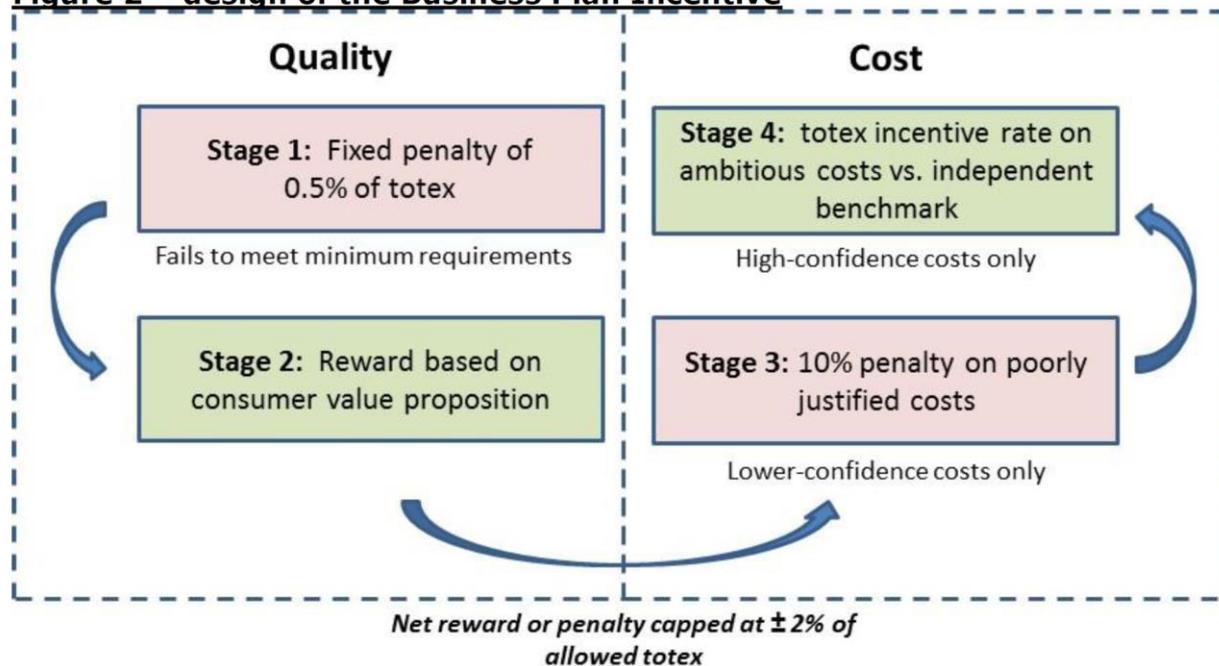
Business Plan Incentive minimum requirements re innovation set out in Business Plan Guidance



Companies can include any need for additional innovation funding in Business Plans

- The BPI seeks to drive benefits for consumers by rewarding companies for plans that offer consumers additional benefits and value for money. Companies that submit Business Plans that fail to meet minimum requirements or that have poorly justified cost forecasts will incur a penalty.
- For stages one and two of four stage assessment process,
 - We will carry out a qualitative assessment of Business Plans in order to ensure that they contain all of the information that we consider to be the minimum required. The minimum requirements are set out in the Business Plan Guidance.
 - We will also carry out a qualitative assessment of what additional value the Business Plan offers to consumers. Companies may bid for a reward on the quality aspects of its plan as revealed through a 'Consumer Value Proposition' (CVP).

Figure 2 – design of the Business Plan Incentive



- Companies can also include two additional requests for funding:
 1. A case for any additional totex allowance necessary for RIIO-2 to roll out previously proven innovation.
 2. What additional Network Innovation Allowance they need for RIIO-2 (as detailed below).

If companies believe NIA funding is necessary for RIIO-2, their Business Plan should set out the level of NIA funding they require. They should explain why the innovation in question cannot be funded from the totex allowance. We would like companies to include high-level areas of focus for NIA spending, rather than individual projects, and how much additional funding they believe is necessary for each of these areas of focus, together with the value/benefits they anticipate this may generate.

As set out in the RIIO-2 Sector Methodology Decision, in determining the level of NIA funding, we are likely to take into account the following, along with other information that may be relevant:

- *companies' proposals for these allowances in their Business Plans*
- *the extent to which companies are undertaking other innovation as BAU activities*
- *the extent to which companies' proposals incorporate the application of best practices*
- *the processes companies have in place to roll out proven innovation into BAU and the evidence that they are already doing so*
- *the processes companies have in place to monitor, report and track innovation spending and the evidence that they are already doing so*

**2b. ENA overview of
feedback on this
decision**

RIIO-2 SSMD feedback

- ENA and Members broadly welcome the innovation package described in the RIIO-2 SSMD, including the retention of NIA funding and Strategic Challenge Fund
- Recent collaboration between Networks, ENA, Industry and Ofgem has been very positive and we want to continue to work together to deliver a successful RIIO-2 programme
- We are ready to work with Ofgem to help define and agree the methodology for the innovation mechanisms in RIIO-2
- We would like to work with Ofgem to provide further clarity on the following:
 - Clear timelines for consultation and business plan submissions
 - Scope & Governance Arrangements
 - NIA, Innovation as BAU, Project Rollout
 - Strategic Challenge Funds
 - How these link to the Innovation Strategies
 - Rules for setting funding levels
 - Whole System Interactions
 - Combining RIIO funding with outside innovation funding sources
 - Benefits reporting & transitional arrangements (see following slides)

3. The challenge of improving innovation benefits tracking, reporting and reporting packs

- Many consultation responses to our Sector Specific Methodology Consultation suggested that improvements could be made to reporting and benefits tracking of innovation projects. Some of these responses noted the existing work by the Energy Networks Association and the Energy Innovation Centre.
- Reporting and tracking progress on innovation should operate at a sector or industry-wide level, as we are seeking to use consumer fund to support innovation that will benefit the entire sector.
- Accordingly, as stated in the Sector Specific Methodology Decision, we think that current levels of public reporting can also be improved to support greater transparency around how innovation funding is being used, the benefits of individual NIA projects, and their wider implementation in the energy sector.
- We therefore stated that we will consider the processes companies have in place to monitor, report and track innovation spending and the evidence that they are already doing so in determining individual Network Innovation Allowances.
- Today, we want to use this session as an opportunity to get discussion going on back of this challenge, considering some of the existing work being done by the Energy Networks Association and the Energy Innovation Centre.

3b. ENA overview of benefits reporting work

- We agree that a new methodology for forecasting and reporting benefits of innovation projects and portfolios is required to ensure customer confidence
- There are a range of areas that can help support this, including the Innovation Portals, the joint Innovation Strategies and dissemination activities
- ENA is convening a workshop on 5th August to discuss joint approach across all Members going forward
 - This will build on existing work and practices, including current benefits measurement approaches and Bargina Portfolio Innovation Measurement Framework Project
 - Building from this session, all ENA Members will agree an approach in collaboration with Ofgem Innovation Team
- The ENA Gas Innovation & Governance Group (GIGG) and Electricity Innovation Managers Group are committed to build on their existing role of sharing, dissemination, collaboration and rolling out innovation in BAU to deliver maximum benefits to customers

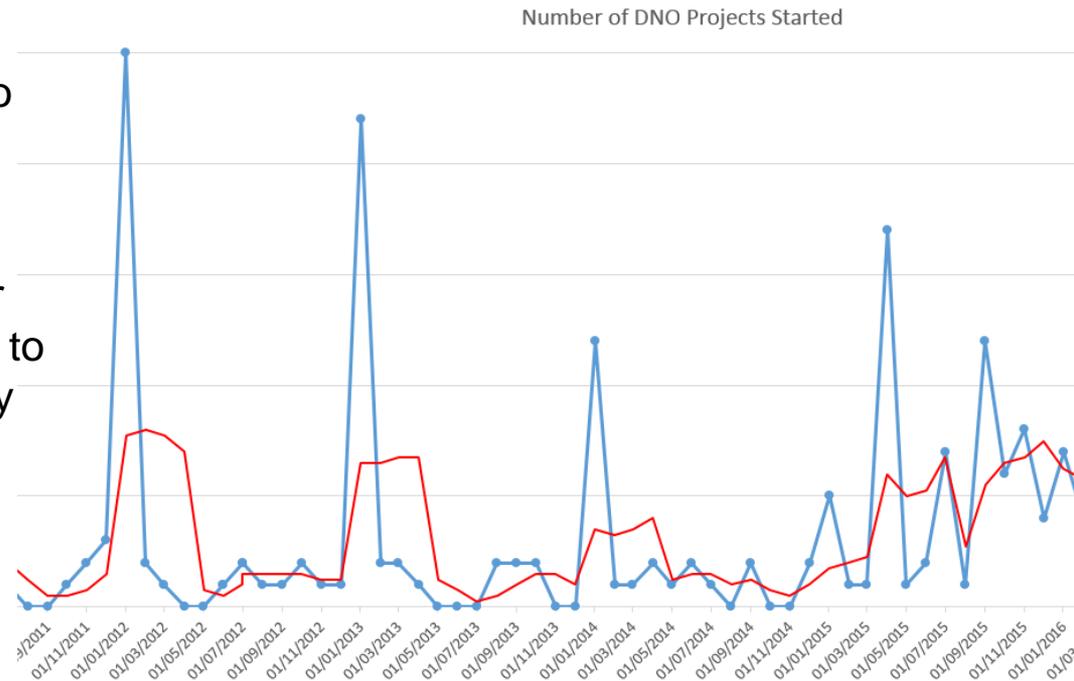
4. RIIIO-1/2 transitional arrangements

- Network companies will continue to receive existing innovation allowances until the end of RIIO-1, and should use these to continue to support innovation projects.
- We currently have no plans to amend RIIO-1 innovation arrangements during the remainder of RIIO-1.
- However, we want to avoid a cliff edge situation towards the end of RIIO-1, which prevents companies starting projects using their RIIO-1 innovation allowances or disrupts innovation projects which would otherwise finish during FY 2021/22.
- Today, we welcome further detail on this problem from participations and any suggested solutions to mitigate it.

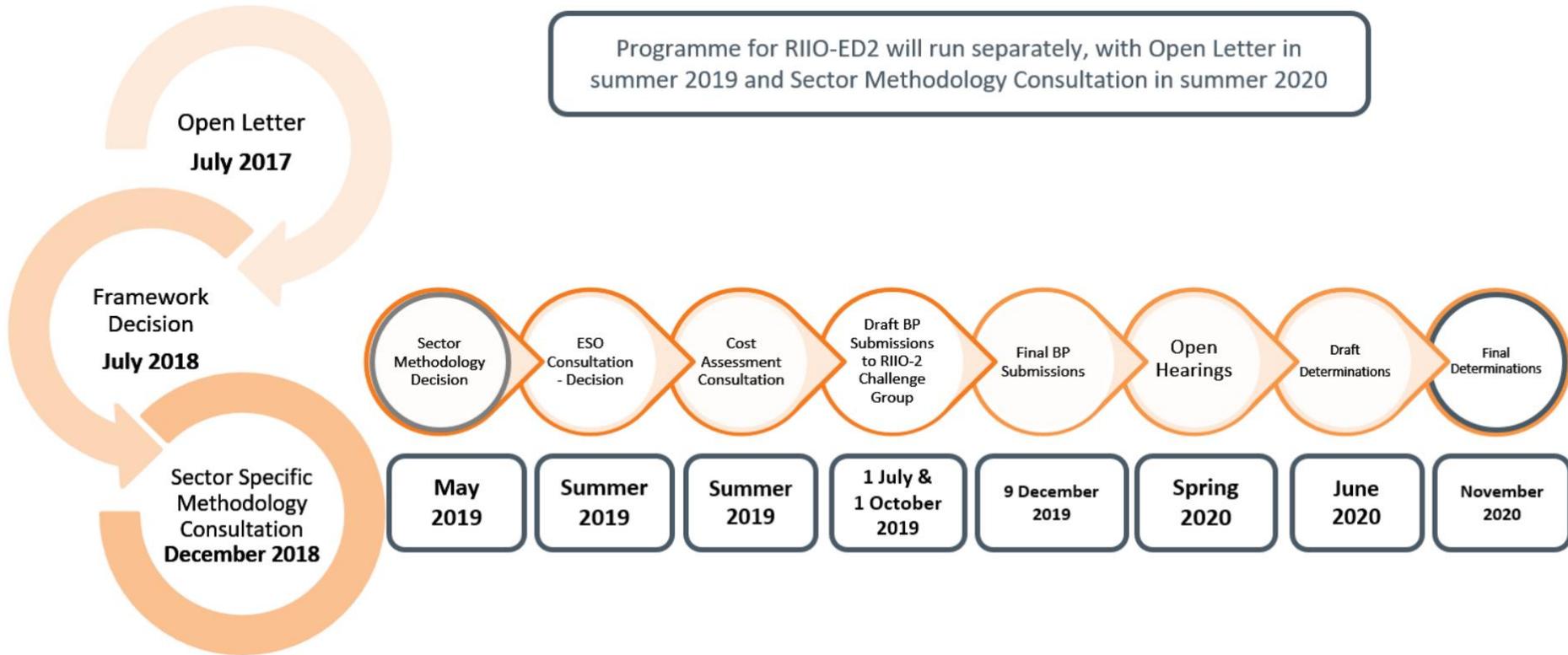
4b. ENA overview of problem and potential solutions

RIIO 1 – 2 transitional arrangements (NIA only)

- We want to ensure a smooth transition between RIIO-1 and RIIO-2 innovation portfolios
 - This will maximise benefits to customers and minimise disruption to third parties involved in innovation projects
- There are a range of possible options for ensuring the smooth transition. We want to work with Ofgem to agree a sensible way forward
- These options could include:
 - Do nothing; accept some boundary issues and mitigate through clear/early guidance as far as possible
 - Changes to allowances to smooth boundary issues and/or account for delays
 - Any other ideas?



5. Next steps



Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.