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3rd August 2022

Update on the RIIO-2 Strategic Innovation Fund (SIF), and consultation on an updated SIF Governance Document

Thank you for the opportunity to formally respond to your update on the SIF and on the proposed changes to the SIF governance document. This response and the views expressed in it are associated with National Grid Electricity Transmission (NGET) only.

We welcome and support the work that Ofgem and Innovate UK are doing to ensure that we evolve the SIF as we start to enact the process in earnest and learn from our collective experience to date. We also recognise and welcome that some of the comments made through previous workshops, for example in relation to IPR, have been considered when putting forward the changes outlined in this consultation.

Our detailed comments on the proposed changes to the SIF Governance document are attached separately to this letter in the excel template provided. However, we would like to raise some overarching points for your consideration that are aligned to the focus areas in your consultation letter. Our answers to your specific consultation questions are outlined at the end of this letter.

Proposed changes to enable more flexible, agile and responsive governance

We welcome the consideration of alternative arrangements for the SIF process and the desire to introduce additional flexibility. We believe there will be real benefit in being able to combine or skip some stages of the SIF process and welcome the direction of travel to accommodate this.

The proposed changes focus on combining stages of SIF. We would welcome the ability for projects, where appropriate, to skip stages of SIF (for example, if an NIA project has achieved the same outcomes as the Discovery Phase, then it may be appropriate to start from the Alpha phase).

However, we are concerned at the proposal that Innovation Challenges may be used as a means to deviate from the Governance Document requirements. We are concerned that such a proposal is seeking to circumvent the requirement to formally modify the Governance Document and to place obligations that ought to be contained in the Governance Document in further extraneous documents. Such approach is not consistent with Ofgem's principles of use for RIIO-2 Associated Documents which states that "Obligations on licensees must be drafted clearly whether in the licence condition or the Associated Document, so licensees can be sure what is expected of them." Given our licence obligation to comply with the requirements of the Governance Document, it is essential that the obligations

placed on us can be clearly and unambiguously understood and any changes are appropriately consulted upon. We consider that any alternative approach, such as combined Discovery and Alpha phase, should be set out clearly as an alternative in the Governance Document and the Innovation Challenge can then confirm which of the permissible approaches is to apply for the challenge, thus providing transparency and clarity for licensees, suppliers and other stakeholders interested in the SIF.

We note the proposed changes to some reporting requirements. We understand the importance of reporting on some of these areas but seek clarity and assurance that sufficient consideration will be given to the time available in each SIF phase and funding window to ensure these can be completed adequately by the Funding Party.

Proposed changes to chapter 9 – Intellectual Property Rights and Royalties

We recognise the importance of ensuring that all parties that are involved in the SIF process can understand all aspects of it, including the approach to IPR. We therefore welcome, and support the development of, wording and guidance that will ensure that this is the case.

Electricity distribution network operator participation in round 2

We see potential benefit in the ability of DNO's to apply to the next SIF round ahead of the formal inclusion of the Licence condition in ED-2 given the timing of ED-2 licences coming into effective relative to the SIF application rounds. However, we recognise that the expertise does not reside with NGET and that the DNO's are better placed to comment on the practicalities of the proposed arrangement. We would welcome some further clarity on exactly how this would be enacted ahead of the licence condition coming into effect.

Timing of an updated SIF governance document

Ofgem and Innovate UK must ensure that they consider all consultation feedback before finalising changes to SIF and the Governance Document. We are comfortable that these changes can come into effect in August 2022 on the basis that all consultation feedback has been considered ahead of publishing the finalised document.

We do not agree that any changes to the Governance document should apply retrospectively to existing projects as those applications were made and progressed under previous arrangements. While we note the position that it is not believed to have a significant impact, it is an unhelpful and concerning precedent for how more extensive changes could be implemented in future.

Our response to the individual consultation questions can be found below.

Consultation Questions

1. Do you agree with the proposed amendments to the SIF Governance Document?

Our comments on the proposed drafting are included separately in the excel template provided. While we agree with many of the changes proposed, there are some areas where we do not agree with the change in the form proposed and we have provided specific feedback on this.

Our most significant area of concern is the extent to which the Innovation Challenge will be used to set the parameters for the SIF process. We are concerned that such a proposal is seeking to circumvent the requirement to formally modify the Governance Document and to place obligations that ought to be contained in the Governance Document in further extraneous documents. Such approach is not consistent with Ofgem's principles of use for RII0-2 Associated Documents which states that "Obligations on licensees must be drafted clearly whether in the licence condition or the Associated Document, so licensees can be sure what is expected of them." Given our licence obligation to comply with the requirements of the Governance Document, it is essential that the obligations placed on us can be clearly and unambiguously understood and any changes are appropriately consulted upon. We consider that any alternative approach, such as combined Discovery and Alpha phase, should be set out clearly as an alternative in the Governance Document and the Innovation Challenge can then confirm which of the permissible approaches is to apply for the challenge, thus providing transparency and clarity for licensees, suppliers and other stakeholders interested in the SIF.

2. Do you agree or disagree with proposed requirement for applicants to outline what other UK government funding (aside from the SIF) a proposed Project, or aspects of Project, has received in the last 36 months when submitting an Application? Do you also agree or disagree with the period of 36 months for this proposed requirement?

We agree it is appropriate for the applicant to outline any other funding they have received associated with the Project that is the subject of their SIF application. Where funding has been received, we do not believe it should ever exclusively preclude participation in the SIF. We do not have a specific view on the duration currently and are therefore comfortable with the proposed duration of 36 months, subject to the views of other Licensees.

3. Do you agree that the amended SIF Governance Document should come into force in August 2022, and should apply to all in-flight and future SIF projects?

As we have previously commented, we do not think this drafting is sufficiently clear, and consider it would not be appropriate for any changes to have a retrospective effect as applications and projects were submitted and progressed on the basis of the previous Governance Document. We suggest that specific drafting is included to make clear that the updated Governance Document will not apply to projects whose applications and funding directions were submitted prior to the revised document coming into effect.

4. Do you agree or disagree (giving reasons) with DNO participation in round 2 of the SIF?

We see potential benefit in the ability of DNOs to apply to the next SIF round ahead of the formal inclusion of the Licence condition in ED-2 given the timing of the ED-2 licences coming into effect relative to the SIF application round timing. However, we recognise that we do not have the expertise in this area and that the DNOs are better placed to comment on the practicalities of the proposed arrangement.

5. Are there any specific considerations relating to the proposed participation of DNOs in round 2 of the SIF which need to be taken into account in the SIF Governance Document?

We consider it would be helpful if the position as regards DNO participation in the SIF is more clearly articulated in the Governance Document, making clear the basis on which they are able to participate ahead of the SIF licence condition coming into effect in their licence, in the manner described in the covering letter to the consultation. This will ensure transparency on such matters for project partners and other third parties.

6. Do you agree that the proposed drafting amendments on IPR within the SIF Governance Document make it easier to understand the default IPR rules?

It is important that we look to ensure the SIF process is accessible for all of those who participate and are supportive of any structural or drafting changes that provide additional clarity in the IPR section in the SIF Governance Document. Our detailed comments on the proposed changes have been made in the excel template provided, which is attached separately.

7. Do you agree there is a need for an illustrative guidance document which seeks to help third party innovators understand the default SIF IPR?

We believe that we should deliver guidance that is helpful for third party innovators so if they have requested this then we support the development of this guidance document and are willing to support Innovate UK and Ofgem in the development of this document.

If you have any questions or would like to have any discussion about the content of this letter then please contact me.

Yours faithfully

Nicola Todd

Nicola Todd

Head of Strategy and Innovation

For and on Behalf of

National Grid Electricity Transmission plc