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3<sup>rd</sup> August 2022

Dear Graeme,

**Re: Consultation on modification of the RIIO-2 Strategic Innovation Fund Governance Document**

Thank you for the opportunity to respond to Ofgem's consultation on changes to the Strategic Innovation Fund (SIF) governance document. Although we agree with the majority of proposed updates, there are some additional key areas that we think need further consideration before the next iteration of the governance document is finalised.

Prior to the publication of the consultation, a series of workshops were held with network companies, and led by UKRI. Whilst these enabled some useful discussion, the consultation does not appear to take account of the breadth of feedback provided by the networks, which we think then inhibits a more exhaustive and robust review of the governance document and related processes.

Our responses to the specific consultation questions are provided as an annex to this letter, and we have also provided the requested spreadsheet template as a separate attachment. Additionally, we would like to draw Ofgem and UKRI's attention to some key areas that we think would protect and/or enhance the successful operation of the SIF programme, which follow immediately below.

This response can be made publicly available by Ofgem as required.

If you have any question or comments in relation to this response, please contact Corinna Jones, Head of Hydrogen Innovation at [corinna.jones@nationalgrid.com](mailto:corinna.jones@nationalgrid.com).

Yours sincerely,

[by email]

Tony Nixon

**Regulation Director, Gas Transmission**

## **Annex 1: Key aspects of SIF governance for Ofgem and UKRI consideration**

### **1. Applicability of the Governance document to in flight projects**

We do not agree that the proposed updated governance document should apply retrospectively to in flight projects, as Round 1 Alpha projects will be too far progressed to make this viable at the point the new version takes effect. Variation in the Round 1 timelines and application requirements have already caused resourcing and planning issues, and the successful delivery of project is depending on having clarity from the outset. We have no concerns with forward looking application of the updated document.

If there are elements of the governance document that Ofgem or UKRI would like to utilise for Round 1 Alpha, we suggest that these should be communicated and agreed with all project partners.

### **2. Changes to the Conference and Dissemination Requirements**

The updates to the section of the document relating to the innovation conference need further thought. We are still in discussions around the approach for the 2023 conference, and we suggest that the proposed changes are not made until this is complete. The “giant leap forward” has been shared as a concept, but at this stage there is insufficient detail and clarity to fully understand the implications (for instance, on resource needs).

The annual conference is an innovation dissemination event and as such should not solely focus on SIF. The most impactful stakeholder engagement would share knowledge across the innovation stimulus package, encompassing NIA, NIC, SIF, BAU and other funded innovation. This provides a clear and consistent view across all innovation activities and interactions and will prevent duplication in other funding mechanisms. The annual conference is currently funded by NIA and as previously stated by Ofgem, this mechanism cannot fund activities outside of project dissemination. It is therefore important that conference activity planning is cognisant of the funding rules.

The conference has previously been open to other parties to host stands and we would expect this to continue, however, this cannot be at the cost of the consumer and should be funded by the individual attending party.

Discussions around how the conferences could be optimised from 2023 onwards are ongoing, which adds further weight to pausing updates to the conference section of the governance document pending decisions in this regard. For instance, merging the “networks conference” with one of the larger energy conferences is an idea currently being considered, as this would enable a wider audience at a reduced overall cost to consumers.

Lastly, we think that introducing more decision makers into the conference planning process needs consideration as may impact the effectiveness of planning and lengthen delivery timescales.

### **3. Flexibility outside of the governance document**

The governance document provides more flexibility in the approach to SIF which should be beneficial to the process. However, experience to date would suggest that the change management process for SIF is insufficient to effectively manage resourcing and project delivery. The process for updates outside of the governance document is not described and we are concerned that this would result in networks having to regularly manage unforeseen scenarios that have not been formally consulted upon.

The governance documentation also appears to describe a scenario where Ofgem no longer has a role in the direction and release of innovation challenges. Whilst it is entirely appropriate for UKRI to lead activities on innovation challenge determination, we think it is important for Ofgem to remain as the ultimate decision maker to ensure alignment with regulatory funding principles and policies.

#### 4. Ideas reporting for SIF

The networks receive and develop ideas throughout the year these are rarely directed towards any particular funding route. All ideas are collated and reviewed against business benefit before considering the correct funding route therefore providing a singular list for SIF is not feasible. We are however reporting our ideas and associated projects through the IMF annual assessment and suggest this is utilized to prevent duplication.

#### 5. Process improvement options

The governance document consultation has not enabled wider review of the SIF process or allowed networks to provide suggestions for the improvement of the funding process. We suggest that prior to release of the governance document an open discussion around how the SIF process has run so far would be beneficial, as we think may be several opportunities for enhancement.

As the successor mechanism to the RII0-1 Network Innovation Competition (NIC), the Strategic Innovation Fund (SIF) was created with the intention of enabling a robust and agile funding route for network focused innovation projects. We recognise that, supported by UKRI, Ofgem is seeking to effectively and efficiently manage the £450m fund, at all times ensuring value to the consumer. National Grid Gas continues to be a strong advocate of the SIF programme, since July 2021, committing to a pipeline of compelling projects in response to Ofgem's innovation challenges.

However, our experience to date indicates that SIF is a much slower process for enabling larger scale innovation projects than its predecessor mechanism. For example, in the first two years of the SIF process we will have undertaken only eight months of funded activity and without any decision yet on Beta phase projects. In contrast, in the first two years of NIC, we had undertaken 11 months of funded activity with funding decisions in place for the remainder of the project.

We fear that networks will be unable to drive the energy transition at the required pace unless the end-to-end SIF process can be accelerated:

- Options to reduce the number of project phases in line with other funding mechanisms should be explored, and we think that this would be more impactful than seeking flexibility within governance. Merging the Discovery and Alpha phases would greatly improve the process timelines, and inbuilt stage gates could be adopted to enable controlled project progression.
- Linked to the above, optimisation of project assessments is required going forward. Separate and disconnected interview activities are not effective or efficient. Instead, assessors could monitor progress through each phase of delivery, supporting and directing project teams at a mid-point assessment, with final review at project close.

- The physical application should focus solely on the project plan and costs/benefits as the premise of the project should already be established. If the premise is not clear or aligned to SIF funding, assessors should provide direct feedback at the earliest opportunity to avoid networks undertaking large amounts of abortive work in applying for funding.
- Presently, Discovery and Alpha application questions have had very different requirements. Consistency in the questions would enable more information to be reused and decrease the workload at each application stage, enabling the project team to focus on the project plan, benefits, and financials.
- The time between funding decision and project kick off is very short and is leading to the networks working at risk on contracts and project start up activities. Further work is required to optimise the project assessment timelines and enable more realistic contracting periods. At present the SIF process enables only one month to contract each project phase. This has been challenging even for Discovery and Alpha, which are much smaller projects with less contractual complications. We are very concerned that Beta has been offered the same period and do not believe this is achievable.

## Annex 2: Consultation question responses

<b>Date</b>	3 <sup>rd</sup> August 2022
<b>Title</b>	<b>Consultation on modification of the RIIO-2 Strategic Innovation Fund Governance Document</b>
<b>Authors</b>	Corinna Jones, Craig Neilson, David Hardman, Tim OSullivan, Ian Bennett
<b>Response Required By</b>	3 <sup>rd</sup> August 2022

### **Question 1 - Do you agree with the proposed amendments to the SIF Governance Document? (We are happy for respondees to comment on individual changes within the spreadsheet published alongside this consultation if they wish to)**

Comments have been provided in the attached spreadsheet. Generally, the approach to the changes enables greater flexibility and alignment to how the SIF projects can be approached. On the other hand, we need to consider how the flexibility in approach can cause change throughout the project delivery process, leading to projects and team's workload variation and the potential to not meet the project requirements.

Key concerns from the line by line:

1.13	Acknowledged that the 3-phase project approach is the default but states the Innovation Challenge may allow these to combine, consistency in approach should be a target to enable easy planning of resource and alignment of ideas to challenges.
1.23	The document suggests the new Governance Document applies to projects already in flight, for example this round of alpha that will have already undertaken a month of work, we cannot meaningfully follow governance not yet in place and enforcing the changes retrospective effect is not feasible.
3.18	We don't currently put any data on the open energy platform, the Governance doc does say 'This could, for example, be done...' We currently utilize the Smart Networks Portal and suggest this continues instead of the use of multiple platforms.
3.21	<p>Although this concept has been discussed there has been little information around the actual requirements throughout the year. i.e., number of days and required resources/participants. We are already supporting several UKRI led meetings and a refined annual plan would be beneficial for resource planning. We do not accept this change as the annual conference format changes (for 2023 onwards) are still in discussion and need refinement against the funding route currently in place for this activity.</p> <p>UKRI needs to be conscious of resource requirements and other team commitments within the networks. Currently this appears disregarded and timelines for SIF activities are based around UKRI requirements with very little consultation with the networks.</p>
3.24	The annual conference is an innovation dissemination event and as such should not solely focus on SIF. The most impactful stakeholder engagement would share knowledge across the innovation stimulus package, encompassing NIA, NIC, SIF, BAU and other funded innovation. This provides a clear and

	<p>consistent view across all innovation activities and interactions and will prevent duplication in other funding mechanisms.</p> <p>The annual conference is currently funded by NIA and as previously stated by Ofgem, this mechanism cannot fund activities outside of project dissemination. It is therefore important that conference activity planning is cognisant of the funding rules.</p> <p>The conference has previously been open to other parties to host stands and we would expect this to continue, however, this cannot be at the cost of the consumer and should be funded by the individual attending party.</p> <p>Discussions around how the conferences could be optimized from 2023 onwards are ongoing, which adds further weight to pausing updates to the conference section of the governance document pending decisions in this regard. For instance, merging the “networks conference” with one of the larger energy conferences is an idea currently being considered, as this would enable a wider audience at a reduced overall cost to consumers.</p> <p>Lastly, we think that introducing more decision makers into the conference planning process needs consideration as may impact the effectiveness of planning and lengthen delivery timescales.</p>
4.2, 4.7, 4.8, 4.10	<p>The Governance document states that it now wants to be able to depart from the Governance Document requirements in the Challenge invitation. This seems contrary to having a governance document and the variability in the process has been one of the key concerns so far in the SIF process.</p> <p>Given our license obligation is to comply with the Governance Document we must ensure that it is clear what changes could be made without following the consultation process. If this change is implemented, then as a minimum the Governance Document needs to make explicitly clear that in these circumstances the content of the Innovation Challenge takes precedence and that in complying with the Innovation Challenge the network energy networks are also complying with the Governance Document.</p>
Table 1,2,3 Impact	Not yet received a copy of the impact assessment template, consideration to the ability to complete at various stages of the project should be made.
Table 3, Impact	Not yet received a copy of the proposed logic model, consideration to the ability to complete with the type of project and at various stages of the project should be made.
6.17	Agreed – although this will need further development in our internal processes to ensure delivery
6.18, 6.19, 6.20	Agreed – although there was a large amount of additional work for the team regarding number of questions and information to be provided in challenge round 1 Alpha from Discovery in a short period of time whilst completing closure activities for Discovery, flexibility in combining phases is good but needs to be well communicated and robust in delivery
8.12, 8.13	Our internal project management system, Decision Focus Now (DFN) logs all new ideas regardless of their funding route, it is difficult to split out SIF only ideas as generally ideas come in and we then consider the potential funding routes. This is also part of our IMF annual reporting requirement to show the ideas and the projects have progressed including their funding routes, we do not believe this should be repeated and that IMF should be used instead.
Royalties	Applying this only to licensees when there is not sole licensee IPR ownership needs to be considerate of providing value back to the consumer. Royalties on

	licensees should be required however allowing project partners to commercialise the product with no return to those that funded it does not provide an optimum solution. However, encouraging partners to collaborate under these terms could prove difficult. Thought needs to be taken in the link to partner and network contribution to the project, commercial output, and consumer returns, whilst also ensuring consistency across innovation incentive funding.
Commercial Product	The amendment at the definition at Commercial Product seems logical. The position through the document seems to be that Foreground IP so far as it relates to Commercial Products can be treated differently (to Relevant Foreground IPR) however (s9.14) it is these Commercial Products which must then be shared and made available to other licensees to purchase in line with the approach set out in each Application.
Project	<p>Agreed - although would it not benefit to have an end of phase report for each Discovery for instance and one Alpha application as the projects could be quite different in the Discovery phase.</p> <p>In challenge round 1 we were encouraged to combine projects for Alpha but obviously different projects and partners had not had to opportunity to undergo feasibility and progress their projects as far as others. This was noted as a reason not to fund certain projects in Alpha, consideration of this for combined projects needs to be made if this is a continued requirement from UKRI/Ofgem.</p>

**Question 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?**

Disclosure of the same projects other funded activities is acceptable, however, judgement on the project contents and duplication cannot be made from a title and we expect that further understanding would need to be provided. We believe that using the various funding mechanisms is the optimum way to develop projects. SIF does not provide enough time for low TRL projects to attain feasibility in Discovery and therefore an NIA may be required.

An example of this is the project Ch4rge which has moved through NIA, SIF and now a reopener.

Where projects have a similar topic but are not overlapping in their content, the governance is unclear what is required in disclosure. For instance, projects looking at a particular system but different aspects of it.

**Question 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?**

The projects in flight in August will commence prior to the amended SIF governance document release (1<sup>st</sup> August) therefore retrospectively enforcing the governance document does not seem reasonable, for Beta and future projects there is no concern.

If there are key elements of the governance that Ofgem/UKRI would like to utilize in the Round 1 Alpha, then these should be communicated and agreed with all partners. Variation in the challenge round 1 timelines and application requirements for phases has caused resource and planning disruptions and needs to be clear prior to the challenge kick off and project start.



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

DNO participation is acceptable in replacement of NIC but not as well as. Does the total funding pot increase with the inclusion of the DNOs?

Inclusion of the DNOs could improve collaboration and prevent duplication. Although increased competition and the funding limits per phase would be useful to understand.

## **Question 5 - Are there any specific considerations relating to the proposed participation of DNOs in round 2 of the SIF which need to be considered in the SIF Governance Document?**

None

## **Question 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?**

The IPR amendments are acceptable. The amendment at the definition at Commercial Product seems logical. The position through the document seems to be that Foreground IP so far as it relates to Commercial Products can be treated differently (to Relevant Foreground IPR) however (s9.14) it is these Commercial Products which must then be shared and made available to other licensees to purchase in line with the approach set out in each Application.

IPR through the Discovery and Alpha phases needs to be reviewed differently to that of Beta as the prior phases need to enable access to IPR to enable following phases to continue. It is suggested that project partners are altered through the process to ensure the right outcomes, if partners that own IPR are no longer associated to the project continuation into future phases can be complicated.

## **Question 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?**

This could be helpful. The key concern here is that companies feel that they can utilize consumer money to make large amounts of money for themselves, this needs levelling