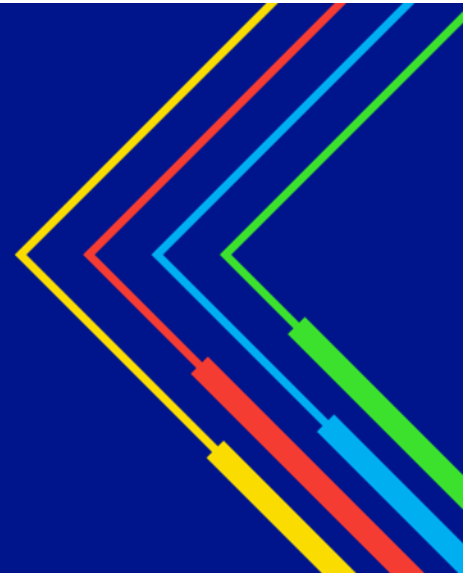


Electricity Transmission Innovation in RIIO-2



National Grid Electricity Transmission (NGET) are excited about the opportunity to innovate further during RIIO-2. To do this we will continue to fund our innovation activities in a variety of ways; through investing our own shareholder funds, through utilising the innovation mechanisms provided for T2 from our regulator Ofgem, and through seeking greater collaboration and access to alternative innovation funds.

Through the RIIO-2 price controls, Ofgem have defined two funding mechanisms that will facilitate innovation across the energy industry: The Network Innovation Allowance (NIA) and the Strategic Innovation Fund (SIF). Ofgem have also stated that innovation projects funded under these mechanisms will need to be focused around **supporting the energy transition** and **support for vulnerable consumers**; this is a development from the situation in T1 and ensures that all the network companies including NGET will be focussing innovation activities around resolving the climate change challenge and ensuring that no-one is left behind.

The Network Innovation Allowance (NIA) in RIIO-2

Ofgem have allowed NGET £49.3m of Network Innovation Allowance funding which will provide 90% of the cost for the NIA projects which we work on over the RIIO-2 price control period. This applies for the whole five-year period and is not split into annual allowances which provides much greater flexibility around how we develop and deliver our innovation programme.

The Strategic Innovation Funding (SIF) in RIIO-2

This is a new mechanism for funding large innovation projects, and it replaces the Network Innovation Competition which applied in RIIO-T1. Ofgem will be developing the methodology for this through a series of workshops over the next three months January 2021 – March 2021.

As a result of these developments, we are continuing to build and develop our existing Innovation Strategy for RIIO-2 to provide more detail around our innovation priority areas for the period, and to clarify how we will modify the strategy to align with the outcome of the Ofgem final determinations for NIA which did differ from the funding we applied for, and the revised rules defined within the T2 NIA guidance document.

During the first year of RIIO-2 some of the RIIO-T1 final year projects will be continuing (Ofgem have specifically allowed for this in the price control determination) and we will be commencing innovation projects under the new RIIO-2 administration and contractual processes.

We will be sharing our views around the development to our innovation strategy prior to the start of the RIIO-2 period and we will also be hosting a webinar during March 2021 to provide more information and seek your input for developing it further. We will ensure that you are notified of these through our website, through direct mail and via our social media feeds.

If you have any thoughts and ideas about where we should concentrate our innovation efforts, and the kind of innovation projects that NGET should be taking forward to support the energy transition and support vulnerable consumers, then we would love to hear from you at box.NGETInnovation@nationalgrid.com. Similarly, if you have any questions around what these changes will mean for how we carry out innovation in the future, don't hesitate to contact us at the same address.

This is an incredibly exciting time for the energy industry. Developing the right innovation strategy to optimise the work we do over the RIIO-2 period and beyond is at the heart of delivering the energy transition, and we look forward to working and collaborating with you in the years ahead to ensure we deliver the outcomes that are needed.

Paul Gallagher, Head of Innovation,
National Grid, Electricity Transmission