



Specialist Electrical Services

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Ofgem Discussion Paper

Innovation and Registered Power Zones – July 2003

Comments to OFGEM from BJRE Ltd. – 21 August 2003

The following 17 points relate directly to each of the 17 questions posed in section 4.0 of the OFGEM discussion paper, and are offered in response to OFGEM's invitation of 16th July 2003.

Intellectual Property Rights Questions

Q1. The Intellectual Property Rights should remain with the original innovators otherwise the market may never exist for the encouragement of creativity. The funding and funder should only create the necessary environment to encourage the innovation and not necessarily benefit from the IPR.

Innovation Funding Incentive Questions

Q2. We support OFGEM's rationale in restricting the IFI to the commercial development of research and not funding research in isolation. This encourages the development of suitable research only when it proves that there is a need to carry it out. It also ensures that research is only further funded where it has a clear commercial benefit and prevents the IFI and hence the consumers funding from being a feeding ground for academia.

The whole concept of Registered Power Zones is aligned to consumer benefit, and the IFI is an essential component, however the link between the consumer interest and the IFI need not be so closely linked as the Registered Power Zone concept itself. The IFI stage is more development and the actual demonstration stage of the Registered Power Zone is more important for consumer interest. If the IFI has to deliver consumer benefit as a stage in isolation this would unnecessarily restrict the likelihood of success.

Q3. The DTI scoreboard on R&D intensity may unnecessarily penalise companies with a track record in R&D spend, where these companies may be the ones most likely to deliver. A measure that would record a desired improvement in R&D intensity such as a 0.5% increase from the baseline would be more appropriate, but this is linked to the company providing their existing R&D spend at the time of the DPC.

- Q4. The existing criteria are too vague to clearly distinguish between and may be challenged. A clearer method may be not to use categories at all and only determine the funding level according to the benefits the project will deliver in relation to the boundary (i.e. % impact) of the Registered Power Zone.

The funding should be at the level required to deliver the benefits and if the funding were deemed too high for the benefit realised then the project would not be selected for support.

- Q5. The only way to have a successful method for managing innovation across the board is to have clear and distinct measurable relating to the expected benefits. Care has to be taken to ensure these are easily quantified and do not require more effort to manage than the benefit that they deliver. Far too often the management costs reduce the efficiency level of any improvement by increasing the unnecessary administration burden.
- Q6. See Q4, funding proportional to benefit and improvement in R&D spend and not a cap as suggested.

Registered Power Zone Questions

- Q7. Yes, we totally agree and actually feel that Distributed Generation can only be connected more efficiently if innovation and new solutions/technologies are employed. Too often connections are based on a specific scenario, which does not represent the transient nature of network operation. If innovation were encouraged connection arrangements and control of Distributed Generation could respond to the transient nature of the network and deliver the desired consumer benefits.
- Q8. Extreme care should be exercised when considering a limit on innovation. The nature of the proposal is to encourage innovation wherever it delivers consumer benefit and surely this should not be restricted in any way if the benefits outweigh the risks.

By introducing a MW limit this will ensure that DNO's concentrate only on larger scale projects and omit to improve the efficiency of the most vulnerable areas of the network. These are often the areas where consumers in fuel poverty exist and stand to gain the most from the Registered Power Zone. If a measure were required then surely one where the %age impact were measured would be more appropriate. This would allow smaller projects, which may have a greater relative impact to be considered alongside larger ones. Also restricting a DNO to 3 Registered Power Zones per year surely is unnecessary, again if they are compared on the relative benefits they deliver then the best projects will be chosen. If these happen to be in one DNO territory then this will be to the greater good of the consumer as opposed to several projects across the DNO networks which may be less efficient.

The criteria of gold, silver and bronze are again adding another level of complexity to the system and are surely less efficient in terms of delivery. Sticking to a system whereby the funding is judged strictly according to the benefits delivered would be the most efficient method of delivery and would also aid in the recording of performance, the key lies in the quantifying the benefits.

The best choice of areas for Registered Power Zones will undoubtedly be in the areas of the network where efficiency gains are to be made. Most of these areas, by the sheer distance between generator and consumer will be in the Highlands & Islands, rural Wales and the South West Peninsula. There will almost certainly be more than 3 potential Registered Power Zones per DNO in these areas. In the Scottish and Southern Energy territory, every sub-sea cable connected island and every remote node from a GSP could feasibly be a Registered Power Zone and restricting the number of these would be to the detriment of the consumer.

- Q9. Some ratio of relative benefits in the Registered Power Zone boundary to that technically possible against the level of investment required would be more appropriate. For example

a project which results in an 1% efficiency gain on a 98% efficient network would be of more value than a 1% gain on a 85% efficient network for a comparable level of investment.

Q10. No not in entirety, but some level of security needs to be put in place to encourage success. The higher risk, higher return projects may legitimately fail for reasons outwith the control of the parties involved and they should not be unnecessarily be penalised because of this. A method sharing the financial risk of encouraging innovation would be more appropriate, say a minimum %age of guaranteed funding reflecting the nature of risk in the project.

Q11. No, again we are positively discriminating towards larger scale projects and not the inefficient areas of the network. The funding level should be awarded if it delivers the appropriate benefits regardless of the scale of the project.

Q12. Eight to ten years should be long enough to recover a reasonable cost of capital otherwise the investment won't happen because it is too long term. The Registered Power Zone however may have several projects implemented during its lifetime and should last as long as innovative projects are successfully being delivered and should not necessarily be restricted in length.

Q13. When considering Distributed Generation and additional premium should be available where that generation is sized to satisfy local demand only and not to transport power to other areas of demand.

Q14. Boundaries are better defined by a geographical area where a readily defined boundary exists (i.e. in an island context), however in cases where nothing more appropriate exists then an electrical node be the most appropriate.

A specialist service provider may be able to look at the network with a fresh pair of eyes and identify potential areas of innovation where the DNO may struggle. The specialist service provider will typically be more aware of what is available in terms of new products and will have experience of working across several DNO's, and possibly even have ideas and experience gained in other countries. However the role the DNO has to play should not be underestimated, albeit they will be very constrained in terms of available manpower due to efficiencies imposed by regulation. The most appropriate method for going forward would lie in a partnership between service provider, generator and consumer group led by the DNO.

Q15. No comment.

General Questions

Q16. No.

Q17. Yes at the minimum, on a pilot basis. The Registered Power Zone concept is trying out innovation on a small scale that aims to benefit nationally anyway, so no real reason for delaying it to the PC should exist and interim arrangements should be made in order to test the theory before final implementation at the 2005 PC.