

Innovation and Registered Power Zones
Response from
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1. This response found the discussion document very interesting and thoughtful. It is clearly trying to address the central question of how innovation can be stimulated in a sector faced with so many new concerns and uncertainties yet, historically, has been a low risk business with a strong internal momentum of doing the same thing.
2. The ideas put forward concerning an Innovation Funding Incentive and Registered Power Zones are also a welcome sign of creativity and innovation within Ofgem.
3. The extent to which the IFI and RPZ is successful will depend on the level of reward to DNOs relative to risks. Thus, the crux will be the additional allowable rate of return. My maths may be wrong and I do not know what the extra cost a DNO expects to spend per kW capacity BUT if a DNO spends an extra £100 per kW capacity in a RPZ and uses up their maximum 150MW/year, I calculate that a 1% extra return would be £150,000/year. This reward needs to be put against any risk which may be attached elsewhere, for example to the various IIP output measures. This responses conclusion is that if this is to work, the reward has clearly got to outweigh the risks.
4. Given Point 3, this response finds your discussion of defining innovation and providing it with risk/reward profiles and allowable funding (para 2.5) too complex. Almost by definition, innovation has to occur in an unconstrained environment and, anyway, it cannot be guaranteed. In this responses view, Ofgem should keep it simple and not categorise innovation into A, B and C.
5. Similarly, this response finds the criteria of RPZs between gold, silver and bronze also too complex.
6. The limit on no 2 projects being the same strikes me as anti-innovatory. If a project works and offers value for money then the more it is taken up the better.
7. This response strongly supports Ofgem encouraging these new ideas but it also thinks Ofgem should allow (or expect) a certain cost to the customer of promoting innovation and then let the DNOs get on with it. In my view, having talked to a couple of DNOs about this discussion document, they are happy (even pleased) to try this out but they want the rules to be simple and they want to know what their returns are, whatever the outcome and before they start. And given their risk averse nature, this is not surprising. Adding complex rules to the basic idea increases the risk and uncertainty of the overall programme.
8. Finally, I think IFIs and RPZs a very good idea. I can understand that Ofgem has to contain the size of the RPZs until they get some idea of the costs of new technologies and impacts. However, once this is in place, for example after a year or two, then I would hope to see Ofgem allowing a higher rate of return on certain innovative measures anywhere in the electricity system for that particular measure. I would hope therefore that this is rather like the first phase of the IIP, expected only to last a couple of years when it can then move forward.