

Mr Gareth Evans  
Technical Directorate  
Office of Gas and Electricity Markets  
9, Millbank  
London  
SW1P 3GE

Avonbank  
Feeder Road  
Bristol  
BS2 0TB

Telephone 0117 933 2277  
Fax 0117 933 2428  
Email [bwestlake@westernpower.co.uk](mailto:bwestlake@westernpower.co.uk)

*Our ref*  
D11 / 487 - 16/07/03

*Your ref*

*Date*  
03 September 2003

Dear Mr Evans

### **Innovation and Registered Power Zones - Discussion Paper**

This response gives the views of both Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc to the above.

We welcome this discussion paper on the difficult balance between incentivising innovation in the connection of distributed generation and protecting the interests of all connectees to the network. Our response to the questions raised is attached.

Please do not hesitate to contact me should you require further information or expansion of our views.

Yours sincerely

R G WESTLAKE  
Regulatory & Government Affairs Manager

## Consultees' Views on key questions

### ***Intellectual Property Question***

1. *Do you have any specific views on the management of intellectual property that may be created through the IFI and RPZ initiatives?*

It is likely that we would want to retain IPR for developments undertaken as the proposed IFI and RPZ initiatives leave some of the risk of non-delivery with distributors and retention of IPR for successes helps to mitigate this.

### ***Innovation Funding Incentive (IFI) Questions***

2. *Do you support Ofgem's rationale for introducing the IFI? Do you consider the IFI to be aligned with consumers' interests?*

We agree that appropriate investment in technology development is aligned with customers interests. We do not believe that an IFI should be limited to developments associated with the connection of distributed generation but should also encompass any technology that helps to develop a more efficient network.

3. *What are your views about the use of the DTI's R&D Scoreboard as a yardstick in this context? It would be useful if DNOs could quantify their company's current R&D Intensity and offer their views on an appropriate level for the next DPCR period.*

It is important that only appropriate projects with a reasonably high chance of success are supported. A pre determined level of spend in this activity is likely to result in unjustified projects being pursued to meet such an arbitrary target.

WPD currently spends around £0.2m per annum on external R&D with around £0.1m of internal costs supporting this.

4. *Do you think the three category approach (A, B and C) and treatment of allowed funding is a reasonable balance in the interests of all parties? What should the value be of the proposed F1 and F2 factors?*

The three category approach appears reasonable. We believe that the F1 and F2 factors should be as high as possible to encourage a degree of risk taking in selecting projects to maximize the benefits of this initiative. Hence we would see 75% or higher as a reasonable level.

5. *What are your views on establishing good practice for the management of innovation and could such a framework be adopted commonly across the industry?*

We agree that establishing guidelines for good practice would be beneficial.

6. *Should the IFI percentage cap be varied between companies according to performance or some other criteria?*

We see no reason to vary the amount of money available to companies on the basis of size or performance. Whilst a particular company may have fewer applications for a particular development than another, the cost of development will not vary. We believe that an equal, absolute, amount of funding per company would be appropriate.

***Registered Power Zone (RPZ) Questions***

7. *Do you share Ofgem's view that DG is likely to be connected more efficiently if innovation and new solutions/technologies are employed?*

Sometimes new solutions and technologies fail to deliver and hence results are likely to be variable. Overall we would expect progress to be made as 'winners' are discovered, but this is likely to take several years and failures will be experienced and will have to be rectified using more traditional approaches.

8. *Do you have a view regarding the annual RPZ MW capacity and numbers of projects that might be appropriate per DNO licensee per year, and whether the number should be allocated by the suggested gold, silver and bronze categories?*

Given the requirement to offer connecting generators (and presumably any other customers potentially affected) liquidated damages in a registered power zone, the number and capacity of such zones needs to be restricted if the overall risk profile of the distributor is not to change. The numbers suggested in the paper are probably a good starting point. In assessing potential projects, distributors will have to assess the potential liquidated damages that could result. This process may rule out many proposals unless flexibility is included in the negotiations between generators and distributors on capping the potential claims.

9. *Should the premium return be common for all RPZs or should it be related to the innovative content of the project? If the latter is considered appropriate, is the gold, silver, and bronze approach helpful, or can you suggest a better alternative?*

We believe that the degree of innovation will be hard to differentiate into different levels of risk and hence the same premium return should be given to all. As the purpose is to achieve a higher level of connected distributed generation, an equalized incentive will result in the lower risk ones being pursued first which provides an evolutionary path to active networks rather than a revolutionary one which could have many unforeseen consequences.

10. *Is it practical to base financial rewards on a project meeting or failing to meet performance objectives?*

We suspect that it will be difficult to define performance objectives for an RPZ in anything but the broadest terms prior to the work being undertaken. Generally, it is unlikely that a project would be a total failure (more likely a partial success) and hence differentiated rewards for success or failure will be difficult to define and apply.

*11. Do you think a mechanism relying on an enhanced £/MW driver to provide a premium return is appropriate, and if not what alternative could be considered?*

It appears sensible to align rewards under RPZ's with those proposed under the main price control.

*12. What lifespan do you consider should be assigned to an RPZ and to the premium return?*

We agree that an RPZ should have a limited lifespan to avoid a long term difference in treatment for connected parties. A five year life would appear appropriate, which would also be the period for which any liquidated damages provisions would apply.

*13. What premium do you consider to be appropriate to encourage innovation in DG connections and how could this be justified?*

Innovation of the type described in the paper generally requires people with technical skill sets that are in significant demand and are used to address system wide issues that affect our ability to deliver overall outputs. The premium will need to be sufficient to justify the recruitment, training and retention of additional staff.

*14. Do you have a view on how, in principle, the boundaries of RPZs might be defined? Should they, for example, encompass a physical area, rather than simply an electrical node? Do you see potential, in design or operation, for outsourced specialist services?*

We believe that they should encompass a defined electrical zone of the network. In many instances this would be a geographic area.

*15. In your view, how should the RPZ initiative be funded?*

It is difficult to envisage a generator agreeing to a riskier connection solution over 'traditional' methods that also costs more than the traditional methods, however we agree that funding of RPZ's should be from revenue raised from all connecting/connected generators.

### **General Questions**

*16. Can you suggest alternative regulatory mechanisms that might better deliver the stated objectives of the IFI and RPZs?*

No.

*17. Would it be helpful to consider whether IFI and RPZ arrangements could be introduced on an interim basis, ahead of commencement of the next price control period in 2005?*

We believe that it could be helpful as it would provide some practical examples to help shape the final proposals.