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Dear Gareth

Innovation and Registered Power Zones: A Discussion Paper

This letter forms EME's response to Ofgem's consultation paper "Innovation and Registered Power Zones – A Discussion Paper", published July 2003.

Distributed generation will drive considerable changes in the way DNOs build, maintain and repair their networks; therefore we welcome your proposal to facilitate innovation and technological advances.

As expressed in our response the open letter, "Developing Network Regulation: Open Letter to the Chief Executives of Distribution Network Operators (DNOs) Regarding Distributed Generation", we believe RPZs could be a useful mechanism, particularly if they are a vehicle for retrospectively allowing expenditure not previously forecast, and for developing standard solutions to the issues that the DNOs will face. However, EME are concerned that the mechanisms are not yet developed in a way that would achieve this.

We support Ofgem's comment that a hallmark of successful companies, which progress in better serving their customers, is seeking improved ways of doing things. EME are very much committed to this ethos, and the rapid and continual improvement of our business operations is evidence of our commitment to delivering excellence. Furthermore, we recognise that appropriate skills and resources are essential and are participating, together with other DNOs, in nurturing engineering and technical skills.

Innovation Funding Incentive (IFI)

EME supports the concept in the IFI proposal as a means of encouraging DNOs to look for innovative solutions to network design and the increased penetration of DG. We do, however, have a number of concerns regarding the proposed method.

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- Although we understand the need to identify projects separately and to categorise for reporting purposes, we feel that a single funding category would be sufficient. Furthermore, a distinction between category A and B seems unnecessary since the level of funding proposed is the same.
- Category C funding of 0% until the application has been proven is not appropriate. Innovative solutions to technical problems come from many years of trial and error and unless funding is available to explore options, some of which will inevitably 'fail', substantial innovation in this category unlikely.
- EME feels the allowed funding for categories A and B is considerably lower than is necessary to encourage a DNO to actively seek innovative solutions. DNOs would be required to commit to significant resources and finances for little return. In our view, rate towards 90% would be more suitable.
- The criteria for innovation project definitions discusses 'positive step change' or 'step change' in performance, however, no definition of 'step change' is given. Network performance improvements arise as a result of gradual changes and it is extremely unlikely that an innovative solution providing a step change in performance will be found.

Registered Power Zones (RPZ)

EME agrees with Ofgem's view that while networks remain passive and there is further DG penetration, connection costs are likely to rise. EME also recognises that there is a case for DG connection solutions that show genuine innovation, and which could have wide application once proven, to attract different regulatory treatment compared with a DNO's core activities. However, EME feels that the current proposals are not sufficient to drive innovation. More specifically, we feel further proposals should address the following:

- Registered Power Zones should be classed as a 'sandpit' for trial and error of network improvement solutions. A 'sandpit' is a safe environment where, should mistakes occur, there are no lasting consequences. EME feels RPZs are not being treated as such within the paper; all the risk and consequence of failure lie with the DNO. Unless there is adequate room for DNOs to explore the benefits of new technology, without being penalised, take up will be limited.
- EME does not see the need to limit the number of RPZs and/or DG capacity for each DNO. All proposed projects, which provide successful technological advances in the way the industry manages its network, are valid.
- Clarity is required on how ongoing support of the installation / technology within a declared RPZ will be provided. For example, treatment where equipment becomes outdated / unsupported earlier than is normally the case due to new developments, but is still part of the RPZ.

I would be happy to discuss views expressed in this response in more detail, if you wish to do so or wish to seek further clarification please contact me via email or telephone, on 01332 393700.

Yours sincerely,

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Distributed Generation Project Manager

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Commercial and Regulation Manager