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Dear Gareth

### **Responses to Ofgem's "Innovation and Registered Power Zones" Discussion Paper July 2003**

We very much appreciate the opportunity given to review Ofgem's "Innovation and Registered Power Zones" discussion paper and having considered the document we have prepared the following responses.

Our responses are restricted to those aspects where we consider we have the relevant experience and can add value to your proposals:

#### **Intellectual Property Question**

1. As you envisage, we expect a collaborative approach to the projects with parties being involved such as R&D organisations, consultancies and manufacturers as well as the DNO's. Within such collaborative groups IPR will be generated by all parties concerned and ownership is likely to vest with the party generating it. In order to maximise the efficiency and output of the collaborative approach, we would expect that each party would have access to the background and foreground IPR of the others for the purpose of the collaboration. Issues will arise with regard to the exploitation outside of the collaboration, however, the parties mentioned above rely on innovative IPR to ensure their success and as such would be in a position to efficiently manage and exploit this IPR. This may present an issue to the DNO involved in the collaboration who will probably wish to retain the IPR for competitive advantage, however, whilst this may be valid for a limited period of time to reflect the risk of investment, a framework would need to be developed for wider dissemination of the IPR for benefit of the industry as a whole.

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

2. We consider that Ofgem's initiative is both timely and appropriate. This view is based upon the knowledge and experience of senior ex DNO managers currently working for ERA Technology. This view is reinforced through ERA's involvement in the recent Asset Risk Management Survey, where room for improvement was identified in the approach undertaken by the DNO's to introduce and manage technology and innovation. We consider this outlook to be of considerable importance to long-term asset risk management and to the perceived risk of introducing innovative solutions; a subject that is not currently an integral part of DNOs strategy. One aspect that we

consider to be essential to the success of IFI is that the initiative should be robust enough to cope with the commercial pressures that exist within the publicly limited companies i.e. the consideration of new technologies should not be axed when cost reductions are required.

We also support Ofgem's rationale as it re-balances the focus of incentive schemes from the immediate/short term performance improvements to the longer-term system integrity and asset risk management.

3. Our experience suggests the DNOs published spend on R&D is difficult to quantify and equally difficult to form a valid comparison to apply the "scoreboard"; an issue that will need to be addressed. We consider that 0.5% is a good starting point however, in response to Ofgem's success in driving down DNO costs, since privatisation, the effective percentage value is lower than that typically applied by similar sized organisations. We therefore recommend that a mechanism be put in place to regularly review the "scoreboard" percentage value.

It is also worth considering linking the "scoreboard" to the asset capitalisation of the DNO, thereby accounting for the value of the DNOs assets, as well as to their level of network performance.

4. Whilst the three categories proposed are considered to be appropriate for the initiation of the scheme, we recommend that a matrix to include other relevant criteria and weighting factors should be considered, e.g. consideration of major energy consumers and regional development initiatives. This approach would introduce an element of "joined up thinking" to account for regional differences.
5. ERA has considerable experience in managing the development and application of best practice for individual organisations as well as through ad-hoc groupings of like-minded organisations. It is perceived that IPR issues will affect the dissemination of best practice throughout the DNO community, i.e. the DNO will seek to secure a return on any investment that is made. A mechanism to resolve this would be to publish examples of best-practise with no association with a particular DNO, as per the ARM survey. Another option to manage the associated IPR issues internally is to vest the IPR in the R&D consultants and/or their partners.

Where there is sufficient interest in the development of a particular technology from a number of organisations and the development is of industry benefit, ERA Technology is able to finance an element of such work on a commercial basis. In this way we can provide efficiencies by also acting as manager and co-ordinator of R&D projects.

6. Please refer to responses 3. & 4.

### **General comments**

The proposed IFI would further encourage DNOs to be more proactive in their involvement and support of universities since the development and certainly the successful application of innovative techniques will be dependent upon the availability of open-minded, technically competent staff. In recent years the DNOs

have lost many of their competent but “traditionally thinking” technical staff and the success of IFI and similar schemes will be dependent upon the new generation of graduates.

ERA has considerable experience the management and execution of shared-cost collaborative Research and Development Projects. ERA is fully aware of the advantages and pitfalls in such projects. In our view, it would benefit DNO’s and the equipment supply industry if there were incentives built into the initiative, which promoted a clear management structure and a separate and clear evaluation structure in addition to the encouragement of seconding DNO engineers to become part of the development team.

The secondment of “user” engineers to the innovation development team is a proven way of ensuring good technology transfer from the development project and of ensuring that the development maintains its focus on the end use needs during the lifetime of the project.

ERA would recommend that Graduate Engineer training schemes should qualify for “Silver” or “Gold” levels of support within the innovation framework, particularly if those Engineers spent a significant period working with the development teams. Such an approach should have the benefits of increasing the supply of good quality staff and of giving them experience of the many factors and influences associated with introducing innovation into service.

We trust our views will be helpful in assimilating the industry response to your discussion paper and we confirm our interest in attending the workshop planned for later this year.

Yours Sincerely

**Dr M Lockwood**

Head of Power Systems  
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