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From: MGDwek@aol.com [<mailto:MGDwek@aol.com>]

Sent: 29 July 2003 15:20

To: John Scott

Subject: Re: Innovation in the DNO companies

John,

I have had a look at the section of your paper on IFI and would offer a few comments.

I note you are proposing to allow increased expenditure on R&D-up to 0.5 % of turnover. I am not clear how this differs from the 1990's reviews by Offer/Ofgem of NGC's R&D programmes and allowing about £9M in opex. I realise DNO expenditure has declined in the past few years and IFI highlights to them the importance of innovation particularly as DG is set to accelerate. Clearly the expenditure has to be justified and to be well managed. I suggest a measure of flexibility on the £1M p.a. cap allowing more if it can be justified.

I have used the R&D Scoreboard in the past to compare R&D expenditure in an Industry Group- it is a reasonable yardstick of R&D expenditure intensity. I also think the 3 categories of R&D you have defined are fine and the way you are treating category C projects will provide some scope to recover costs if successful though I doubt DNO's will engage in this type of R&D.

On IPR my experience indicates that manufacturers will want to retain exclusive ownership of IP to encourage them to invest in a commercial product. This should not be of concern to DNO's as there will invariably be prior IP in a development or demonstration project. Their main interest will be to exploit the innovation and to be given an economic incentive in view of their development investment. The main return on their investment will come from applications on the system i.e. from system savings or added revenue.

Finally in relation to good practice in R&D management I have found the following to be important:

- a structured planning process
- a cost-benefit /ranking approach
- a project management approach
- collaborative projects to share costs and provide gearing
- a review process which allows projects to be terminated if perceived to be unsuccessful

I hope the above will be helpful.

Best regards,
Maurice

P.S. I fully support your RPZ concept which should encourage the introduction of new solutions/technology by DNO's as they connect increasing levels of DG.