

Innovation and Registered Power Zones
Comments on the paper published on 16th July 2009 by OFGEM
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John,

1. My comments on the paper are as follows. They are based on my own experiences with ICL, my teaching at Henley and of course in more recent times my work with GSM in NGC. It is amazing how the good and bad experiences come flooding back. Hope it helps you.
2. OFGEM wants:
 - a. To encourage companies to find newer and better ways of distributing power so that the cost to the consumer can be reduced without loss of performance.
 - b. Productivity gains that are achieved through better application of available technologies rather than through cost cutting exercises.
 - c. The industry to make a substantial investment in R&D i.e., get each licensee to spend £1 millions per year on R&D. (Page 8 2.3).
 - d. DNOs to avoid the pitfalls and the diversion of management ability into creating and running their own R&D units. OFGEM would prefer DNOs to be 'informed buyers' of specialist R&D from third parties'. (Page 8 2.3 para 2).
 - e. DNOs R&D budgets to be sustained even when short-term cost efficiencies are sought. This means excluding approved R&D expenditure from the RPI-X price control but not allowing it to be used as a loophole to hide excess costs or as bargaining tools to achieve more favourable RPI-X terms than competitors.
 - f. To be able to audit R&D spend and disallow funds that are inappropriately or ineffectively or inefficiently used.
 - g. R&D findings to be available across the industry rather than held as revenue earning intellectual property in the hands of the innovator.
3. Obstacles to voluntary adoption of innovation activity in DNOs as voiced by imaginary CEO:
 - a. 'I am not interested in this R&D stuff but lets play along'.
 - b. 'Being 'me first' is expensive, needs best people and management time so it is best to wait for someone else to find new profit opportunities and adopt 'me too' or 'me better' strategies.

- c. 'I have got a few more cost cutting opportunities up my sleeve, am retiring shortly, need strong share price so best to avoid R&D spend'.
 - d. 'Unless R&D can deliver early profit and share price gains its best left to others'.
 - e. 'If I employ external R&D providers I can gain kudos and also lay blame elsewhere when it fails'. 'Heads I win for trying, tails I win because it is not my fault the investment did not pay off.
 - f. 'Reads well in the annual report and cost me very little'.
 - g. 'An easy source of funding I should exploit it'.
4. What does this mean?
- a. Conflicting objectives of DNOs and OFGEM resulting in stalemate but OFGEM coming off worse as organisation that acted naively.
5. Some history as seen by the ultimate cynic:
- a. Commercial organisations (and individuals) have made extracting and abusing Government Funding or cost relief (tax, grants, preferential loans) into an art form.
 - b. Large proportions of funds paid by Defence Establishments worldwide have been squandered by some of the world's largest organisations.
 - c. Over spend and under delivery does not happen only in high profile projects such as Concorde, Radar, Thames Barrier and so on. The most pernicious are many small ones that whittle away small sums. The ESRC and similar probably have a tale to tell.
 - d. There is no form of project management known to mankind that cannot be abused when the objectives of the doer and the sponsor are non-coterminous. The situation as proposed here is worse. OFGEM is the sponsor, DNOs are the implementors and A N Other R&D Ltd is the beneficiary. A robbers' charter if ever I saw one.
6. People to talk to and memory recall:
- a. Closer to home, the Renewable Energy Division (Barbara Hammond's Team) of the DTI may prove an interesting source of information on the problems of controlling third party sourced research and development projects.
 - b. Defence Research Establishment (now has a fancy name cost them a £1m to get).
 - c. CEGB and its relationships with suppliers such as Reyrolle Parsons, GEC and others.
 - d. NGC your own experiences.

7. How can this be prevented and R&D gains achieved?

- a. Avoid 'giant steps' mentality. Design the process to 'eat elephant one bite at a time'. Only reward **after** results are delivered, but reward handsomely. Up until results arrive operate on cost only contracts.
- b. Allow Patents and Intellectual Property Rights.
- c. Weight rewards policy so that small gains get more than proportionate recognition and money.
- d. Focus innovation strategy on operational issues to deliver early bottom-line gains.
- e. Leave pure research to academic community and insist on effective technology/knowledge transfer processes.
- f. Achieve through 'skunk works to avoid high supervisory overheads.
- g. Avoid OFGEM second guessing the R&D teams or imposing complex management processes.
- h. Don't penalise failure unless fraud or deliberate skimming is suspected.
- i. Establish totally transparent processes and regularly publish wins and failures.
- j. Discourage large R&D establishments that increase communication problems and/or complex management processes that require paper trails.
- k. Ensure that outsourced R&D providers are fully audited and their credentials thoroughly checked. Particularly look for quality of staff, quality of process and quality of management.
- l. Ensure that members of R&D teams (own or outsourced) are dedicated to the project. Avoid the tendency of suppliers to put up the best people, get project approval, take them out to recycle on another project to win another contract.
- m. Recognise that there are not enough people to do the work or the managers to supervise them. So limit projects to resource availability. This often is contrary to the interests of Government Departments who need to spend their budget allocations.

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