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Dear Gareth

**Innovation and Registered Power Zones**

I apologise that this response will arrive a couple of days late. However I hope my remarks are of use. In answer to your questions:

- 1) I think Ofgem should avoid any particular approach to IPR. As I understand the IFI/RPZ proposals, they are intended to run for a limited period of time and rapid implementation is desirable. Disturbing existing IPR arrangements between the various parties who would be involved in these initiatives would, in my view, be a major and long running activity that would not contribute to Ofgem's objectives.
- 2) As you might expect, I support the IFI initiative and consider it to be aligned with customers' interests. It is not in the interests of customers for there to be very little technical innovation by the regulated companies.
- 3) The DTI scoreboard seems a reasonable assessment tool.
- 4) I would support that the allowed funding should be less than 100% to ensure the companies contribute. However, we see from some other funding schemes that support at low levels (e.g. 30%-50%) leads to lack of interest. Therefore support in the range of 75%-85% would seem appropriate. I would hope that Ofgem would try to implement a high figure if this initiative is considered to be important. Further, I would support more allowance under F3. I do not consider innovation to be a simple process and it is difficult to decide in advance what will and will not give benefit to customers. I realise that Ofgem does not want to support innovation for its own sake but the innovation categories proposed may be difficult to define in practice. I would suggest C is about building technical capacity both to innovate and to respond to

technical challenges (e.g. type faults on existing plant). Having this capacity may well be of significant benefit to customers.

- 5) It would be desirable for there to be an agreed framework for innovation and to encourage collaboration between the companies. However, this may not be possible to implement early as, it seems to me, that the companies have different attitudes to innovation.
- 6) It is difficult to see how/why the IFI percentage cap should be varied initially. Experience of the scheme may show some companies performing more strongly than others and this might, in the future lead to differential caps.

A more general point is that if the overall Price Control is too severe, the companies may retrench so hard that they will lack the capacity/will to engage with the IFI/RPZ scheme. Thus the general cost and technical capacity reductions that seem to flow from the Price Control should also be considered.

- 7) Yes, you would expect us to support this view. Also the alternative of more primary plant has significant environmental implications.
- 8) Realistically, it would seem to me that the companies initially will be able to take forward up to 3 schemes per year. For DG schemes each might be up to 50 MW. I would be nervous about allocation between categories as this will lead to complication, which it may be useful to avoid.
- 9) I am nervous about the three categories as it is not clear to me this level of sophistication is necessary. It seems to me the primary aim is the connection of DG and innovation is a means to this end. If this is so, then does it matter particularly how the connection is achieved as long as there is some degree of innovation?
- 10) This is not normal and is not done in CEU demonstration projects. However in this case of demonstration, particularly of simpler schemes, it may be appropriate. An approach of this type will ensure that every effort is made to make the scheme work but may inhibit adventurous schemes.
- 11) This seems to be appropriate
- 12) This should be set to encourage such schemes. Thus, there could be an attractive financial return over say 3-5 years or a lower return over 10 years. The criticism against ROCs is that they are not bankable and have too much risk. This should be avoided in the RPZ scheme.

- 13) This seems to be a key question and should be considered on the basis that we are not, at present going to meet the targets. Thus I would argue for a generous premium and not to worry too much about the companies being over-incentivised. I would encourage Ofgem to think about the key problem of the UK not moving fast enough to a sustainable electricity system rather than being concerned over the possible charge of being too generous. The Spanish and German support mechanisms for renewables could be described as being overgenerous but they do deliver capacity.
- 14) I would favour the RPZ as being defined electrically not physically. There is clearly an opportunity for outsourcing specialist services and so the scheme should be designed to allow this technical and manufacturing capacity to be built up over a period of time and for an effective supply chain to develop. This would tend to support a scheme over a long period (at least 10 years) with a slow build up.
- 15) This is all about trying to meet the environmental targets and so this should be recognised. Is the Carbon Trust a possibility?
- 16) I would favour a simpler version of what is proposed. I would urge Ofgem to focus on the primary objectives and not be too concerned over making the scheme as economically efficient as possible. I think the categories of IF and RPZ scheme may be too complicated.
- 17) This depends on how concerned we are over the 2010 targets. An early implementation is clearly desirable but there will still, I believe, be concern that a harsh Price Control will undo the benefit of the scheme.

I apologise if this submission is not as polished as it might be but I hope it is of use.

Yours sincerely

N Jenkins