

Summary of responses to the questions raised in the IFI/RPZ July discussion paper

General comments

The high level, introductory comments were almost unanimously supportive. Caveats were added as well, many of which commented on the complexity of the Ofgem proposals. Some also thought that they were in some respects too restrictive.

Intellectual Property Question

1. *Do you have any specific views on the management of intellectual property that may be created through the IFI and RPZ initiatives?*

Ofgem's preference for IPR to be made widely available, even if under licence, was understood. However, a number of responses counselled against regulatory intervention here. IPR is a key driver for manufacturers of course as it is one way to secure competitive advantage. Careful consideration should be given to any IPR management conditions that might be attached to IFI or RPZ funding.

Innovation Funding Incentive (IFI) Questions

2. *Do you support Ofgem's rationale for introducing the IFI? Do you consider the IFI to be aligned with consumers' interests?*

A significant majority of the responses supported the rationale for IFI. Concerns were however expressed about the details of the incentive and these are discussed in later questions. One response expressed a preference for a simple, strong DG incentive. One manufacturer commented that the IFI could not support new product development but could fund feasibility studies.

3. *What are your views about the use of the DTI's R&D Scoreboard as a yardstick in this context? It would be useful if DNOs could quantify their company's current R&D Intensity and offer their views on an appropriate level for the next DPCR period.*

Several respondents indicated their current level of R&D spend broadly confirming the data that Ofgem had used. There was a general feeling that the 0.5% intensity that Ofgem has proposed was of the right order. Comments here related to the need to avoid step changes in spending, the benefits of rewarding success and the option to offer a higher cap to those already more active in the R&D area.

4. *Do you think the three category approach (A, B and C) and treatment of allowed funding is a reasonable balance in the interests of all parties? What should the value be of the proposed F1 and F2 factors?*

The DNOs thought that Ofgem's proposed 50%-75% pass-through was too low. However, other non-DNO parties commented on this point as well. It was not accepted by some that Category C expenditure should not be supported and concern was expressed about the complexity of the three band system.

5. *What are your views on establishing good practice for the management of innovation and could such a framework be adopted commonly across the industry?*

There was a good level of support for the principle behind this but some concern about implementation. Two DNOs cited the Asset Risk Management process as an example of how this might be done. Both research companies that responded proposed that they could assist in this and provide a vehicle for collaboration. The common message was "good management, yes – bureaucracy, no".

6. *Should the IFI percentage cap be varied between companies according to performance or some other criteria?*

The overall view here was that this was introducing a level of complexity that would be difficult to manage. The need for this could be reviewed at a later date.

Registered Power Zone (RPZ) Questions

7. *Do you share Ofgem's view that DG is likely to be connected more efficiently if innovation and new solutions/technologies are employed?*

There was a very high level of agreement here. However, it was noted in one response that 'traditional' connection solutions would remain the best option in some cases.

8. *Do you have a view regarding the annual RPZ MW capacity and numbers of projects that might be appropriate per DNO licensee per year, and whether the number should be allocated by the suggested gold, silver and bronze categories?*

There was an almost unanimous reaction against the limits that Ofgem proposed in the discussion paper. Limits were considered to be an unnecessary complication that could stifle the initiative. The view was expressed that RPZs would be self-limiting and that the registration process could be used to apply some control.

9. *Should the premium return be common for all RPZs or should it be related to the innovative content of the project? If the latter is considered appropriate, is the gold, silver, and bronze approach helpful, or can you suggest a better alternative?*

The gold, silver, and bronze categories were thought to send the right message but were judged by many to be a further complication that would be difficult to apply objectively. One respondent commented that innovation content and risk were not rigidly linked.

10. *Is it practical to base financial rewards on a project meeting or failing to meet performance objectives?*

A large majority of responses were not supportive of this proposal. It could be difficult to differentiate between different degrees of success/failure. A 'floor' and 'ceiling' approach to returns could be adopted. One non-DNO response commented that the DNO would never be in a position to control all the risks of a project and therefore full exposure to them could discourage innovation.

11. *Do you think a mechanism relying on an enhanced £/MW driver to provide a premium return is appropriate, and if not what alternative could be considered?*

The majority of comments here were supportive with some qualifications. However, two non-DNO responses thought that this approach discriminated towards large projects. Two DNOs suggested that the £/MW incentive should be based on 'connectable' MWs of generation rather than actual connected MWs.

12. *What lifespan do you consider should be assigned to an RPZ and to the premium return?*

The responses were split on this point. The DNOs lent towards asset lifetimes while the non-DNOs thought 5-10 years was reasonable. One non-DNO commented that the premium return should be "bankable".

13. *What premium do you consider to be appropriate to encourage innovation in DG connections and how could this be justified?*

Only about half the respondents offered a response here and only four were quantitative. Two DNOs supported the 'twice WACC' level and a non-DNO thought three times might be necessary. The fourth questioned the rationale for twice WACC and proposed WACC plus 1%.

14. *Do you have a view on how, in principle, the boundaries of RPZs might be defined? Should they, for example, encompass a physical area, rather than simply an electrical node? Do you see potential, in design or operation, for outsourced specialist services?*

The views on this question were very mixed. Several respondents argued for a flexible approach here.

15. *In your view, how should the RPZ initiative be funded?*

There was a wide range of responses to this question with a number of valid points being made. These included consistency with the price control, funding by those that benefit, costs shared across GB, a scheme similar to the ROC scheme and so on. One response highlighted the interaction with the price control.

General Questions

16. *Can you suggest alternative regulatory mechanisms that might better deliver the stated objectives of the IFI and RPZs?*

No fundamentally different mechanisms were suggested. One respondent did suggest that there should be just one DG incentive (as proposed in the main price control) and that the DNOs should be left to decide whether or not they apply innovation.

17. Would it be helpful to consider whether IFI and RPZ arrangements could be introduced on an interim basis, ahead of commencement of the next price control period in 2005?

There was a very positive response to this question with an almost unanimous answer of "Yes".