

## **Reports by Distribution Network Operators (DNOs) on Innovation Funding Incentive (IFI) and Registered Power Zone (RPZ) activity for 2007-2008**

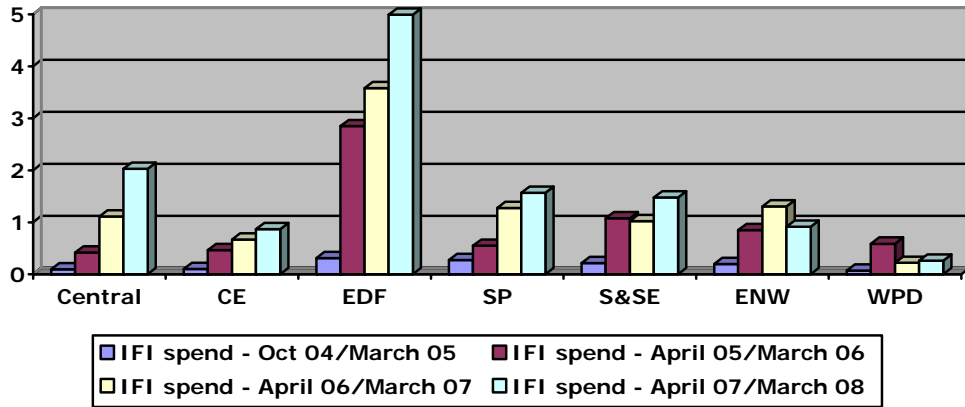
Ofgem has now published the DNOs' reports for the third full year of the IFI scheme. In total some £12.1 million has been invested by the DNOs in IFI projects in 2007/8. This represents an overall R&D Intensity (spend as a proportion of allowed revenue) of 0.33%. This is over four times the level of recorded spend on research and development in the first six months of the incentive (0.08%). As an overall figure, it is now two thirds of the maximum R&D Intensity of 0.5% allowed by the IFI scheme. A wide range of IFI projects is being pursued with good levels of collaboration being evident between DNOs and with industrial and academic partners.

The IFI was introduced as part of the electricity distribution price control for 2005-2010. It represents Ofgem's response to the consistent decline (actually approaching zero spend) in investment in research and development by DNOs since 1990. It allows a DNO to pass through to customers 80% (tapered from 90% to 70% from 2005 to 2010) of the cost of eligible IFI projects. In February of 2006, after a period of consultation, we agreed to extend the IFI scheme to the end of the next price control period to give the DNOs the confidence to build their R&D portfolios.

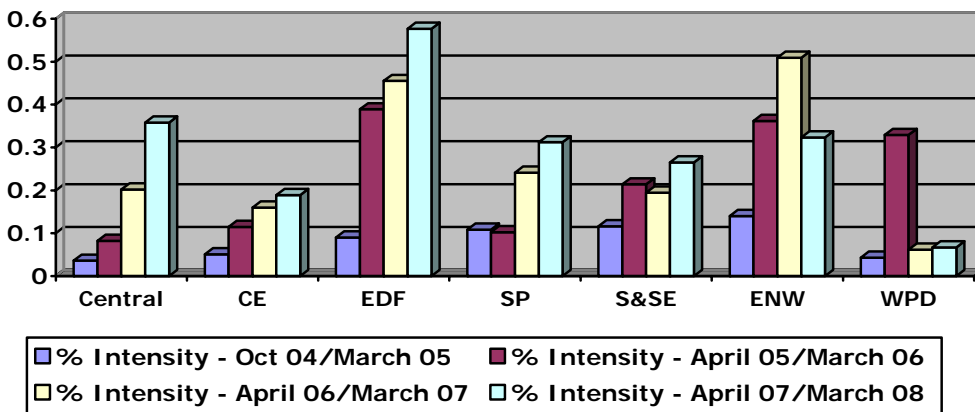
Eligible IFI projects are defined as being designed to enhance the technical development of distribution networks and can embrace asset management from design through to construction, commissioning, operation, maintenance and decommissioning. We are currently reviewing the scope of IFI projects with the DNOs with the intention of embracing projects related to environmental issues.

The key high-level IFI parameters that Ofgem tracks are actual spend and R&D intensity. These are shown in the figures below. Ofgem also monitors the reported net present value (NPV) of each DNO's IFI portfolio. Ofgem is also noting the projects that have produced outputs that have been adopted and are delivering real benefits.

**Figure 1 - IFI Spend (£m)**



**Figure 2 - R&D Intensity (%)**  
(IFI Cap - 0.5%)



For the majority of the companies these figures show a steady increase in absolute IFI spend and a steady increase in R&D intensity. Only one company (United Utilities) has reached the 0.5% maximum level.

The NPV of each DNO's IFI portfolio is shown to be positive, as required by the Good Practice Guide, and the NPV of all the portfolios is £54m. Perhaps more importantly, we are now seeing IFI projects delivering results and outputs that are being adopted by the companies.

Three DNOs are also pursuing RPZ projects. These reports are either incorporated in the IFI reports (EDF and Central Networks) or published separately (SSE).