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# Environmental Discretionary Reward Scheme: Guidance Document

## Associated document for electricity transmission licence

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### Overview:

This document is the Environmental Discretionary Reward Scheme Guidance referred to at Part C (The EDR Scheme Guidance) of Special Condition 3F. Adjustment in Respect of the Environmental Discretionary Reward Scheme of the Electricity Transmission Licences applying to the transmission companies introduced through notice accompanying the Final Proposals of the RIIO-T1 price control review.

It sets out the purpose and form of the Environmental Discretionary Reward Scheme (EDR Scheme) guidance to applicant companies on preparing their submissions, the assessment process and procedures, and the form and content of the EDR scorecard which sets out the strategic and operational environmental categories relevant to achieving the objective of the EDR Scheme.

## Context

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In March 2011, we published our strategy for the next transmission price control, RIIO-T1, which set out our decision on the key elements of the regulatory framework for the next gas and electricity transmission price control (RIIO-T1). The price control will be set for an eight-year period from 1 April 2013 to 31 March 2021.

Under the RIIO-TI framework, we committed to including a reputational incentive on promoting low carbon energy flows. For the electricity transmission companies, it was also our intention to introduce a financial reward to facilitate a greater contribution to the UK's environmental objectives, subject to consultation.

Following on from this, we consulted on our proposal for an Environmental Discretionary Reward Scheme (EDR Scheme) in early 2012, and published our decision on the concept for the implementation of the EDR Scheme in July 2012. As a result of the feedback received during the consultation, we decided to incorporate the role of the system operator (SO) into the EDR Scheme.

This document sets out the purpose and form of the EDR Scheme, guides applicant companies in preparing their submissions, the assessment process and procedures, and the form and content of the EDR scorecard which sets out the strategic and operational environmental categories relevant to achieving the objective of the EDR Scheme. It is the first published version of the EDR Guidance.

This document is published by the Gas and Electricity Markets Authority (the Authority) under Part C (The EDR Scheme Guidance) of Special Condition 3F of the Electricity Transmission Licences of the transmission companies for the RIIO-T1 price control. This document may be modified by the Authority in accordance with Part D (Modification of the EDR Scheme Guidance) of Special Condition 3F.

## Associated documents

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### Policy documents

**RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas. Overview document** (Ofgem, December 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=342&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=342&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes)

**RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd**  
(Ofgem, April 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=190&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=190&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes)

**Decision on strategy for the next transmission price control - RIIO-T1**  
(Ofgem, March 2011)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=77&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=77&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES)

**System Operator incentive schemes from 2013: principles and policy** (Ofgem, January 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent)

**EDR consultation** (Ofgem, February 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=152&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=152&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES)

**EDR decision letter** (Ofgem, July 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=210&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=210&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES)

### Documents that accompany this guidance document

**EDR scoring spreadsheet** (Ofgem, February 2013)

<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/NGedrscore.xlsx>

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# 1. Introduction

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- 1.1. Ofgem is the Office of Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority (the Authority), the regulator of the electricity and gas industries in Great Britain. The Authority's principal objective is to protect the interests of existing and future gas and electricity consumers, where appropriate by promoting effective competition. Consumers' interests are defined as including cutting carbon emissions and securing our energy supplies. Its statutory duties also cover the interests of vulnerable consumers, contributing to the achievement of sustainable development and ensuring that licensed electricity and gas companies are able to finance their activities.
- 1.2. In March 2011, we published our Decision on strategy for the next transmission price control, RIIO-T1, which set out our decision on the key elements of the regulatory framework covering the eight-year period from 1 April 2013 to 31 March 2021. This will be the first transmission price control to reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model. This model is designed to drive real benefits for consumers, providing network companies with strong incentives to step up and meet the challenges of delivering a low carbon, sustainable energy sector at a lower cost than would have been the case under our previous approach.
- 1.3. Environmental objectives are central to the current and future development of the energy sector, driven in large part by EU and UK decarbonisation, renewable energy and security of supply objectives. The electricity sector is expected to make a substantial contribution to the achievement of these objectives through increased deployment of low carbon generation technologies. Our duties and approach to regulating the sector have developed to reflect these imperatives.
- 1.4. Decarbonising Britain's electricity supply will depend on the timely provision of supporting transmission infrastructure delivered by the electricity transmission owners (TOs). A key driver for investment in the GB transmission system from 2013 - 2021 is to connect new sources of low carbon generation to meet Government policy targets.
- 1.5. The regulatory framework has evolved in recognition of the need to incentivise and support transmission infrastructure development. The new RIIO framework contains outputs and associated targets against which we will assess the TOs' performance. TOs are incentivised to perform strongly against outputs such as delivery of timely connections, efficient investment in wider system reinforcement, customer satisfaction and managed environmental impacts to deliver low carbon energy.

## **Objective of the EDR Scheme**

- 1.6. The EDR Scheme is a key environmental incentive under the RIIO-T1 price control with potentially available total funding of £32 million over the price control period (1 April 2013 to 31 March 2021). The objective of the EDR Scheme is to encourage licensees to achieve high standards in environmental management as well as facilitate the industry to move towards a low carbon energy system where it can do so effectively and provide value for money to consumers.
- 1.7. In our System Operator incentive schemes from 2013: principles and policy consultation published in January 2012<sup>1</sup> we committed to considering a reputational output incentive scheme for the Electricity Transmission System Operator (SO), complementing RIIO-T1 environmental outputs. In our consultation on the EDR Scheme in February 2012, respondents noted that key areas of performance that we proposed to measure in the EDR Scheme involved the SO. We have reached the view that the benefits derived from the separate TO and SO regimes could be considerably enhanced by providing a mechanism that seeks to encourage the SO and TO to play their respective roles and co-operate to generate benefits which go beyond the SO and TO schemes. In view of this, and further to the July SO Incentives consultation on initial proposals, we have designed the EDR Scheme to provide appropriate incentives for both the TOs and the SO to play a full role in facilitating the transition to a low carbon economy.

### **Form of the EDR Scheme**

- 1.8. The EDR Scheme is operated by the Authority, with a financial element covering the period 1 April 2013 – 31 March 2021. Each scheme year covering the period 2013 to 2021 will involve a full EDR Scheme application, with annual funding of £4m per year.
- 1.9. Applicant companies are also encouraged to make a submission covering the period 2012 to 2013. Though there will be no financial element this will be an opportunity for applicant companies to develop their thinking, and the systems and processes that the EDR Scheme seeks to promote. It is also an opportunity to seek feedback on their submissions in advance of the first financial incentive covering for the 2013 to 2014 scheme year.
- 1.10. We intend that the EDR Scheme will continue until 31 March 2021. However, we will review the operation of the EDR Scheme each year to ensure that it meets its objectives. Any changes we make following a review would be subject to consultation. We would also consider the implications of any changes on timing considerations, for example considering whether to delay

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<sup>1</sup>See System Operator incentive schemes from 2013: principles and policy, available on our website:  
[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent)

the implementation of changes if necessary to ensure that the requirements do not change significantly mid-year.

- 1.11. Applications to the EDR Scheme will take the form of an annual submission by eligible companies in accordance with the provisions of Chapter 2 of this guidance document. Applying to the EDR Scheme is not compulsory and each eligible company has the option of applying for funding under the scheme.
- 1.12. Each year, those companies wishing to apply for the EDR must comply with the application process set out in Chapter 2 of this guidance document which includes providing evidence to us of their performance against the specified EDR Scheme requirements, which are set out in the EDR scorecard (see Chapter 4). An assessment of each company's performance will then be undertaken as set out at Chapter 3 of this guidance document. This will include review by an expert panel and ultimately be decided by the Authority. A company will receive a financial reward only if they achieve a leadership score. The method to allocate the financial reward is described in Chapter 5. The applicable cap is the total annual funding of (£4m plus any rolled over amounts as set out in paragraph 1.15. We will publish the Authority's decision on our website.
- 1.13. In the following chapters we set out the submission requirements, assessment process and procedures, administration, and governance for the EDR Scheme.

### **Allocation of payments under the EDR Scheme**

- 1.14. As set out in paragraph 1.9, each scheme year between 2013 and 2021 will have available a total funding amount of £4m plus any applicable rolled over amounts from previous years (as set out in paragraph 1.15). Only companies that attain a leadership score in the assessment will qualify for a proportion of the annual reward.
- 1.15. The Authority may award all, some or none of the funding each scheme year. If the full amount is not awarded in any one scheme year, up to half of the annual funding can be rolled over into the next scheme year. The following scheme year, the total funding available would then be the annual funding for that scheme year, plus any amounts rolled over from the previous scheme year<sup>2</sup>. Allowing up to half of the annual allocation to be rolled over balances the need to provide appropriate incentives under the EDR Scheme with encouraging regular participation and protecting consumers' interests.
- 1.16. Please see Chapter 5 for further details on the allocation of payments under the EDR Scheme.

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<sup>2</sup> For example, if none of the £4m funding for the 2013-14 scheme year were awarded, £2m would be rolled over to the 2014-15 scheme year and added to the annual funding allocation (£4m). The total funding available for the 2014-15 scheme year would therefore be £6m.

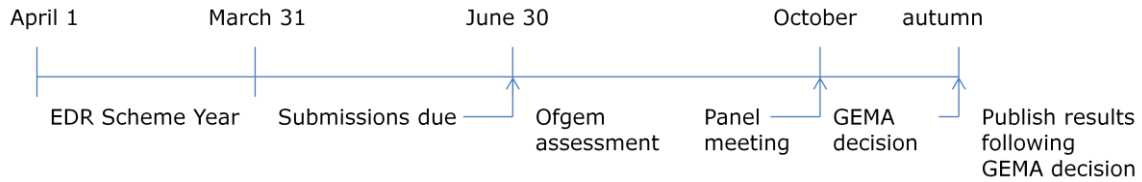


**Timetable**

1.17. The EDR Scheme will focus on activities undertaken by applicant companies in a particular year from 1 April to 31 March. In this guidance document, we refer to this as the relevant 'scheme year'.

1.18. The EDR process is outlined in the timeline below (figure 1).

*Figure 1 – EDR timeline*



1.19. The first applications will cover the period 1 April 2012 to 31 March 2013, and will be due by 30 June 2013.

1.20. Applications must be submitted to the Authority by the end of June following the relevant scheme year.

1.21. The outcome of the EDR Scheme will be determined by the Authority in the autumn following the deadline for applications. Therefore, we expect to announce the outcome of the first EDR Scheme submissions in autumn 2013.



## 2. Application process

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This chapter of the guidance document sets out the eligibility criteria and application process for companies intending to submit an application for the EDR Scheme.

### **Eligibility**

- 2.1. Those eligible to apply for the EDR Scheme are onshore electricity TOs operating in Great Britain, including National Grid in its role as combined TO/SO.
- 2.2. Each eligible company is entitled to submit one application only for the EDR Scheme in each scheme year. For the avoidance of doubt, National Grid is only entitled to submit one application in any scheme year to apply to its role as a TO in England and Wales, and SO for Great Britain.
- 2.3. This document hereby refers to all eligible companies that submit an EDR application form as 'applicant companies'.
- 2.4. Below we set out the guidance for applicant companies, including the different requirements for applications relating to 2012 to 2013 compared to subsequent years.

### **Applying for the EDR Scheme (2013 to 2014 scheme year onwards)**

- 2.5. There are two key requirements in the application process for the EDR Scheme from the 2013 to 2014 scheme year onwards: the executive-level annual statement and the evidence that each company submits to demonstrate performance against the EDR scorecard.
- 2.6. In order to apply for the EDR Scheme, each applicant company is required to complete and submit an EDR application form to us by the application deadline. The EDR application form is an electronic form, with fields for applicant companies to provide hyperlinks to published documents, and text fields to provide a brief explanation of the evidence.
- 2.7. The application form requires

→ evidence of the activities and behaviours set out in the EDR scorecard which comprises six key strategic and operational environmental categories being measured under the EDR Scheme. Examples of the categories include approach taken to connection of low carbon generators, and business greenhouse gas emissions management. Further details are provided at paragraphs 2.9 to 2.12 below, and the complete scorecard is set out in Chapter 4.

→ a copy of an executive-level annual statement, with evidence that it has been published, presented, consulted on and revised as appropriate in accordance with the guidance set out below. Further details are provided at paragraphs 2.13 - 2.19 below.

2.8. In completing the EDR application form, applicants should also refer to our guidance on the EDR scorecard (see Chapter 4) and the scoring spreadsheet published alongside this document which we will use to assess performance against each relevant category on the scorecard.

#### *EDR scorecard evidence*

2.9. The EDR is an evidence-based scheme. Each applicant company must provide evidence of their performance against six categories during the relevant scheme year. The EDR scorecard provides information on the evidence required, the assessment criteria and the weighting of each category. See Chapter 4 for further details of the EDR scorecard.

2.10. The EDR scorecard sets out the evidence requirements for Ofgem to be able to award marks for each scorecard category. For each category, the applicant company must provide a hyperlink to one or more documents that provide evidence of it having demonstrated the relevant activity or behaviour, together with a brief explanation. The purpose of providing these documents is to enable us to assess evidence of performance against each of the activities and behaviours being measured under the EDR Scheme.

2.11. Where evidence is not publicly available online, for example in the case of restricted management papers, these may be submitted as electronic documents (eg Microsoft Word or Excel) or PDF email attachments, with the EDR application form. Attachments should be clearly labelled, and referred to in the relevant explanation box.

2.12. The EDR scorecard sets out any additional evidence that National Grid should provide to cover both its TO and SO function. The purpose of this is to potentially reward TOs and the combined TO/SO based on their respective licensable activities and responsibilities.

#### *Executive-level annual statement*

2.13. Each applicant company must also prepare an executive-level annual statement in accordance with the guidance set out below.

2.14. The executive-level annual statement must explain clearly and concisely how each applicant is adapting their business strategy to manage the transition to a low carbon energy system, over the next three years. It should highlight significant relevant initiatives that contribute to sustainability and low carbon objectives, relating to but not limited to areas covered by the scorecard.

2.15. This should include:

- The drivers for the initiatives
- Details and current status of the key initiatives and timescales for its completion
- An assessment of the sustainability impacts of each relevant initiative, including decarbonisation and local environmental impacts as appropriate
- Which stakeholders have been involved in the process, and how the applicant company has taken their views into account
- The justifications for the decisions taken, eg cost, timing issues, local environmental impacts and mitigation measures. It may also cover any alternative options which have been considered.

2.16. The CEO of the applicant company (or a person of equivalent seniority) must present the executive-level annual statement at an annual public event or series of events to which the company's key external stakeholders have been invited. The presentation should set out the contents of the report and invite stakeholders to provide feedback to the applicant company, including in relation to the relevant sustainability impacts.

2.17. Applicant companies must publish, present and consult on the executive-level annual statement within the relevant scheme year. For example, in the scheme year in April 2013 to March 2014, applicant companies must therefore publish, present and consult on the executive-level annual statement by 31 March 2014.

2.18. Each applicant company's EDR application form submission should include:

- the executive-level annual statement
- evidence of the CEO's presentation at an annual event
- a summary of responses received to the statement
- evidence of any changes considered or made in response to feedback, and a revised executive-level annual statement if appropriate.

2.19. Please note that, aside from the requirements set out in paragraphs 2.13 – 2.18 it is not our intention at this stage to be overly prescriptive in terms of the specific requirements for the executive-level annual statement (eg in respect of the length, style and contents of the document). Applicants are encouraged to prepare and submit a document which best reflects the

relevant issues for their company. We may revise our requirements from time to time based on our experience of the operation of the EDR Scheme in future years.

#### *Submitting your application*

- 2.20. As set out above, applicant companies will submit a completed EDR application form, together with any attachments required. The EDR application form should be approved and signed by a relevant director on behalf of the applicant company and sent to us at [sustainable.energy@ofgem.gov.uk](mailto:sustainable.energy@ofgem.gov.uk) by 30 June following the relevant scheme year.

#### **Submissions in 2013 (covering the period 2012 to 2013)**

- 2.21. As with the process for applying for the EDR Scheme covering activities from April 2013 onwards, applicant companies are invited to submit an executive-level annual statement and evidence covering the period 2012 to 2013. Though there will be no financial element this will be an opportunity for applicant companies to seek feedback on their submission in advance of the first financial incentive covering for the 2013 to 2014 scheme year. It is designed to encourage applicant companies to develop their thinking, and the systems and processes that the EDR Scheme seeks to promote. Because this year will not include a financial reward, the requirements on applicant companies will differ slightly.

#### *Executive-level annual statement*

- 2.22. For the period 2012 to 2013 only, though applicant companies will produce an executive-level annual statement, they will not have to present it to stakeholders, or undertake a consultation exercise by 31 March 2013. A copy of the executive-level annual statement must be prepared and submitted as part of the EDR application form.

#### *EDR scorecard evidence*

- 2.23. As with submissions for scheme years 2013 to 2014 onwards, applicant companies will submit evidence to demonstrate their performance against the EDR scorecard (the requirements for applications from 2013 to 2014 onwards are set out in paragraphs 2.9-2.12). Applicant companies should complete an EDR application form, approved and signed by a relevant director on behalf of the applicant company and sent to us at [sustainable.energy@ofgem.gov.uk](mailto:sustainable.energy@ofgem.gov.uk) by 30 June 2013.
- 2.24. Though no reward funding will be available for the period 2012 to 2013, it is an important opportunity for applicant companies to develop their thinking, and the systems and processes that the EDR Scheme seeks to promote. Applicant companies will also benefit from feedback on their submission, informed by Ofgem's review and a Panel meeting.

### **Treatment of confidential information**

- 2.25. Please note that where information contained in the completed EDR application form (including any attachments) or the executive-level annual statement is confidential or the applicant does not wish it to be disclosed, this should be made clear at the time of submitting the relevant documents to us, along with the reasons for treating the information in confidence. Your request will be considered in accordance with our relevant statutory duties, including the Freedom of Information Act 2000 (FOIA) and the FOIA code of practice.
- 2.26. Applicants to the EDR Scheme should note that even where information is marked as confidential or the participant does not wish it to be disclosed, there may still be circumstances in which its disclosure is required. Information provided, including personal information, may be subject to publication or disclosure in accordance with the relevant access to information regimes (these are primarily the FOIA, Environmental Information Regulations 2004 and the Data Protection Act 1998).

### **Compliance**

- 2.27. The guidance document in no way relieves relevant parties, including each TO and the SO, from their responsibility to ensure ongoing compliance with legislation including competition, environmental and consumer protection laws and duties under the licence.

## 3. The assessment process

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In this chapter we set out the assessment process which takes place following receipt of applications for the EDR Scheme. The assessment process will consist of three key stages: 1) an initial internal review by Ofgem; 2) assessment by an expert panel; and 3) a final decision by the Authority, informed by a recommendation from Ofgem.

### **Initial internal review by Ofgem**

- 3.1. The first stage of the assessment process will involve an initial assessment of each application to be undertaken by Ofgem. This will be carried out following the application deadline, in the period prior to the meeting of the expert panel. During this period, we may request meetings, or clarification in writing, via email or telephone from applicants regarding their applications and supporting documentation submitted. As part of the process, each company is therefore required to provide a point of contact to deal with this phase of the process. This should be detailed in the relevant section of the EDR application form.
- 3.2. As part of this process, we will assess whether the application and annual executive-level statement has been provided in accordance with the requirements set out in Chapter 2. If the annual executive-level statement meets the requirements set out in Chapter 2, we will then assess the evidence the applicant company has submitted to demonstrate its performance against the requirements of the scorecard. We will assess this evidence by completing a scoring spreadsheet to score each submission against the relevant scorecard categories. The scorecard is contained within Chapter 4 of this document, and the scoring spreadsheet is published alongside this document<sup>3</sup>.
- 3.3. Ofgem will provide the expert panel (see below) with a report on each applicant company's application, detailing the score we have given for the submission and our rationale.

### **Assessment by the EDR expert panel**

- 3.4. As mentioned above, we will convene an expert panel (the Panel) to act in an advisory capacity in the decision-making process. In particular the Panel will be responsible for
  - providing strategic oversight to Ofgem on the award of the EDR Scheme
  - reviewing Ofgem's analysis of submissions for the EDR Scheme

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<sup>3</sup> <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/NGedrscore.xlsx>

- contributing their views for feedback that we will provide to companies on their submissions
- recommending messaging for EDR Scheme communications relating to decisions and other publicity and promotional materials
- recommending adjustments for future EDR Scheme years as appropriate.

3.5. For further information on the role of the Panel, please see Chapter six for the terms of reference.

### **Panel composition**

- 3.6. The Panel will be composed of six members, including a non-voting chairperson. The chairperson will be an Ofgem employee. To guard against conflicts of interest, the remaining five members will be individuals with relevant expertise but will not be employed by, or hold shares in a company, or an affiliate of a company regulated by Ofgem.
- 3.7. Tenure on the Panel will be time-limited, with a proportion of members changed from time to time to allow for representation of a diversity of views and organisations. Panel members' tenure will be limited to four years initially, with an option to extend in some cases to allow for retention of panel experience.
- 3.8. We will announce the first membership of the Panel, as well as the date of its first meeting, prior to the first Panel meeting scheduled for autumn 2013.

### **The Authority's decision**

- 3.9. Drawing on the views expressed by the Panel, Ofgem will make a recommendation to the Authority in relation to the award of the EDR Scheme.
- 3.10. The Authority will make a final decision in relation to the award of the EDR Scheme. Its decision will be informed by the assessment process outlined in this chapter but it will not be bound by any recommendations or analysis made by us or the Panel. The Authority's decision will be published in the autumn following the receipt of applications.

## 4. The scorecard and weightings

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In this chapter we set out the EDR scorecard, including details of the weightings attributed to each category.

### The EDR scorecard

- 4.1. The EDR scorecard is a central reference point for applicant companies' submissions. We have developed the EDR scorecard to set out the categories against which we will assess evidence submitted to us in the EDR application form. This is designed to give applicant companies a clear set of objectives and to transparently indicate how we will assess each applicant company's submission.
- 4.2. The aim of the EDR scheme is to encourage applicant companies to integrate sustainability into their strategic development and business practice. It assesses performance against six categories, which are outlined below:
  1. Strategic understanding of and commitment to low carbon objectives and the role of the applicant company in their facilitation
  2. Involvement in whole electricity system planning for low carbon future, including integration with DNOs and involvement in development of demand side interventions
  3. Approach taken to connections for low carbon generators
  4. Quality of innovation work and use of new ideas and results of innovation projects across the applicant company
  5. Approach to network development (for example outage planning) that considers alternatives to building/reinforcing, eg smarter network use, demand-side response and energy storage
  - 6a. Direct environmental impact of activities and associated reporting
  - 6b. Business greenhouse gas emissions management.
- 4.3. To provide applicant companies with a detailed understanding of our expectations we have developed an EDR scorecard, and an EDR scoring spreadsheet, which should be read together. The EDR scorecard is contained



within this chapter, and the EDR scoring spreadsheet is published alongside this guidance document on the Ofgem website<sup>4</sup>.

#### *The EDR scorecard*

- 4.4. The EDR scorecard describes the type of activities and outcomes that we seek evidence of in each category outlined in paragraph 4.2. We have defined the type of activities and outcomes that we would expect for three different levels of performance. We would assess that:
- a 'compliant' company performs up to the level required to fulfil its licence obligations
  - a 'responsive' company goes beyond its minimum requirements to consider innovative solutions to challenges
  - a 'leadership' company is demonstrating leadership, looking beyond conventional approaches, taking a whole-system perspective, collaborating with a range of stakeholders to implement new thinking and best practice.
- 4.5. The EDR scorecard should be read in conjunction with the EDR scoring spreadsheet.

#### *The EDR scoring spreadsheet*

- 4.6. The EDR scoring spreadsheet is Ofgem's framework for assessing an applicant company's EDR application. For each of the EDR scorecard categories (see paragraph 4.2 above), the EDR scoring spreadsheet sets out the evidence we would require to assess the submission. Each category has one or more subcategories, in which nine points will be available:
- Up to three points for evidence of management focus on the topic
  - Up to three points for evidence of use of resources to address the topic
  - Up to three points for evidence of the impact of the activities on the topic.
- 4.7. Having considered the evidence provided, we will assess the submissions and generate an overall score for each category. We will then generate a weighted score according to our weightings system (see paragraphs 4.9-4.12). Weighted scores from all categories are then combined in the master score

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<sup>4</sup> <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/NGedrscore.xlsx>

sheet to generate a final percentage score. The following ranks are applied to final percentage scores:

- <50%: 'compliant'
- 50-70%: 'responsive'
- ≥70%: 'leadership'

4.8. The EDR scheme is designed to drive best practice in terms of applicant companies achieving high standards in sustainable management and playing a full role in facilitating the transition to a low carbon economy. We are therefore rewarding only those companies whose overall score falls into the 'leadership' category. Our methodology for allocating reward funding is set out in Chapter 5.

### Weightings

4.9. The EDR scorecard is a central part of the EDR Scheme, which sets out the basis for assessing companies' EDR submissions. Each category of the scorecard is weighted to reflect:

- ➔ the relative importance of the category to the overall performance of the company
- ➔ the extent to which there are other rewards available under the price control, including the SO incentive regime, covering aspects of the behaviour being measured
- ➔ the company's role in delivering against the scorecard requirements.

4.10. We have developed the scorecard weightings in consultation with stakeholders. The six categories of the scorecard are weighted as follows:

Scorecard category	Weighting
1. Strategic understanding of and commitment to low carbon objectives and the role of the applicant company in their facilitation	10
2. Involvement in whole electricity system planning for low carbon future, including integration with DNOs and involvement in development of demand side interventions	10
3. Approach taken to connections for low carbon generators	10
4. Quality of innovation work and use of new ideas and results of innovation projects across the applicant company	10
5. An approach to network development (for example outage planning) that considers alternatives to building/reinforcing, eg smarter network use, demand-side response and energy storage	2
6a. Direct environmental impact of activities and associated reporting	2



6b. Business greenhouse gas emissions management	2
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- 4.11. The scoring spreadsheet indicates the number of points available for companies able to provide evidence for each scorecard category.
- 4.12. We reserve the right to amend the weightings each year, to focus the scheme on particular aspects of performance. We will consider this at the conclusion of an annual competition. Any such amendments would be reflected in an updated guidance document, which we would publish for consultation.

**Scorecard Category 1:** Strategic understanding and commitment to low carbon objectives – role of applicant company in their facilitation

The purpose of this category is to assess the extent to which applicant companies demonstrate a strategic understanding of the way that their business culture and operational practices will need to change to meet the needs of a diverse new portfolio of renewable and low carbon electricity generators.

<b>Aspect of performance</b>	<b>Compliant &lt;50</b>	<b>Responsive 50-74</b>	<b>Leadership 75-100</b>
Leadership, governance and values with respect to understanding and commitment to low carbon objectives	Applicant company has made public statements about the importance of low carbon objectives to its business operation.	Applicant company has explicitly identified risks and opportunities for the business to facilitate low carbon objectives and has addressed these in strategy, policies and responsibilities.	Applicant company has taken a systematic approach to ensuring that its business practices meet the needs of the low carbon economy.
Operational analysis of the impact of low carbon objectives on the business	Applicant company has modelled the potential energy market scenarios in terms of generator development to meet low carbon objectives. Evidence of using this to inform business planning, for example in relation to network development plans under RIIO-T1.	Applicant company has consulted stakeholders on the findings from modelling work undertaken, and received and acted on that feedback.	Applicant company has developed and evolved its approach to connecting low carbon generation in line with the UK's statutory renewable energy and carbon reduction commitments.

**Scorecard category 2:** Involvement in whole electricity system planning for low carbon future, including integration with DNOs and involvement in development of demand side interventions

The purpose of this category is to assess the extent to which the SO and TOs adopt a whole of system planning approach to identify timely and cost-effective network solutions for all network users. We will be looking for evidence that TOs’ own plans and SO’s GB system planning has been influenced by others’ plans and integrates wider system challenges and opportunities and that both have established processes and resourcing to foster integrated planning.

<b>Aspect of performance</b>	<b>Compliant &lt;50</b>	<b>Responsive 50-74</b>	<b>Leadership 75-100</b>
Whole electricity system planning for low carbon future	Applicant company meets the requirements of SO-TO Code in relation to coordinated transmission investment planning.	In addition to ‘compliant’ behaviours, the applicant company effectively engages with DNOs to ensure consistency between DNO plans and TO plans and to identify more integrated network solutions for accommodating low carbon energy.	In addition to ‘responsive’ behaviours, the applicant company plays a proactive role in encouraging cooperation amongst wide range of stakeholders for development of whole system planning to integrate the behaviour and actions of all users to facilitate cost-effective sustainable power systems.
<b>SO specific roles and duties</b>	<p>The SO co-ordinates with the TO to deliver a planning statement. The SO</p> <ul style="list-style-type: none"> <li>• Develops generation market ranking order, transmission system criteria and planning assumptions and shares these with TOs</li> <li>• Incorporates feedback from TOs on modelling assumptions</li> <li>• Verifies the TO’s own models against its datasets</li> <li>• Models GB investment plans</li> <li>• Disseminates convergent models of GB investment plans.</li> </ul>	<p>In addition to ‘compliant’ behaviours, the SO</p> <ul style="list-style-type: none"> <li>• Ensures consistency and coordination between transmission and DNO plans, even if investment process may be managed at high and low voltage networks.</li> </ul>	<p>In addition to ‘responsive’ behaviours, the SO</p> <ul style="list-style-type: none"> <li>• Encourages cooperation amongst a wide range of stakeholders to develop a smarter grid that integrates the behaviour and actions of all users to facilitate cost-effective, sustainable power systems</li> <li>• Takes account of, and where appropriate facilitate potential market network services, including demand-side participation solutions</li> <li>• Develops highly effective operational practices and commercial arrangements to improve network services, incorporating new and innovative</li> </ul>

			approaches where appropriate.
<p><b>TO specific roles and duties</b></p>	<p>The TO co-operates with the SO to provide information on its own transmission system development plans. The TO</p> <ul style="list-style-type: none"> <li>• Provides feedback to SO on modelling assumptions based on information and data within its transmission system</li> <li>• Develops medium term investment plans for its own system to efficiently meet the reasonable demands of users and security standards with due regard to the environment</li> <li>• Provides SO with information on proposed network configuration changes to ensure secure and efficient operation.</li> </ul>	<p>In addition to 'compliant' behaviours, the TO</p> <ul style="list-style-type: none"> <li>• Contributes effectively to the SO's scenario development</li> <li>• Identifies cost effective infrastructure solutions to accommodate new energy sources wherever they may be sited on high and low voltage networks.</li> </ul>	<p>In addition to 'responsive' behaviours, the TO</p> <ul style="list-style-type: none"> <li>• Identifies barriers to smarter grid development</li> <li>• Develops novel arrangements, or applications of existing network equipment, that is effective, or likely to be effective in removing barriers to smart grid development.</li> </ul>

**Scorecard category 3:** approach taken to connections for low carbon generators

The purpose of this category is to assess the performance of applicant companies in delivering effective connections for low carbon generators, and to focus on the programme management of delivering connections rather than individual projects. We are looking for how applicant companies review their performance, translate lessons learned into future improvement, and prepare to meet future technical and organisational challenges arising from connections. We are looking for applicant companies to appropriately resource technical expertise to research and maintain a high degree of understanding of issues that arise in relation to connecting low carbon generation elsewhere in GB and internationally, so that where such a challenge arises it is in a good position to respond.

We will bear in mind the different roles and responsibilities of SO and TO. In terms of reputational impact, while the TOs cannot be held responsible for contacting the connecting party of a particular scheme or directly facilitating the connection, their conduct affects their reputations with the SO and other stakeholders with past experience of connections in which it played a part.

<b>Aspect of performance</b>	<b>Compliant &lt;50</b>	<b>Responsive 50-74</b>	<b>Leadership 75-100</b>
<p><b>TO specific roles and responsibilities</b></p> <p>Contributing to the delivery of connections for low carbon generators by carrying out activities in response to SO requests.</p>	<p>The TO</p> <ul style="list-style-type: none"> <li>• meets licence obligations relating to connections</li> <li>• records contribution to specific connection projects to aid future contributions to connections consistent with its licence obligations.</li> </ul>	<p>In addition to 'compliant' behaviours, the TO</p> <ul style="list-style-type: none"> <li>• has a process to maintain performance to inform its contributions to future connections</li> <li>• has built technical and organisational preparedness</li> <li>• reviews past performance and has a process to use lessons learned to inform future activity.</li> </ul>	<p>In addition to 'responsive behaviours, the TO</p> <ul style="list-style-type: none"> <li>• proactively develops the technical capabilities required to deliver its activities to a high standard</li> <li>• has a clear reputation for excellence including demonstrable evidence of comprehensive preparedness, enabling flexible delivery and technical expertise</li> <li>• has an effective system (flexibly updating for changes in circumstances and knowledge) for recording and reviewing performance and ensuring this feeds into project management.</li> </ul>
<p><b>SO roles and responsibilities</b></p> <p>Interacting effectively with the connecting</p>	<p>The SO</p> <ul style="list-style-type: none"> <li>• meets licence obligations</li> <li>• records contribution to specific connection projects to aid future contributions to connections consistent with its licence obligations</li> </ul>	<p>In addition to 'compliant' behaviours, the SO</p> <ul style="list-style-type: none"> <li>• has a process to maintain performance for future connections</li> <li>• reviews past performance and has a process to use lessons learned to inform</li> </ul>	<p>In addition to 'responsive' behaviours, the SO</p> <ul style="list-style-type: none"> <li>• proactively develops the technical capability required to deliver its activities to a high standard</li> <li>• has a clear reputation for excellence</li> </ul>

<p>party, and managing the overall connections process.</p>	<ul style="list-style-type: none"> <li>• records contribution to the overall connections process to aid future contributions to connections consistent with its licence obligations.</li> </ul> <p>The above includes interaction with all relevant stakeholders along with management of the overall project.</p>	<p>future activity</p> <ul style="list-style-type: none"> <li>• has a process for interacting with different connecting parties and other stakeholders that evolve with lessons learned to inform future interactions</li> <li>• assesses and reviews the overall project management (including interactions with TOs and stakeholders where applicable) and identifies and applies lessons learned.</li> </ul>	<p>including demonstrable evidence of comprehensive preparedness, enabling flexible delivery and technical expertise</p> <ul style="list-style-type: none"> <li>• has an effective system (flexibly updating for changes in circumstances and knowledge) for recording and reviewing performance and ensuring this feeds into project management</li> <li>• has a flexible and high quality approach to interacting with connecting parties and other relevant stakeholders, particularly in managing the solving of technical problems</li> <li>• can demonstrate how previous experience has informed a high quality project management process</li> <li>• Interacts with consumers in a way that creates and maintains a good reputation.</li> </ul>
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**Scorecard category 4:** quality of innovation work and use of new ideas and results of innovation projects across the applicant company

The purpose of this category is to assess the extent to which the SO and TOs foster productive working relationships with other companies and stakeholders in relation to their innovation activities. This includes the development of bids for the Network Innovation Competition (NIC) and implementation of successful NIC bids, innovation work funded through the Network Innovation Allowance (NIA), as well as innovation that has not received NIC or NIA funding.

<b>Aspect of performance</b>	<b>Compliant &lt;50</b>	<b>Responsive 50-74</b>	<b>Leadership 75-100</b>
Collaborative working and stakeholder engagement	Applicant company participates in engagement activities with a range of stakeholders, and assigns stakeholder engagement responsibility to a member of staff.	Applicant company actively engages with a range of stakeholders, listening to their views and working collaboratively to incorporate innovative ideas into business practices, hosting events and participating in others' events.	Applicant company takes a systematic approach to stakeholder engagement led by senior management. Works with a range of stakeholders and partner organisations to identify and implement innovative solutions to challenges.
Quality of dissemination of results	Applicant company summarises the findings of its innovation activity in a report, published on its website.	Applicant company actively disseminates results using a variety of approaches.	Applicant company has a comprehensive and strategic approach to disseminating results that make a compelling case to partners and other network companies.
Learning lessons from own innovation	Applicant company actively reviews its own innovation practice, with examples of innovation findings being integrated into business.	Applicant company actively reviews its own innovation practice, with wide range of examples of results of innovation findings being integrated into business.	Applicant company takes the best from its own innovation practice and integrates quickly and effectively into business.
Learning from others' innovation	Applicant company demonstrates an awareness of innovation activity by others, with examples of new ideas being successfully integrated into mainstream of business.	Applicant company actively reviews innovation practices of others, with a wide range of examples of new ideas and results of innovation being integrated into business.	Applicant company takes the best from innovation by others and integrates quickly and effectively into business.

**Scorecard category 5:** approach to network development (for example outage planning) that considers alternatives to building/reinforcing, eg smarter network use, demand-side response and energy storage

The purpose of this category is to assess the extent to which the SO and TOs interact and look beyond conventional approaches to developing the network. We are looking for applicant companies to demonstrate that they have engaged with each other, and with other relevant stakeholders, to seek new solutions and operationalise where appropriate.

<b>Aspect of performance</b>	<b>Compliant &lt;50</b>	<b>Responsive 50-74</b>	<b>Leadership 75-100</b>
Network development approach considers alternatives to conventional approaches, eg smarter network use, demand side response and energy storage.	Applicant company provides limited evidence and/or clarity that its approach to network development approach looks beyond conventional solutions.	Applicant company’s network development approach incorporates commercial and/or operational alternatives to conventional asset investment.  Elements of innovation strategy aligned to addressing uncertainties in smarter approaches to network availability (eg DSR, energy storage, line ratings, accelerated workings, smarter networks, etc).	In addition to ‘responsive’ behaviours, a smart approach to network development is business as usual.  The applicant company’s innovation strategy is clearly and seamlessly aligned with network development strategy.
Network development approach demonstrates strong SO/TO engagement	Applicant company provides limited evidence of TO/SO engagement beyond business as usual.	Applicant company demonstrates strong TO/SO engagement, which has shaped the network development approach for both TO and SO.	Network development approach co-created by SO and TO.
Network development approach incorporates stakeholder engagement and accounts for interdependencies	Applicant company provides limited evidence that stakeholder engagement goes beyond minimum requirements in industry codes.	Applicant company’s network development approach reflects evidence from TO/SO engagement with key stakeholders, including DNOs, generators, suppliers, large demand customers and other service providers (eg utilities such as gas, water, broadband).	Network development strategy informed by a proactive stakeholder engagement strategy, balancing stakeholder needs and with clear buy in from all parties.

**Scorecard category 6a:** direct environmental impact of activities and associated reporting

The purpose of this category is to assess how applicant companies monitor, assess and take direct environmental impacts of their activities into account in strategic decision-making.

<b>Aspect of performance</b>	<b>Compliant &lt;50</b>	<b>Responsive 50-74</b>	<b>Leadership 75-100</b>
Direct environmental impact	Applicant company publishes an environmental impact assessment (EIA) which sets out environmental objectives for the business underpinned by a business environmental policy.	Applicant company has established environmental targets and an environmental management system for reporting against targets and communicating information both internally and externally. A competent person with appropriate authority has checked and signed off the reporting information and/or has the report reviewed for effectiveness by an independent group or third party auditor.	Applicant company's environmental performance is underpinned by <ul style="list-style-type: none"> <li>• comprehensive corporate leadership and strategy development</li> <li>• integration of environmental issues in strategic decision making</li> <li>• well developed environmental management and evidence of measurement and improvement of the businesses environmental impact through changed practices and/ products/services.</li> </ul>

**Scorecard category 6b:** business greenhouse gas (GHG) emissions

The purpose of this category is to assess the extent to which applicant companies adhere to best practice in terms of calculating their GHG footprints, reporting and acting to reduce their GHG footprints.

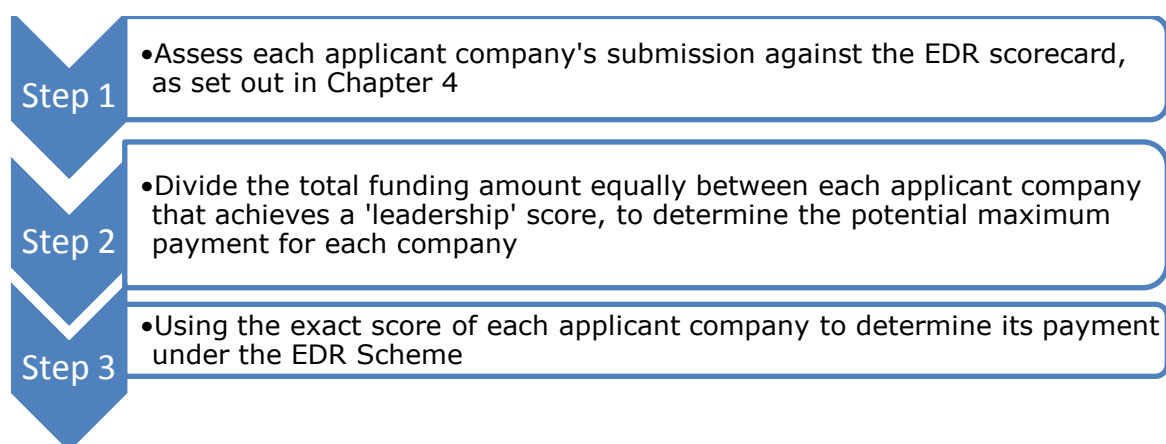
<b>Aspect of performance</b>	<b>Compliant &lt;50</b>	<b>Responsive 50-74</b>	<b>Leadership 75-100</b>
Business GHG emissions	Applicant company publishes a GHG footprint for the organisation.	Applicant company publishes a GHG footprint for the organisation and also a stand alone report on its methodology for calculating its business GHG footprint which demonstrates adherence to an internationally recognised best practice reporting standard eg GHG Protocol.	In addition to “responsive” an applicant company has established GHG reduction targets and implemented initiatives to meet or exceed the targets and publishes these.

## 5. General rules and procedures

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### Allocation of payments under the EDR Scheme

- 5.1. Below we set out the approach we will use to make a recommendation on payments under the EDR Scheme. The expert panel will in turn make a recommendation to the Authority to reward one or more applicant companies if appropriate.
- 5.2. As set out in Chapter 1, paragraph 1.9, the total funding amount for each EDR Scheme Year is made up of the total funding allocation for that year, plus any amounts rolled over from previous years.
- 5.3. As set out in Chapter 4, paragraph 4.4, each applicant company that achieves a 'leadership' score of 70 percent or over will be entitled to a payment under the EDR Scheme. The steps below outline our process.



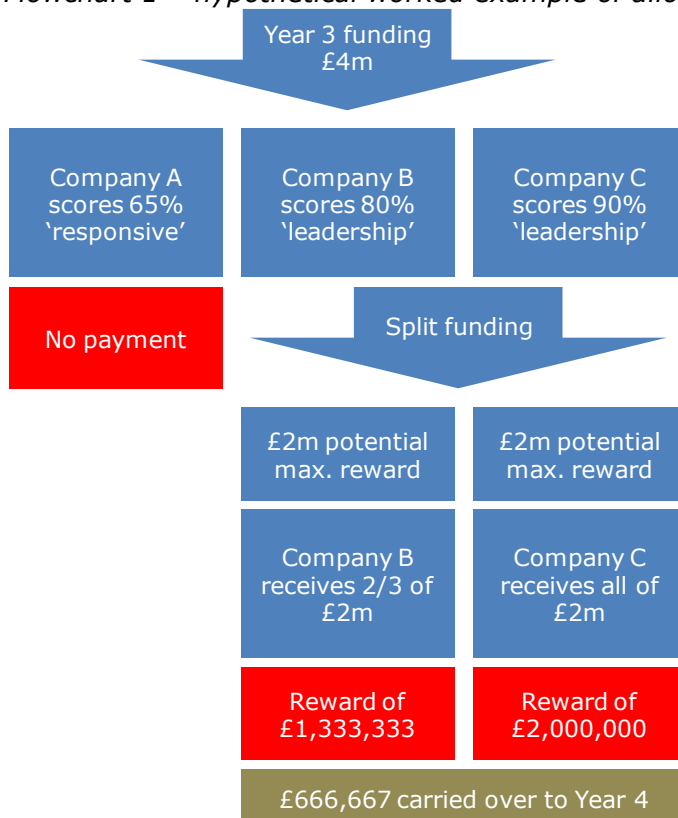
- 5.4. Having generated a score for each applicant company under Step 1, we will proceed to determine any payments under the EDR Scheme. Step 2 determines the potential maximum payment for each company. For example, if three applicant companies achieve a leadership score and the total funding amount is £4m, the potential maximum payment under the EDR Scheme available to each applicant company would be £1.33m. However, if only one applicant company achieves a leadership score, the potential maximum payment in this example would be £4m.
- 5.5. Having determined a potential maximum payment for each applicant company, under Step 3 we will use three bands to determine each applicant company's payment under the EDR Scheme. The higher an applicant company's score, the more of its potential maximum payment it will receive. Table 1 below sets out the bands and the corresponding payment under the EDR Scheme.

*Table 1 – proportion of payments under the EDR scheme*

Score	Payment under the EDR Scheme
70-79%	1/3 of potential maximum payment
80-89%	2/3 of potential maximum payment
90+%	All of potential maximum payment

5.6. The diagram below provides a hypothetical worked example of how we would determine the rewards allocated to three applicant companies.

*Flowchart 1 – hypothetical worked example of allocating EDR funding*



### Dealing with false or fraudulent claims



- 5.7. The Authority may require repayment of any part of the financial reward granted by it in the event of any false or fraudulent claims made during the application process.

## 6. EDR Panel Terms of Reference

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### **Purpose of the EDR Panel**

The EDR Panel will act in an advisory capacity to help inform the Authority's decision making process in respect of the EDR Scheme. In particular it will be responsible for:

- reviewing Ofgem's analysis of submissions for the EDR Scheme
- recommending feedback from Ofgem on companies' submissions
- recommending messaging for EDR Scheme communications relating to decisions and other publicity and promotions materials
- recommending adjustments for future years as appropriate.

Though the Panel will not be tasked with a detailed critique of Ofgem's scoring of submissions, it will be invited to take a view on cases where scores are marginally above or below the scoring thresholds. The Authority will commit to taking the Panel's recommendation seriously and giving it due weight in the deliberation process, but will not be obliged to act on the recommendations made.

Ofgem staff will act as secretariat for the EDR Panel.

### **Background**

The Environmental Discretionary Reward Scheme (EDR Scheme) is a key incentive for electricity transmission owners (TOs) and the system operator (SO) under the transmission price control. The EDR Scheme has a total funding amount of £32 million over the period of the transmission price control (1 April 2013 to 31 March 2021).

The purpose of the EDR Scheme is to encourage licensees to achieve high standards in environmental management as well as facilitate the industry to move towards a low carbon energy system where it can do so effectively and provide value for money to consumers.

The EDR scheme is designed to drive best practice in terms of applicant companies achieving high standards of environmental management and playing a full role in facilitating the transition to a low carbon economy. It is therefore designed to reward only those applicant companies whose overall score falls into the top 'leadership' category. This is set out in detail in the EDR Scheme guidance document, Chapter 4. Panel members will assist us in providing their view on the performance of applicant companies, and verifying that the 'leadership' score accurately captures the required level of performance.

### **How the EDR Scheme will work**

Applicant companies will need to fulfil the following minimum evidence requirements in their EDR application form to be considered for a reward. The minimum evidence requirements, as set out in the EDR Scheme guidance document, are



- evidence that an executive-level annual statement has been published, consulted on and presented to stakeholders by the CEO or person of equivalent seniority. This should set out the applicant company's approach to adapting their business strategy to manage the transition to a low carbon energy system, focusing on major initiatives. It should also include a summary of responses and a statement detailing how the company has addressed views expressed in the consultation.
- evidence to demonstrate performance against the EDR scorecard, which comprises six key strategic and operational environmental issues.

For each application, Ofgem will confirm that the applicant company has completed the first part. If this is the case, we will analyse the evidence provided by applicant companies in connection with the second part, which will be completed with reference to the EDR scorecard and EDR scoring spreadsheet.

Ofgem will use the evidence to mark the submissions and determine a score for each category of the scorecard, as well as an overall score. We will then provide the Panel with a report on each company's submission, detailing the score we have given for the submission and our rationale.

### **Role of the Panel**

The Panel will consist of six Panel Members, including a non-voting Chair who will be an Ofgem employee.

#### Panel Member

The role of the Panel Member is to:

- attend the panel meeting
- provide feedback to companies on their submission
- agree messaging for EDR Scheme communications relating to decisions and other publicity and promotions materials
- evaluate the success of the EDR Scheme and make recommendations on adjustments for future years as appropriate.

#### Chair

The role of the Chair is to chair the Panel. In addition to the Panel Member requirements above, this will involve:

- chairing Panel meetings, including meetings with other entities
- representing the Panel to other entities including Ofgem
- ensuring the Panel make their recommendations according to the evaluation criteria
- preparing the recommendations report and presenting it to Ofgem.

## **Commitment**

Around two days per year will be required from each Panel member. The bulk of this commitment is likely to fall across September and October. We expect that this commitment will be split between time spent reviewing the submissions and reports in September and an all-day panel meeting convened at Ofgem in October. We expect the Panel member to be available for an hour's briefing session (which can be held via videoconference) prior to the panel meeting.

Ofgem will reimburse travel and accommodation expenses for Panel members who live outside London.