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for energy consumers

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Dear Colleague,

Decision on the RIIO-T1 Environmental Discretionary Reward Scheme 2020/21 – Electricity Transmission Licensees

This letter sets out the decision of the Authority¹ on the Environmental Discretionary Reward (EDR) scheme for the 2020-21 scheme year of the RIIO-T1 price control period.

The scheme is a reputational and financial incentive available to Scottish Hydro Electric Transmission Plc (SHE Transmission), SP Transmission Ltd (SP Transmission) and National Grid Electricity Transmission Plc (NGET) (the licensees).

The purpose of the EDR scheme is to sharpen the focus of the electricity transmission owners on strategic environmental considerations and organisational and cultural changes to facilitate growth in low carbon energy, where they can do so effectively, while providing value for money to consumers, for example, encouraging a more systematic approach to whole system planning.

The EDR incentive scheme has an annual value of £4m plus any applicable rolled-over amounts from previous years. We may award all, some or none of the incentive each scheme year. The total financial reward available for the 2020-21 scheme year is £4m, as there was not any residual to roll over from 2019-20.² Only companies that have a satisfactory executive level annual statement (ELAS) and achieve Leadership on the balanced scorecard are eligible for a financial reward.

¹ The terms “we”, “us”, “Ofgem” and “the Authority” are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

² The value of the reward allocated for the 2019-20 scheme year was £6m from a maximum potential payment of £6m.

Following our assessment this year, the Authority has decided to award £1.33 million each to SP Transmission, SHE Transmission and NGET.

The assessment process

This year, we departed from the assessment process set out in the EDR guidance for this scheme³. Specifically, we did not convene the expert panel or the panel day for the assessment. This is because the 2020-21 scheme year is the last EDR submission, and the panel's role to provide the TOs with feedback on where to focus their effort to improve their performance in the next EDR, would be fairly limited.⁴ The three TO's also agreed that the change in the assessment process this year was a pragmatic approach.

This year's assessment consisted of Ofgem's review of submissions, using a balance scorecard approach, with any outstanding queries resolved through a supplementary question process with the TOs.

The EDR application is in two parts. The first part is an Executive Level Annual Statement that has been published by the company, and has been subject to consultation.⁵ This identifies the strategic activities which the company will undertake to contribute to the low carbon transition. A satisfactory statement will identify the drivers for strategic initiatives, provide details on their status, assess sustainability impacts, describe stakeholder involvement and justify decisions.

The second part is an assessment of the evidence provided by the company against the requirements of the seven category questions. The categories and the relative weighting for each category are shown in the table below.⁶

The scorecard categories

	Category name	Category weighting
1	Strategic understanding and commitment to low carbon objectives	21%
2	Whole electricity system planning	21%
3	Connections for low carbon generators	21%
4	Collaboration on innovation	11%
5	Network development solutions that avoid the need to reinforce the network	11%

³ [Guidance document for the Environmental Discretionary Reward scheme](#)

⁴ It is the last EDR submission because the RIIIO-T1 regulatory framework was replaced in April 2021 with the new five year price control RIIIO-T2.

⁵ NGET's ELAS: <https://www.nationalgrid.com/uk/electricity-transmission/environment-and-net-zero>, SHE Transmission's ELAS: [final-elas-sustainability-report-2020_21.pdf \(ssen-transmission.co.uk\)](#), and SP Transmission's ELAS: https://www.spenergynetworks.co.uk/userfiles/file/202108_SP_Transmission_20_21_Sustainability_Statement.pdf

⁶ Further information on the category topics and assessment criteria is available in the EDR Guidance document.

6	Direct environmental impact	11%
7	Business greenhouse gas emissions	4%

To demonstrate the company's performance against each category, several evidence criteria have to be met. Following submission, we assess the evidence and awards points if the criteria are met.

Each category of the scorecard is weighted as indicated above, and the result is an overall percentage score. The scores are then ranked into a performance band as follows:

Percentage range	Performance band
<50%	Engaged
50-70%	Proactive
≥70%	Leadership

Only companies that have a satisfactory ELAS and achieve Leadership against the scorecard criteria are eligible for a financial reward. The process for determining the reward is set out in the guidance document.

Submissions

All transmission licensees applied to the scheme for the 2020-21 scheme year. Ofgem assessed the submissions using the scorecard approach.

Results of the Environmental Discretionary Reward for the 2020-21 scheme year

The overall assessment results for each licensee are summarised in the table below. More details on individual licensee performance is set out in the remainder of this letter.

Licensee	Annual statement	Score and performance band	Financial reward
SP Transmission	Satisfactory	99% - Leadership	£1.33m
SHE Transmission	Satisfactory	98% - Leadership	£1.33m
NGET	Satisfactory	96% - Leadership	£1.33m

Executive level annual statement (ELAS) assessment

We consider that each TOs' ELAS met the requirements and was satisfactory.

Scorecard assessment

We discuss below our general findings from this year's assessment. We then outline for each licensee some highlights in its final RIIO-T1 EDR submission.

All TOs performed well against the EDR criteria in the scheme year 2020-21 with Leadership achieved across the board. One aspect that stood out this year are the TOs' responses to external drivers calling for a faster pace of decarbonisation, such as the UK Government's Ten Point Plan for a Green Industrial Revolution. Despite the challenges posed by the Covid-19 pandemic such as the lockdown restrictions, there was good evidence to show that each TO had led and/or proactively engaged with wider stakeholders on various strategic issues for the Net Zero transition. For example, in Category 1 (strategic understanding) we saw strong evidence of the TOs working with stakeholders to identify and address barriers to accelerating the connection of offshore wind, as well as, in Category 2 (whole systems) working with stakeholders to develop whole system solutions for faster connections and for addressing network resilience issues caused by the reduction in traditional grid-forming generators.⁷

Another general feature of this year's assessment is that during 2020-21, each TO had reviewed operations, processes and governance and implemented changes in readiness for delivering on their RIIO-2 price control commitments. For example, in Category 3 (low carbon connections) evidence was submitted of new digital interfaces being introduced for customers to access realtime information on connection applications, and new internal quality assurance controls for connection offer development. In other categories there was good evidence of new business groups being formed to focus on specific issues such as decarbonisation of transport and heating.

The TOs also provided evidence this year of continued efforts to manage their own environmental impacts, including their business carbon footprint.

2020-21 is the second consecutive scheme year that all TOs achieved a Leadership score across all categories. We consider that the results in the final year EDR is a fair reflection of the changes made by the TOs, over RIIO-T1, on strategy, operations and culture for facilitating the low carbon energy transition. In our view, the EDR scheme has been complementary to the calls from stakeholders for the TOs to step up as key enablers of the Net Zero transition.

At the start of RIIO-T2, we are seeing clear evidence of alignment between the companies and stakeholders' priorities across the decarbonisation agenda such as whole system approaches for facilitating quicker connections for low carbon generation as well as working on decarbonisation pathways for other areas such as heat and transport. It is also evident that the TOs have progressed from a few ad-hoc examples of bespoke issue solving to rolling out solutions into business as usual. In addition, we have seen the TOs' progress

⁷ Grid-forming generators actively contribute to the frequency, voltage and overall stability of the transmission network. These typically generate power from fossil fuel sources such as carbon and gas.

from complying with environmental protection standards at the start of RIIO-T1 to delivering positive environmental improvements and considering the environment early in project planning and delivery rather than treating it an add-on issue.

We note that the RIIO-T1 EDR scheme allowed some latitude for the TOs to evidence the scheme criteria. Overall, we consider that this was a positive feature of the scheme given the evolving policy environment over the eight years of the RIIO-T1, as well as the different challenges and opportunities in each licensee's area.

A final point to highlight is that we have seen the TOs collaborate constructively on common issues covered by the EDR incentive scheme even though it had a fixed reward each year that was divided among licensees with a Leadership score (a type of competition). Although there was explicit criteria in the EDR scheme for evidence on collaboration with other TOs and other industry parties, another reason for this may be that the TOs recognised there was a greater potential for overall success in the EDR scheme by working together on lessons learned. We consider this had the positive effect of driving up best practice more quickly than would have otherwise been the case.

SP Transmission

SP Transmission achieved a Leadership score for the 2020-21 scheme year, as it did for the previous two scheme years. For the eight year period of RIIO-T1, SP Transmission achieved a Leadership score on five occasions.

Similar to last year, SP Transmission achieved Leadership in all seven categories: 'strategic understanding', 'whole system planning', 'low carbon connections', 'collaborating on innovation', 'non-conventional solutions', 'direct environmental impact' and 'business greenhouse gas emissions'.

There was good performance in Category 1 (strategic understanding) as a result of evidence on SP Transmission's business decisions to support the low carbon transition and how it had modified business operations for delivering on its strategic low carbon transition goals. Some of the examples focused on facilitating quicker connections such as installing hybrid synchronisation compensators to increase the amount of energy that can be transmitted without a network upgrade, and the adoption of modular substation build to reduce delivery times. Other examples aimed to maximise existing connections such as the provision of enhanced services to reduce the impact of outages on low carbon generators.

In Category 2 (whole system planning) SP Transmission provided sufficient evidence on its leading contribution to removing technical, regulatory and commercial barriers to whole system solutions, for example, adapting contract terms to meet the needs of emerging

transmission services developers; senior management and board level involvement on whole system issues; and that it had been proactive in getting input from other parts of the energy system to inform its network planning, particularly in the reviewing critical system needs during the Covid 19 lockdowns.

SP Transmission also scored well in categories 3 (low carbon connections), 4 (collaborating on innovation), and 5 (non-conventional solutions). For example, SP provided evidence of improved connection offer quality with the percentage of offers made that were subsequently changed at the lowest level recorded despite issuing 11% more final offers in the year. SP Transmission also provided evidence on decisions it had taken on non-conventional solutions in the scheme year such as dynamic line rating (DLR) retrofits. In Category 6 (direct environmental impact) SP Transmission provided evidence of the formation of several topic-specific working groups covering: biodiversity and natural capital, carbon reduction, compliance, SF6, supply chain management, and sustainable resource management to manage and monitor delivery of the RIIO-T2 related targets and commitments in these areas. For category 7 (business greenhouse gas emissions), SP Transmission showed that it had reduced its controllable business carbon footprint⁸ by 4% compared to 2013-14 baseline levels.

SHE Transmission

For the fourth year in a row, SHE Transmission has achieved an overall Leadership score in 2020-21. It was also the second consecutive year that SHE Transmission achieved Leadership in all seven categories.

Some evidence in SHE Transmission's 2020-21 EDR submission is of particular note. In Category 1 (strategic understanding), SHE Transmission highlighted its commitment to the Business Ambition for 1.5 Degrees Campaign⁹ under option 1, which has the strongest ambition in the short to medium term to reduce value chain CO2 equivalent emissions. In Category 2 (whole system planning), there were numerous examples of SHE Transmission working with stakeholders on whole system solutions to facilitate renewable generation in advance of network upgrades, for example, the deployment of DLR and active network management schemes to allow new connections and maximise the energy transfer of the existing network. In Category 3 (low carbon connections), good evidence was provided of major enhancements SHE Transmission had made to its internal connections offer development process to ensure high quality customer service, including a new option to fast-track connections that meet criteria for simpler connection applications.

⁸ Scope 1 and 2 emissions (excluding losses).

⁹ This is an initiative by the UN Global Compact, the Science Based Target initiative and the We Mean Business coalition that verifies business' individual climate targets are based on scientific rigour. It is intended to mobilise leadership and action from thousands of companies to halve global emissions by 2030.

SHE Transmission also submitted good evidence that it met the criteria in categories 4 (collaboration on innovation) and 5 (non-conventional solutions). This included demonstrating it had collaborated with a range of small and large businesses on innovation projects. In addition, there was evidence of the impact that the cross organisational whole system project team, established in 2019, was having on project optioneering particularly in relation to addressing regional constraints in the north of Scotland and the development of a DLR scheme for Skye. SHE Transmission also provided sufficient evidence for the year on categories 6 (direct environmental impact) and 7 (business greenhouse gas emissions). Some of the highlights include SHE Transmission exceeding its new 2020 target of No-Net-Loss of biodiversity on qualifying projects at the new Alyth substation, where it is estimated that the site biodiversity will increase by 92% as a result of the habitat plan it has put in place. SHE Transmission also achieved a 15% reduction in its controllable business carbon footprint by the end of RIIO-T1 compared to 2013-14 baseline levels.

National Grid Electricity Transmission

NGET also obtained an overall Leadership score for the 2020-21 scheme year, which is the third time they achieved this level in the EDR during RIIO-T1 price control. Similar to the other TOs, NGET also achieved Leadership in all seven areas of the EDR.

For Category 1 (strategic understanding), NGET provided satisfactory evidence across all aspects. It highlighted the decision to sanction the retrofit insulated cross arms innovation project¹⁰ as one of its most significant decisions for Net Zero as it will enable additional network capacity for connections more quickly and cheaper than traditional network upgrades. It also provided evidence of its Leadership in working with stakeholders on the coordination of network connections for offshore wind on the east coast of England, as well as strategic issues related to the decarbonisation of transport

NGET also scored well in Category 2 (whole system planning) with good evidence of it balancing customers' needs against broader stakeholder interests in whole systems planning in network development, and acting as an advocate on issues within industry arrangements that could be a barrier to smaller developers contributing to Net Zero.

NGET's evidence on Category 3 (low carbon connections) also built on improvements seen last year. Some examples are the launch of the 'Connect Now' digital customer interface and the continued development of its 'Connect 3D' platform to standardise tertiary connection designs for smaller connections, removing the optioneering phase and potentially reducing connections times by up to a year.

¹⁰ The project will convert 275kV towers to 400k by replacing the standard metallic crossarms from which insulators and conductors are suspended with Insulated Cross Arms. This will provide new network capacity without the need for new build of overhead line.

Other highlights in NGET's EDR submission this year include evidence in Category 5 (non conventional solutions) of cross-organisational project teams working on a range of non-conventional network development including Smart Wires power flow projects and active network management schemes. In Category 7 (greenhouse gas emissions) NGET did better than last year with a reduction in its controllable business carbon footprint. At the end of RIIOT1, NGET reduced its controllable business carbon footprint by 5% compared to 2013-14 baseline levels.

Ofgem decision on financial rewards

In the EDR guidance, we indicate that a Leadership company will look beyond conventional approaches, take a whole system perspective, and collaborate with a range of stakeholders to implement new thinking. Based on the submission assessment, we have concluded that SP Transmission, SHE Transmission and NGET have demonstrated this in the 2020-21 scheme year.

In line with the EDR guidance in which a licensee with a score equal to or greater than 90% receives a third of the potential maximum payment, we have decided to award SP Transmission, SHE Transmission and NGET £1.33 million each.

This decision sets the value of the EDROT term for 2020-21 under Special Condition 7.7 of the electricity transmission licence. The money awarded to SHE Transmission, SP Transmission and NGET under this incentive, will be reflected in each TO's allowed revenue.

If you have any queries about this letter, please contact Anna.Kulhavy@ofgem.gov.uk.

Yours faithfully,

Min Zhu

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