

## **RIIO-ED1 Green Recovery Scheme – Potential Extension for accelerated removal of polychlorinated biphenyls (PCBs)**

### **Overview**

The current RIIO price control for electricity distribution (RIIO-ED1) runs from 1 April 2015 to 31 March 2023. Following our Open Letter in February 2021, and a period of stakeholder engagement<sup>[1]</sup>, we confirmed in August 2021 our final decision on projects to be progressed under the Green Recovery Scheme and their value. Totalling £301.3m, these projects are aimed at accelerating low regrets, shovel ready network investment under the remainder of the RIIO-ED1 period to stimulate economic recovery and support faster delivery of decarbonisation benefits for consumers, while supporting Government’s climate change ambitions.

In confirming our decision, we stated our intention to continue working with the electricity distribution networks to consider additional phases of the programme where these were clearly in the interests of consumers, including in the context of the price control setting process for the RIIO-ED2 controls that will start on 1 April 2023. Final Business Plans for each of the Distribution Network Operators (DNOs) were submitted in December 2021 and Ofgem will make its Determinations on these later this year.

### **Polychlorinated Biphenyls (PCBs) – UK Statutory Obligations**

The UK’s statutory obligations in relation to the management of Polychlorinated Biphenyls (PCBs) were revised in England and Wales, Northern Ireland and Scotland between 2020 and 2021. The revised legislation places obligations on DNOs (and other network operators) to identify and remove from use equipment, if it is reasonable to assume that such equipment contains PCBs of more than 0.005% (but no more than 0.05% by weight) and a total volume of more than 0.05dm<sup>3</sup>, by 31 December 2025. Such equipment must then be decontaminated

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<sup>1</sup> Also see [Decision on the GRS](#) published initially on 24 May 2021 which set out our decision on the proposals DNOs proposed to be taken forward under the scheme and [Consultation on licence mods for the GRS](#) published on 28 May 2021

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in accordance with the conditions for decontamination as set out in the PCB Regulations[2] or disposed of as soon as possible.

One DNO brought forward proposals for accelerated removal of PCBs as part of its initial Green Recovery submissions in 2021. However, due to the uncertainty on volumes of assets needing to be replaced, the variability of unit costs, and the need to ensure an appropriate efficiency incentive on delivery, these proposals were not accepted at that time as we did not believe that it would be in the best interest of consumers for the proposals to be advanced under the Green Recovery Scheme. In doing so, Ofgem recognised the scale of the challenge to meet the statutory obligations and, subject to suitable development of industry PCB modelling and cost forecasting, left open the opportunity for a revised proposal to be raised by the networks should they be able to demonstrate a clear benefit to energy consumers from accelerated delivery.

All DNOs have submitted plans for the removal of PCBs from their networks by the statutory deadline of 2025 within their RIIO-ED2 Business Plans.

## **Potential case for accelerated removal of PCBs under the Green Recovery Mechanism**

We have now received proposals from four of the DNOs, covering ten licence areas in total, that they believe meet the qualifying criteria set by Ofgem for funding under the Green Recovery Scheme[3], including efficiency and value for money for consumers and deliverability over the remaining RIIO-ED1 period. Consistent with the approach to the Green Recovery Scheme, the award of any new allowances for an individual DNO will only be permitted where existing RIIO-ED1 allowances are, or are expected to be, exhausted in full by the end of the current control period in March 2023.

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<sup>2</sup> See regulation 4(4) of Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (England and Wales) Regulations 2000; Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (Northern Ireland) Regulations 2000; and Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (Scotland) Regulations 2000.

<sup>3</sup> As set out at paragraph 1.12 of the RIIO-ED1 Green Recovery Decision Document dated 26 August 2021: DNO Green Recovery Scheme, Decision Document ([ofgem.gov.uk](http://ofgem.gov.uk))

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Accelerated delivery will also have to demonstrate clear benefits to consumers against the alternative of delivery within existing RIIO-ED1 resources and expected RIIO-ED2 plans for each DNO.

Summary templates for each of these proposals have been published alongside this Call for Input letter, detailing the additional volumes to be delivered and allowances requested. The funding requested totals £47.432m (2012/13 prices) broken down by each DNO as follows:

- Northern Powergrid (Northeast) - £4.3m
- Northern Powergrid (Yorkshire) - £1.2m
- SP Distribution - £7.839m
- SP Manweb - £8.093m
- Southern Electric Power Distribution Plc (SEPD) - £4.7m
- Scottish Hydro Electric Power Distribution Plc (SHEPD) - £5.9m
- WPD East Midlands - £3.73m
- WPD West Midlands - £4.69m
- WPD South Wales - £3.32m
- WPD South West - £3.66m

In submitting these proposals, the DNOs identify that the lack of an explicit PCB funding mechanism in RIIO-ED1 potentially creates an incentive on DNOs that are utilising their full allowances to delay activities until the RIIO-ED2 period. They argue that such an outcome has the potential to be harmful to the interests of consumers for various reasons, including that:

- the increased pressure on the supply chain is likely to increase the overall cost of removal as it will concentrate the programme of industry activities, with an increase in costs arising from scarcity of resources (including both equipment manufacturing and contracting resources).
- the delivery programmes in the RIIO-ED2 period to 2025 could consume supply chain capacity that will be needed for the reinforcement activities that are expected in relation to the national decarbonisation objectives.
- the above factors could create delivery risk, increasing the chance that PCB contaminated equipment will not be removed in a timely manner, as required to satisfy the UK legislative requirements of full removal by the end of 2025.

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## Next steps

We are keen to hear any comments that stakeholders may have on these proposals around the accelerated removal of PCBs within the RIIO-ED1 Green Recovery Mechanism. In particular:

- do you agree with the case for accelerated investment set out by each of the DNOs, including improved deliverability of statutory obligations and increased efficiency for consumers?
- do you agree that an extension to the Green Recovery Mechanism is the best means to fund this investment, or is its use likely to have unintended consequences in the wider context of the RIIO-ED1 price control or regulatory determinations for the next RIIO-ED2 control?
- what steps could Ofgem take to mitigate any unintended consequences in the current RIIO-ED1 price control or setting of the RIIO-ED2 price control?

Please send any comments to [RIIO-ED1@ofgem.gov.uk](mailto:RIIO-ED1@ofgem.gov.uk) by 9 March 2022. If you have any general queries regarding the information contained within this letter, please contact [RIIO-ED1@ofgem.gov.uk](mailto:RIIO-ED1@ofgem.gov.uk).

Yours faithfully,

Steve McMahon

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