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By email to: RIIO-ED1@ofgem.gov.uk

9 March 2022

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

Dear Steve

Thank you for the opportunity to respond to your call for input on using the Green Recovery Scheme (GRS) mechanism for accelerated removal of PCBs in RIIO-ED1. This response is on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. We are GB's largest electricity Distribution Network Operator (DNO), dedicated to delivering a safe, secure and sustainable electricity supply to 8.4 million homes and businesses.

We have worked closely with the Environment Agency, DEFRA and other DNOs over the last few years to ensure that we are on track to comply with the 2025 deadline set out in the "Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (England and Wales) (Amendment) Regulations 2020" (herein known as the PCB regulations). Our feedback below should be read with this in mind:

- Fair treatment for all DNOs

It is key that the regulatory treatment for the ten DNOs who have applied for the funding for accelerated removal of PCBs is consistent with the treatment for the four DNOs who did not apply for such funding.

Our expectations are that:

- A high bar is used to determine whether any additional allowances are provided, noting that unlike the initial Green Recovery Scheme, PCBs do not fall under load related expenditure and as such, the extension to PCBs is arguably more tenuous within the agreed framework that licensees accepted for RIIO-ED1;
- Any additional allowances that are provided are clearly delineated, with an end of period assessment made to facilitate the return of any unspent allowances;
- The assessment for additional allowances is made on an individual DNO basis, with efficient allowances only provided where that individual DNO meets the qualifying criteria



- set out by Ofgem i.e. if a DNO is underspending/forecasting to underspend its RIIO-ED1 allowances, then it would not be eligible to receive additional PCB allowances in RIIO-ED1;
- The calculation of RIIO-ED1 under/overspends should take into account all mechanisms within the RIIO-ED1 framework that offer the potential for providing additional allowances/reducing allowances, either in period or at the end of the price control. We note that a number of DNOs are currently significantly over-delivering on their Health Index targets in RIIO-ED1 and it would be helpful to ensure that such licensees are not seeking to trigger additional allowances under the HI framework for “justified over-delivery”. If any DNO is planning to utilise this element of the RIIO-ED1 framework, Ofgem will need to run its Green Recovery assessment net of such additional allowances such DNOs may be seeking.

We believe that the annual RRP should capture expenditure associated with meeting PCB regulations by all DNOs in a common format. This will both assist with an end of period assessment for any DNOs receiving additional RIIO-ED1 allowances as well as enabling Ofgem to provide stakeholders with clarity across all DNOs as to the expenditure being incurred to meet these obligations.

- Potential discrepancy between the PCB regulations and the Environment Agency guidance

In a recent development, DNOs have been made aware of a legal interpretation of the PCB regulations that does not align with the guidance provided by the Environment Agency and being worked to by the ENA and DNOs. The ENA are actively working with the Environment Agency and DEFRA to explore this interpretation as it could have a material impact on the number of transformers containing PCBs that need replacing. In short, the interpretation revolves around whether the 50ml threshold in the PCB regulations refers to the volume of PCBs (the new interpretation) and not the volume of any fluid/oil containing PCBs (the Environment Agency/existing ENA interpretation). We believe that Ofgem should bear this in mind in its decision making.

- Impact on the TIM

We note that, a potential unintended consequence of this proposal is that it undermines the power of the totex incentive, in that, licensees that are unable to find efficiencies during the period have recourse to additional funding, whilst licensees that deliver efficiencies relative to the benchmarked allowances provided for the price control, are effectively penalised for doing so. There is a broader regulatory question as to whether the allowances and financial metrics put in place at the time of setting the price control ought to be sufficient for well run businesses to avoid requesting additional allowances, outside of the agreed framework, during the period.

If you have any further questions, please do not hesitate to contact us.

Yours sincerely



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