

Guidance

RIIO-ED2 Regulatory Instructions and Guidance: Annex J - Environment and Innovation

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RIIO-ED2 is the price control for electricity distribution network operators (DNOs) from 1 April 2023 to 31 March 2028.

This document is part of the regulatory instructions and guidance (RIGs) for RIIO-ED2.

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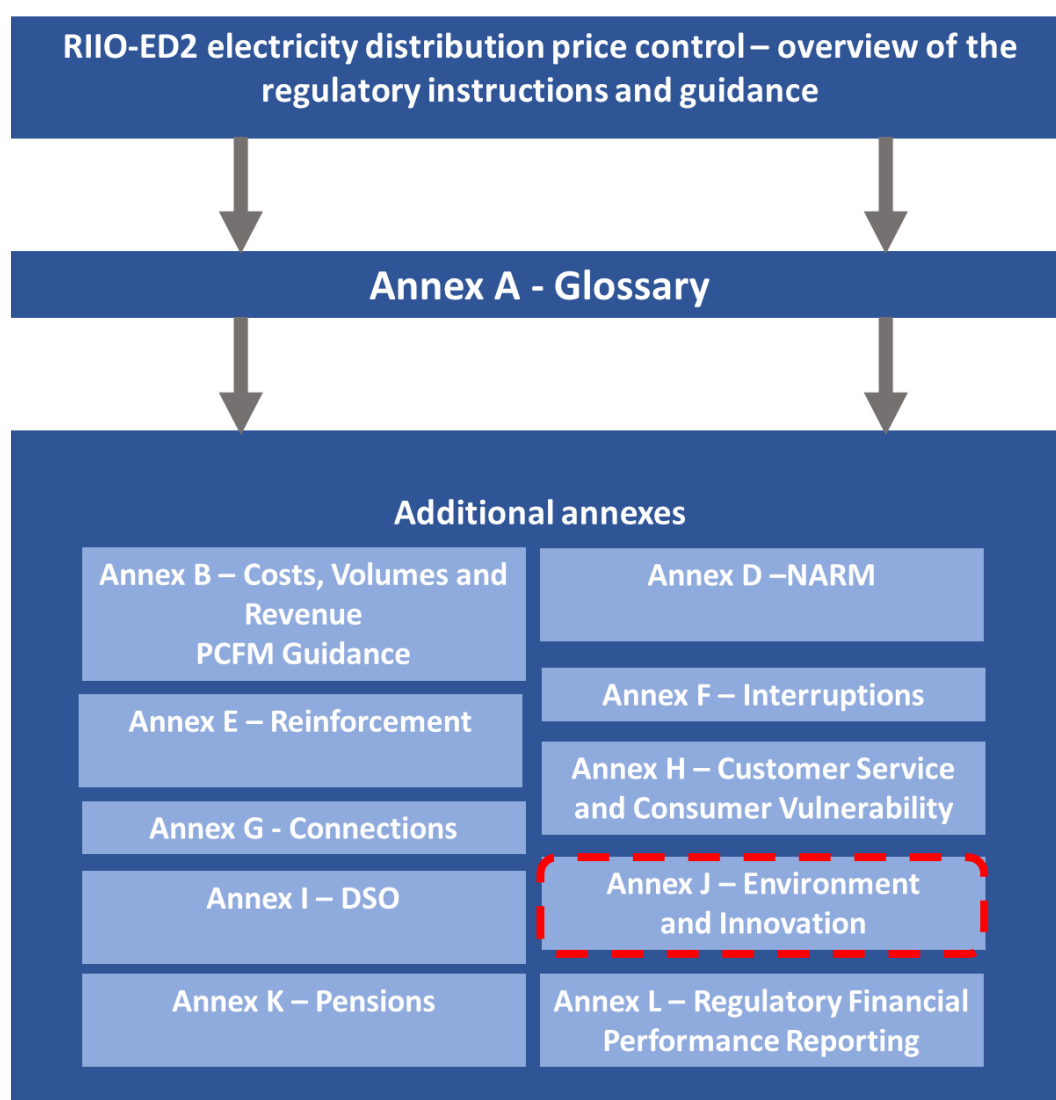
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1. Introduction

Scope of this document

- 1.1 This document is part of the regulatory instructions and guidance (RIGs) for RIIO-ED2. The term RIGs refers to a collection of documents - our instructions and guidance, and the reporting packs and commentaries the electricity distribution network operators (DNOs) have to fill out.
- 1.2 Figure 1.1 shows all the instructions and guidance documents for the RIIO-ED2 RIGs. This document, circled in Figure 1.1, is one of a series of annexes containing instructions and guidance. It provides DNOs with information on how to fill in the Environment and Innovation Reporting Pack and Environment and Innovation Commentary that they are required to submit to us.

Figure 1.1: Map of the RIIO-ED2 instructions and guidance



- 1.3 This document should be read in conjunction with:
- the RIIO-ED2 electricity distribution price control – overview of the regulatory instructions and guidance document
 - Annex A – Glossary for the regulatory instructions and guidance
 - the associated Microsoft® Excel reporting pack named “Environment and Innovation Reporting Pack”
 - the associated commentary named “Environment and Innovation Commentary”.
- 1.4 The purpose of the Environment and Innovation Reporting Pack is to collect information in order to monitor DNOs’ actions and performance in RIIO-ED2. It will also provide information that will inform the next price control review. DNOs are also required to publish the worksheets in the reporting pack as part of their Environment Reports. This is to provide stakeholders with a picture of DNOs’ environmental activities. If DNOs consider the publication of any information contained in the Environment and Innovation Reporting Pack would be detrimental to consumers, they must provide evidence of this to Ofgem, and Ofgem will decide on a case-by-case basis whether this may be redacted.

General instructions

Recording information

- 1.5 In the worksheets the numbers will be displayed to two decimal places. The DNOs are required to provide data to a minimum of two decimal places for actual data and one decimal place for forecast values, unless otherwise indicated in the guidance. Where a reportable value is zero the cell input should be zero. Where it is not applicable to the DNO, the cell can be left as a blank.
- 1.6 Some costs must equal costs reported in the Costs, Volumes and Revenue Reporting Pack. DNOs must make sure that, where stated in the guidance, the costs in the Costs, Volumes and Revenue Reporting Pack are equal to the costs in the Environment and Innovation Reporting Pack.

RIIO-ED2 CBA Tool guidance

- 1.7 Where CBAs are referenced in the worksheet guidance below, figures for costs and benefits should be derived from an up-to-date version of the DNO’s completed RIIO-ED2 CBA Tool for that particular solution or scheme. CBAs should be undertaken as, and when, any decision support tool would be used for the

DNO's own investment purposes or business decisions, for example when making or changing a policy, or when evaluating options for a particular scheme.

- 1.8 The DNO should take reasonable steps to ensure CBAs are kept up to date to account for:
- new or updated information (including field data), that are materially different from the assumptions in the most recent CBA previously submitted, or
 - any other material change to a driver or input in the RIIO-ED2 CBA Tool.
- 1.9 New or updated information could include the specifics of a scheme or deployment (eg volume, unit costs, local factors) that are materially different from the assumptions in the most recent CBA previously submitted. For example, if it was originally assumed that the benefits of a particular scheme scale linearly with the number of deployments, but, over time, substantial economies of scale are observed, then a new CBA for that scheme may be required. Bespoke assessments for deployments of a solution are not required.
- 1.10 The most up-to-date CBA for each activity reported in the Environment and Innovation Reporting Pack must be submitted to Ofgem alongside the RIGs. Each CBA should be provided as an attachment to the Environment and Innovation Commentary or, if it is already published elsewhere, with a link to its location. Where the RIIO-ED2 CBA Tool cannot be used to justify an activity, DNOs should explain why and provide evidence of how they have derived the equivalent figures for the worksheets. Ofgem would expect any such methodology and the resulting figures to take account of societal benefits.

Change logs

- 1.11 The Changes Log must be used by the DNOs to record any amendments (formulae or presentation) that are made to the reporting pack, including the date those changes were made. Ofgem will also record any changes made to the reporting pack in this worksheet.
- 1.12 In the Data Change Log worksheet a DNO must record any changes it has made to data that has previously been submitted and the date this change was made. A reason for the change should be included.

2. Instructions for completing Visual Amenity, Environmental Reporting and BCF worksheets

E1 – Visual Amenity

- 2.1 The purpose of this worksheet is to record the costs and volumes associated with Visual Amenity Projects relating to the undergrounding of overhead lines under the Visual Amenity Allowance funding mechanism. The funding mechanism allows undergrounding of overhead lines for Visual Amenity Inside Designated Areas and allows for up to 10% of the total allowances to be used for undergrounding of overhead lines for Visual Amenity Outside Designated Areas. The final table in this worksheet is for the reporting year only.
- 2.2 The following terms are defined in Annex A - Glossary:
- Designated Areas
 - OHL Inside Designated Areas at End of Reporting Year (km)
 - OHL (Overhead Lines)
 - OHL (km) Removed During Year
 - UG Cables Installed During Year (km)
 - Visual Amenity Allowance
 - Visual Amenity Expenditure
 - Visual Amenity Inside Designated Areas
 - Visual Amenity Outside Designated Areas
 - Visual Amenity Projects.
- 2.3 In the table “Undergrounding Activity Under ED2 Visual Amenity Allowance”, the DNO is to report OHL Inside Designated Areas at End of Reporting Year (km) by Designated Area, ensuring double-counting of lines which cross the boundary of two such areas is avoided. They should also list total activity volume and expenditure by Designated Area under the Visual Amenity Allowance, for both Visual Amenity Inside Designated Areas and Visual Amenity Outside Designated Areas. Visual Amenity Outside Designated Areas should be reported against the relevant Designated Area which is associated with the Visual Amenity Project for which the funding was allocated.
- 2.4 Where no activity has been undertaken in a particular Designated Area, these cells should remain blank. Total volumes of lines in place in the relevant Designated Area should be reported here, regardless of how any work relating to them was funded.

E2 – Environmental Reporting

- 2.5 The purpose of this worksheet is to record the costs and volumes relating to environmental activities and their impact. It also collects data on compliance with environmental legislation.
- 2.6 The following terms are defined in Annex A - glossary:
- Contaminated Land Clean Up
 - Environmental Civil Sanction
 - Fluid-Filled Cables
 - Fluid-Filled Cables in Service
 - Fluid Recovered
 - Fluid Used to Top Up Cables
 - Noise Pollution
 - Non-Undergrounding Visual Amenity Schemes
 - Oil In Service In Cables
 - Oil Pollution Mitigation Scheme - Cables
 - Oil Pollution Mitigation Scheme - Non Operational Sites
 - Oil Pollution Mitigation Scheme - Operational Sites
 - Persistent organic pollutant Remedial Asset Changes
 - Persistent organic pollutant Oil Testing
 - Persistent organic pollutant Remedial Oil Changes
 - SF6 Bank
 - SF6 Emitted
 - SF6 Emitted Mitigation Schemes
 - Undergrounding for Visual Amenity.
- 2.7 This worksheet excludes activity for Visual Amenity Projects undertaken under the Visual Amenity Allowance, which is reported in worksheet E1 – Visual Amenity. Detailed losses reporting and BCF are also reported separately, in worksheets E3 – BCF, E4 – Losses Snapshot, and CV21 – Losses of the Costs and Volumes Reporting Pack.
- 2.8 Costs and volumes for each activity should be reported by category listed in the table “Environmental costs and volumes”. These should be recorded here where the primary driver of the activity undertaken was environmental improvements. The Total Gross Costs entered in CV22 – Environmental Reporting of the Costs and Volumes Reporting Pack must be equal to the Total costs reported in this

table (Row 18 of CV22 - Environmental Reporting must equal to the costs in rows 23 and 52 of E2 - Environmental Reporting).

- 2.9 Additional volume information must be provided by DNOs associated with Fluid Filled Cables, SF6 and Noise Pollution under the separate tables in this worksheet. Data relating to Fluid-Filled Cables captures cable oil volumes. This gives clarity on the leakage volumes in relation to the related Oil in Service in Cables for the Fluid-Filled Cables systems.
- 2.10 In the "SF6" table, SF6 should be reported in kg as opposed to tCO2e (as it is in E3 – BCF).
- 2.11 It is not intended that the reporting requirements should be any more onerous than would be required by current reporting or management practices. It is therefore expected that DNOs will use existing information systems to report these measures (including those introduced to support the National Operating Code on the Management of Fluid Filled Cable Systems).
- 2.12 Ofgem continues to take an interest in Schedule 9 matters. Ofgem may request Schedule 9 statements from DNOs.
- 2.13 In the Persistent Organic Pollutant asset replacement memo table, DNOs should capture the costs and volumes associated with the asset replacement of 6.6/11kV and 20kV pole mounted transformers. DNOs should capture the costs and volumes based upon the capacity of the asset added.

E3 – BCF

- 2.14 The purpose of this worksheet is to collect information on DNOs' Business Carbon Footprint (BCF). The data is required in order to monitor performance under the different measures, as well as monitoring key drivers of that performance. This worksheet provides a quantification of DNOs' BCF (in tonnes of CO₂ equivalent).
- 2.15 Losses are included in the BCF in order to provide an annual estimate of total BCF. DNOs must therefore report Losses under their BCF, in addition to the separate reporting on losses management activities in E4 – Losses Snapshot and CV21 – Losses of the Costs, Volumes and Revenue Reporting Pack.
- 2.16 The BCF reporting year used by the DNO should align with the Regulatory Year.
- 2.17 The following terms are defined in Annex A - Glossary and include:
- Buildings – Electricity
 - Buildings Energy Usage
 - Buildings – Other Fuels
 - Business Carbon Footprint (BCF)
 - Business Transport
 - Carbon Emission
 - Fuel Combustion
 - Fuels Other
 - Fugitive Emissions
 - Gas Natural
 - Gases Other
 - Greenhouse Gas Emission
 - Losses
 - Operational Transport
 - SF₆
 - Substation Electricity
 - tCO₂e.

General principles of the reporting methodology

2.18 The reporting methodology must be compliant with the principles of the Greenhouse Gas Protocol (GHG Protocol).¹ In summary, the BCF reporting must be:

- Relevant: the inventory must reflect the substance and economic reality of the company's business relationships, not merely its legal form.
- Complete: all relevant emission sources must be included (although in practice lack of data or cost of gathering could be a limiting factor).
- Consistent: accounting approaches, inventory boundary and calculation methodology must be applied consistently over time.
- Transparent: information on the processes, procedures, assumptions and limitations of the BCF reporting must be disclosed in a clear, factual, neutral and understandable manner, enabling internal and external verifiers to attest to its credibility.
- Accurate: GHG measurements, estimates, or calculations must be systemically neither over nor under the actual emissions value, as far as can be judged, and that uncertainties be reduced as far as practicable.

Reporting boundaries

2.19 DNOs must report on all Scope 1 and Scope 2 emissions on an operational control basis. ie report all emissions from operations on which the DNO has full authority to introduce and implement its operating policy.

2.20 As per the decision in the RIIO-ED2 Environmental Reporting Guidance and the corresponding AER KPI Table, licensees should develop a methodology for reporting Scope 3 emissions and any reduction strategy or actions currently applied or to be potentially applied in future. As part of this work, licensees should also show their efforts to work collaboratively across industry to develop a common approach to reporting Scope 3 emissions.

2.21 Over the course of the Price Control Period, the level and quality of reporting on Scope 3 emissions will likely vary amongst licensees due to the differences in coverage, ie, the categories on which licensees currently report, the methodologies used to calculate Scope 3 emissions, as well as the availability and quality of data.

¹ For further details, please refer to [GHG Protocol – A corporate Accounting and Reporting Standard](#).

Detailed reporting requirements

2.22 DNOs must report on their BCF (in tCO₂ emitted) which includes the following:

- Operational Transport;
- Building energy usage including substation energy;
- Fuel combustion from temporary generation; and
- Fugitive emissions (e.g. from SF₆).

2.23 DNOs will report the total Scope 1 and 2 emissions in two categories: one excluding losses and one including losses.

2.24 Licensees are not currently required to report their Scope 3 emissions. Instructions on reporting requirements regarding Scope 3 emissions can be found in Chapter 3 of the Environmental Reporting Guidance². As reporting regarding Scope 3 emissions improves and becomes more consistent (as we expect throughout the course of the Price Control Period), we may consider amending the Guidance and/or provide further updates through the Mid-Period Review.

Apportionment across Distribution Service Areas

2.25 When the emissions data is not available for individual Distribution Service Areas then the apportionment factor used must be transparent.

2.26 Ofgem expects that the basis for calculating the apportionment factor will vary according to the area of emissions. Table 2.1 below gives the preferred basis for determining the apportionment factor. Other methodologies can be used, but they must be justified.

Table 2.1 – Apportionment factor determination

² Paragraphs 3.8 – 3.13 of Chapter 3 [Decision on the RIIO-ED2 Annual Environmental Report Guidance Document and Template | Ofgem](#)

Area of emissions	Basis for apportionment factor
Building usage	Head count
Operational Transport	Network length or km ² of the DSA
Business Transport	Head count, or like operational transport
Substations usage	Number of substations
Diesel mobile generation	CML or CI or number of interventions

Guidance on completing the worksheet

- 2.27 In the worksheet, data entry is in the form of base measurement and conversion factors. Such factors will be the factors published by DEFRA in place on 31 March of the regulatory period being reported, unless there is a compelling case for using an alternative factor.
- 2.28 DNOs are required to enter volumes and applied conversion factors within the worksheet tables for the RIIO-ED2 period. This is not required for the DPCR5 years included, where a direct value in tCO₂e may be entered.
- 2.29 Where multiple conversion factors are required to calculate BCF within a particular category (eg due to use of both diesel and petrol vehicles), DNOs should enter a weighted average of these factors. Where multiple units are required for calculation of volumes in a given BCF category (eg a mixture of mileage and fuel volume for transport), DNOs should enter volumes in a single equivalent unit.
- 2.30 If a DNO's contractor is unable to provide a breakdown of the calculation of their contribution to BCF including relevant volumes and conversion factors, but their BCF values are the product of an accredited certification scheme, DNOs may enter a dummy volume unit of '1' in the calculation table.

Buildings Energy Usage

- 2.31 Emission for electricity usage in buildings must be converted according to the relevant DEFRA conversion factor.
- 2.32 Natural gas, Diesel and other fuels are all categorised as fuel combustion and must be converted to tCO₂e on either a Gross Calorific Value (Gross CV) or Net Calorific Value (Net CV) basis. Ofgem expects the chosen approach to be applied consistently over time.

- 2.33 Substation Electricity must be reported under Buildings Energy Usage. All substation consumption must be treated as energy supplied rather than Losses. It is recognised that not all substations will be metered; rather, it is expected that licensees will, in time, register all substations as unmetered supplies and develop a common method for estimating consumption. Estimation could be based on a bottom-up approach, whereby the substation energy usage is split into estimates of its constituent parts, such as heating and lighting etc.

Transport

- 2.34 DEFRA guidelines provide for a range of emission conversion factors for transport means, with the aim to provide the best possible estimate of emissions from the vehicle portfolio owned and/or operated by the company. The reporting must, as far as reasonably practicable, use the full range of emission conversion factors available (as applicable to the range of means of transport actually used by the company).
- 2.35 DEFRA allows for transport to be entered in terms of both mileage and fuel consumption. Reporting must be based upon mileage, using conversion factors at the greatest level of disaggregation that is reasonably practicable. Reporting can be based on fuel consumption only where detailed and reliable data is available, eg through fuel cards.
- 2.36 In cases where emission factors for specific transport are not available (Ofgem is aware of this issue for helicopters, but there may be some other instances) tCO₂e must be estimated and summed to the closest means of transport (eg air for helicopters).
- 2.37 Operational Transport is the transportation (often a fleet of vehicles) used in the day to day operation of the business, ie in the inspection and maintenance of the network.
- 2.38 Business Transport is that undertaken by staff travelling to locations other than their normal place of work or moving between sites for purposes such as meetings.

Fugitive Emissions

- 2.39 This category caters for GHG emissions from a range of gases that may be relevant to the DNO business. Ofgem anticipates that this will mainly include SF₆ emissions, but other gases may be included (e.g. HFC from air conditioning). SF₆ emissions must be reported using the conversion factor taken from the latest

BEIS publication of UK GHGs³ unless there is a compelling case for using an alternative.

Fuel Combustion (non-building)

- 2.40 This is to cover for non-building fuel usage, such as mobile plants and the stand-by diesel mobile generators that are deployed from time to time in response to planned outages or faults. DEFRA emissions factors must be used. All mobile plant and generation used by the DNO, related and affiliate undertakings, contactors and sub-contractors must be included in so far as it is reasonably practicable. The methodology must describe the degree of estimation, and decisions to exclude any sources of emissions, applied.

Losses

- 2.41 This is to consider DNOs' responsibility towards losses as a Scope 2 emission. DNOs should apply the most relevant DEFRA conversion factor for electricity generation to their reported losses levels to derive the associated emissions in terms of tCO₂e. The Scope 3 conversion factor for Transmission and Distribution Losses should not be used.

³ <https://www.gov.uk/government/publications/uk-greenhouse-gas-emissions-explanatory-notes>

3. Instructions for completing the Losses Snapshot worksheet

E4 – Losses Snapshot

General

- 3.1 The purpose of this worksheet is to collect a snapshot of the types of activities under taken by DNOs to manage Distribution Losses. Standard Licence Condition (SLC) 49 (Electricity Distribution Losses Management Obligation and Distribution Losses Strategy) paragraph 49.9(b)⁴ requires DNOs to publish information on their actions to manage Distribution Losses and to deal with Relevant Theft of Electricity. By annually publishing the Environment Report, including this worksheet and any associated documents, eg CBAs and commentary, we would consider this obligation met.
- 3.2 The following terms are defined in Annex A - Glossary:
- Asset Replacement
 - Baseline Scenario
 - Cable
 - Distribution Losses
 - Distribution Losses-Justified Costs
 - Distribution Losses Strategy
 - ED2 Final Determination
 - Environment Report
 - Equipment to Manage Losses
 - Fault Level Reinforcement
 - General Reinforcement
 - Innovative Solution
 - Non-Technical Losses
 - Operational Activities to Manage Losses
 - Relevant Theft of Electricity
 - RIGs
 - RIIIO-ED2 Business Plan
 - RIIIO-ED2 CBA Tool

⁴ SLC 49 is found in the Electricity Distribution Licence.

- Smart Meters
- Technical Losses
- Transformer.

3.3 DNOs should report the following activities to manage Distribution Losses:

- Activities where the costs incurred principally relate to managing Distribution Losses.
- Activities where some of the costs incurred relate to managing Distribution Losses (but where losses are not the principal reason for the expenditure) subject to paragraph 3.4.

3.4 DNOs should not report activities that may help to manage losses but where Distribution Losses are not associated with the DNOs decision to undertake the activity and where any losses benefits are purely coincidental. For example, the installation of a new piece of network equipment may reduce losses. However, losses benefits did not inform the decision to undertake the activity because the equipment had to be installed to meet safety standards.

3.5 This worksheet should be completed on a discrete basis for each Regulatory Year so that it provides an in-year sample of the types of activities undertaken by DNOs to manage Distribution Losses. Actual volumes should be completed for every year in RIIO-ED2 up to and including the Regulatory Year under report in order to assess the total net benefits accrued.

Activity

3.6 Column B lists the relevant category of activity - Cable, Innovative Solution, Transformer, Smart Meters and Relevant Theft of Electricity. There is space for up to two examples of activities under each category. If the activity or project entered in column C is not covered by one of the categories, DNOs should enter it against 'other' and specify in column B what this category is.

3.7 DNOs are to provide an example of an activity which falls under each category listed in Column B based upon a random sampling of activities undertaken within the year. Where a DNO considers an activity, which is under a listed category, to be a novel approach (for example, when replacing a cable with one of a greater diameter – a different low loss core composite is used), this activity should be entered against the relevant category.

- 3.8 In column C, the title of the programme or project of the policy decision to manage Distribution Losses should be provided. This decision should be at the level used to justify the activity, using the RIIO-ED2 CBA Tool where appropriate.
- 3.9 In column D, the type of Distribution Losses that are managed by the activity should be selected – either Technical Losses or Non-Technical Losses.
- 3.10 In column E, DNOs should select the primary driver of the activity from the list - Equipment to Manage Losses, Operational Activities to Manage Losses, Asset Replacement, General Reinforcement, or Fault Level Reinforcement.
- 3.11 In column F, DNOs should provide a cross reference to the RIGs worksheet where the costs and volume data for the activity has been reported.
- 3.12 In column G, the DNO should state whether or not this activity was identified in its RIIO-ED2 Business Plan submitted for assessment before its RIIO-ED2 Final Determination.
- 3.13 If appropriate, in column H, the DNO should provide a reference to the paragraph number(s) where this activity can be found in its current Distribution Losses Strategy.

Units and estimated unit costs

- 3.14 In column I, the DNO should state the unit of activity that is being adopted, eg number of projects, km of cable, transformer volumes, etc.
- 3.15 In column J, the DNO should enter the estimated unit cost of the activity. The unit cost should be that taken from the relevant RIIO-ED2 CBA Tool, updated to be in nominal prices as appropriate.
- 3.16 In column K, the DNO should enter the title of the Baseline Scenario which would be employed if Distribution Losses management was not a consideration in the decision to undertake the activity. Where used, this should be equivalent to the 'Baseline scenario' in the RIIO-ED2 CBA Tool.
- 3.17 In column L, the unit cost of the Baseline Scenario solution should be entered. The unit cost should be that taken from the relevant RIIO-ED2 CBA Tool, updated to be in nominal prices as appropriate. '0' should be inputted if the activity would not otherwise have taken place.
- 3.18 In column M, enter the estimated incremental component of the unit cost that is justified by Distribution Losses benefits should be entered. For example, if losses

reduction is the primary driver, this could be the difference in cost between the adopted option and the Baseline Scenario.

Volumes

- 3.19 In columns N to U, actual volumes of each activity for every year of RIIO-ED2 up to and including the Regulatory Year under report are required.

Estimated total costs

- 3.20 In columns V to AC, the estimated total costs, in nominal prices, for every year of RIIO-ED2 up to and including the Regulatory Year under report should be entered. For the Regulatory Year under report, this should be equal to the product of the estimated unit cost (column J) of the activity and the actual volumes. Figures for preceding years should be copied across from the submission for the previous year.

Estimated Distribution Losses-Justified Costs

- 3.21 In columns AD to AK the Distribution Losses-Justified Costs should be entered, in nominal prices, for every year of RIIO-ED2 up to, and including, the reporting Regulatory Year. For the Regulatory Year under report, this should be equal to the product of the estimated Distribution-Losses Justified Cost (column M) and the actual volumes. Figures for preceding years should be copied across from the submission for the previous year.

Estimated Distribution Losses benefits over 'Baseline Scenario'

- 3.22 In columns AL to AS, the estimated Distribution Losses benefits should be entered (based on the activity compared with the Baseline Scenario) for each year of RIIO-ED2 for which volumes data have been provided. These benefits should be entered in MWh based on the 'Reduced losses' row under 'Societal net benefits' in the RIIO-ED2 CBA Tool completed for each project or programme and calculated for the actual volumes reported. A reduction in losses should be presented as a negative value in this worksheet (please note this is the opposite convention to the information in the RIIO-ED2 CBA Tool, where a reduction in losses is presented as a positive value).
- 3.23 Figures for each year should be based on an estimate of the reduction in losses from the volumes of activity undertaken in that year in addition to any enduring effects from volumes in earlier years.

3.24 A theoretical example is described below:

- Assumed losses reduction per unit of activity of 10 MWh for the adopted option relative to the Baseline Scenario (on an enduring basis to the end of the asset life).
- A volume of two units is implemented in Year 1; three additional units in Year 2.
- Estimated Distribution Losses benefits over 'Baseline Scenario' =
 - Year 1: 20 MWh (2x10)
 - Year 2: 50 MWh ((2x10) + (3x10)).

RIIO-ED2 CBA Tool summary – estimated cumulative values for RIIO-ED2 and 45 years

3.25 The figures used in this section should be the same as those in the latest RIIO-ED2 CBA Tool used to inform the decision to undertake each project or programme. For instance, volumes should be based on those estimated when completing the CBA.

3.26 In columns AT and AU, the DNO should enter the Distribution Losses-Justified Costs over RIIO-ED2 and, where appropriate (ie for capital investment), for 45 years. This should be the product of the losses-justified unit costs and estimated volumes over RIIO-ED2 and for the 45 years from the start of the activity. The costs should be presented on an equivalent basis to the 'Total Net DNO benefits' row of the RIIO-ED2 CBA Tool.

3.27 In columns AV and AW, the DNO should enter the avoided DNO costs over RIIO-ED2 and for 45 years (if applicable). These should be the avoided costs based on undertaking the activity compared with the Baseline Scenario. These costs should be presented on an equivalent basis to the 'Total Net DNO benefits' row of the RIIO-ED2 CBA Tool.

3.28 In columns AX and AY, the DNO should enter the Distribution Losses benefits (based on the activity compared with the Baseline Scenario) over RIIO-ED2 and for 45 years (if appropriate). These should be based on the sum of the 'Losses' and 'CO2e associated with losses' rows under Societal Benefits in the RIIO-ED2 CBA Tool.

3.29 In columns AZ and BA, the DNO should enter the cumulative discounted net benefits over RIIO-ED2 and for 45 years (if applicable). These values should be based on all benefits identified in the CBA tool, including those not related to losses. Excluding some benefits may result in a negative NPV, which would raise

questions among stakeholders as to why such a programme is being implemented. The values presented should be based on the discount factor in the RIIO-ED2 CBA Tool.

4. Instructions for completing Smart Metering, Innovative Solutions, LCTs and IRM worksheets

E5 – Smart Metering

- 4.1 This worksheet collects the DNOs' estimates of the benefits of smart metering for domestic and non-domestic customers using the categories set out in DECC's January 2014 Impact Assessment⁵. It also summarises the smart meter IT and data costs that are either passed through or outside the price control in order to allow for the calculation of net benefits of smart metering for DNOs and customers.
- 4.2 The commentary to this worksheet provides a single location for commentary on smart meter IT and data costs as these are otherwise found in two separate worksheets: C22 – Pass-Through and C16 – Smart Meter Outside PC.

Costs

- 4.3 Smart Meter Communication Licensee Costs (pass through): DNOs must reproduce Row 29, columns E to Q from worksheet C22 – Pass Through in this row.
- 4.4 Smart Meter Information Technology Costs (pass through): DNOs must reproduce Row 30, columns E to Q from worksheet C22 – Pass Through in this row.
- 4.5 Elective Communication Services (outside price control): DNOs must reproduce Row 26, columns E to Q from worksheet C16 – Smart Meter Outside PC in this row.
- 4.6 Smart Meter Communication Licensee Costs (outside price control): DNOs must reproduce Row 27, columns E to Q from worksheet C16 – Smart Meter Outside PC in this row.

Estimated Benefits

- 4.7 The DNO must report the estimated gross financial benefits delivered in the Regulatory Year from the use of smart metering data against each of the categories in the table. These categories are defined in the DECC Impact Assessment from January 2014. The benefits must be estimated using the RIIO-

⁵ [DECC Smart meter roll-out for the domestic and small and medium non-domestic sectors \(GB\): Impact Assessment \(Jan 2014\)](#)

ED2 CBA Tool. Please refer to the RIIO-ED2 CBA Tool guidance. Where the DNO is unable to use the RIIO-ED2 CBA Tool, it should justify this and instead use an appropriate alternative tool or methodology to produce the relevant figures for this worksheet.

- 4.8 In the above Smart Meter Information Technology Costs, Smart Meter Communication Licensee Costs, and Elective Communication Services should be interpreted as defined in CRC 2B, Part H.

E6 – Innovative Solutions

- 4.9 This worksheet is used to capture information about the Innovative Solutions deployed on or in support of the network throughout the RIIO-ED2 price control period, as well as informing on solutions deployed during DPCR5 and RIIO-ED1. This information will allow Ofgem to monitor ongoing innovation rollout.
- 4.10 The costs and volumes associated with this worksheet are embedded in the relevant activities in the Costs, Volumes and Revenue Reporting Pack and feeds through to the C1 worksheet and the PCFM.
- 4.11 Only solutions that meet the definition of Innovative Solution may be included in this worksheet. The information about the solutions should only include enablers that are used specifically for each solution. Wider, general enablers (eg smart meter IT systems, other IT system upgrades) should not be included. Each solution should be supported either by a completed RIIO-ED2 CBA or an appropriate alternative tool or methodology to derive the Estimated Gross Avoided cost and impacts (as listed in paragraph 4.12). Where an alternative tool or methodology is used to produce the relevant figures for this worksheet, DNOs should justify this in the commentary and provide a detailed explanation of the tool or methodology used.
- 4.12 For worksheet E6, this guidance applies to the impacts listed below:
- MVA released
 - Estimated Gross Avoided cost
 - Estimated Losses impact
 - Estimated CI impact
 - Estimated CML impact
 - Other Estimated GHG Emissions
 - Estimated Impact on Fatalities
 - Estimated Impact on Major Injury
 - Estimated Impact on Oil Leakage.
- 4.13 DNOs only need to provide estimates of the impacts where relevant, ie where they are material. Estimates should be provided whether positive or negative. An explanation of how these figures are derived should be provided in line with paragraph 4.11.

Solution Type

4.14 The solutions must be placed into one of the categories. Category selection should be based on the intended outcome of applying the solution. A short description of each Innovative Solution should be written in place of 'Add description of innovative solution'. The descriptions will be determined by a Working Group to provide consistency between DNOs. Until such time as the Working Group can provide descriptions, DNOs may use their own description for each solution.

4.15 The definitions of each category are as follows:

- Increase network capacity/utilisation:

This relates to Innovative Solutions where the intended outcome is to provide additional network capacity, remove capacity constraints or operate the networks in a manner where existing assets allow more power to flow through them.

- Improve asset life cycle management

This relates to Innovative Solutions where the intended outcome is to provide improved asset life cycle management processes. This includes asset management decisions tools, improvements to condition analysis, novel techniques for monitoring assets and novel techniques and processes for extending the life of assets.

- Improve network performance

This relates to Innovative Solutions where the intended outcome is to minimise the disruption to customers as a consequence of faults on network assets. This includes reducing the number of customers interrupted and the duration of supply interruptions, improvements to fault location techniques, improved information and knowledge of customers affected, and improvements to power quality.

- Improve vegetation management

This relates to Innovative Solutions where the intended outcome is to have better processes for vegetation management. This includes methodologies for identifying vegetation clearance requirements and techniques for vegetation clearance.

- Improve safety

This relates to Innovative Solutions where the intended outcome is to reduce the likelihood of third party access to, or theft of, distribution network assets or improve the safety of networks.

- Improve environmental impact

This relates to Innovative Solutions where the intended outcome is to reduce the environmental impact of DNO activities. This includes processes for managing environmental issues and changes to asset composition/construction.

- Improve Connection Performance

This relates to innovative solutions related to improving the speed and cost of connection to distribution networks.

Unit

- 4.16 Each DNO should give an appropriate unit for the Innovative Solution being recorded in this worksheet. This unit will be determined by the Working Group to provide consistency between DNOs. Until such time as the Working Group can provide a defined unit, DNOs may use their own units for the solutions. The default is 'deployment'; however Ofgem acknowledges this may not be appropriate for all solutions.
- 4.17 Two examples of units are given for reference:
- For Static Compensators (STATCOMS) Ofgem expects the unit will be the 'number of STATCOMS deployed on the network'. This is because each STATCOM is a single piece of equipment acting at a single point.
 - For 'LV network automation', the expected unit would be 'schemes', where a scheme would be an installation designed to automate a single defined network area.
- 4.18 The above references may be subject to change should the Working Group decide on alternative units.

Voltage level of Issue

- 4.19 Indicate the voltage level of the issue being addressed by the Innovative Solution. This can be informed by where this solution is reported in the relevant cost worksheet. In cases where the issue is spread across multiple levels indicate this in the worksheet.

RIIO Output

- 4.20 State which of the RIIO outputs the solution will principally be addressing. The RIIO outputs are: safety, environment, customer satisfaction, connections, social obligations, and reliability and availability.

Worksheet (costs)

- 4.21 DNOs must detail where the cost of the solution has been reported elsewhere in the RIGs. DNOs should provide the reference of the relevant worksheet.

Worksheet (savings)

- 4.22 DNOs must state in which worksheet the cost reductions will have been accrued. This is to acknowledge that the savings from a solution may not occur where the costs of that solution have been reported, for example where reinforcement costs have been deferred due to an operational solution. DNOs should provide the reference of the relevant worksheet.

Costs

- 4.23 Costs should be reported for each Regulatory Year and be derived from the appropriate costs and volumes table. Note that these costs may not be explicitly identified in the other costs and volumes tables, and may form only a proportion of a reported total cost.

Additions

- 4.24 DNOs must report the additions of a solution in the unit expressed in Column G for each Regulatory Year. Costs do not necessarily have to have an associated volume or addition, for example upgrades to an Innovative Solution may be necessary for interoperability, but provide no volume change.

Disposals

- 4.25 DNOs must report the disposals of a solution in the unit expressed in column G for each Regulatory Year where relevant, noting that for some solutions there may not be an appropriate notion of a disposal.

MVA Released

- 4.26 DNOs must report the estimated capacity released in MVA due to each solution on a year by year basis. In the case of capacity being reduced, DNOs should report

with a negative figure to ensure aligned cumulative totals. DNOs should place a 0 where no capacity is released by the solution in that year. For example, if a temporary smart solution delivers 10MVA in year 1 and is removed in year 3 when conventional reinforcement takes place, this should be reported as 10MVA in year 1, zero in year 2 and -10MVA in year 3.

- 4.27 DNOs must complete this for all solutions that change network capacity, even if this is not the intent of the deployment (eg if an active network management system is used primarily for improving Customer Interruption performance and coincidentally releases capacity, this should be reported).
- 4.28 Non-firm capacity solutions are to be reported in line with the non-firm capacity estimation method in the Connection Charging Methodology.

Estimated Gross Avoided Costs

- 4.29 DNOs must enter the Estimated Gross Avoided costs from using the Innovative Solution, ie the total cost of the avoided solution or activity. DNOs should use the figures derived in accordance with paragraph 4.11 to assess the solution to derive the estimated saving. This should be reported as the saving in each year taken individually. This should be the saving to the DNO except in the category "Improving Connection Performance", where the saving to the DNO and connecting customer(s) should be provided. Avoided costs must be reported as a negative figure.

Estimated Losses Impact

- 4.30 DNOs should provide an estimate of the increase or decrease in Distribution Losses caused by each Innovative Solution. Distribution Losses is defined as in Standard Licence Condition 1. Reduction in losses must be reported as a negative figure, and an increase in losses must be reported as a positive figure.

Estimated CI Impact

- 4.31 DNOs must provide an estimate of the number of Customer Interruptions (CIs) avoided (negative) or caused (positive), by each Innovative Solution. Where a solution has an ongoing impact this must be reported for each Regulatory Year. For example, a solution that avoids five interruptions per year will have 5 placed into each relevant year, which gives scope for adjustment should the impact change. This ensures the total number of avoided interruptions is correctly

totalled for the regulatory period. The estimated interruptions may be taken in comparison to the conventional alternative where appropriate.

Estimated CML Impact

- 4.32 DNOs must provide estimates of the increase (positive) or decrease (negative) in Customer Minutes Lost (CML) for each Innovative Solution. This should follow the same principles as for reporting the CI Impact.

Other Estimated GHG Emissions

- 4.33 Estimates must be provided of the increase (positive) or decrease (negative) in Greenhouse Gas Emissions, excluding the impact of losses, for each Innovative Solution. This should be reported in terms of CO2 equivalent. This should follow the same principles as for reporting the CI Impact.

Estimated Impact on Fatality

- 4.34 Estimates must be provided of the increase (positive) or decrease (negative) in fatalities for each Innovative Solution. This should follow the same principles as for reporting the CI Impact.

Estimated Impact on Serious Injury

- 4.35 Estimates must be provided of the increase (positive) or decrease (negative) in serious injuries for each Innovative Solution. This should follow the same principles as for reporting the CI Impact.

Estimated Impact on Oil Leakage

- 4.36 Estimates must be provided of the increase (positive) or decrease (negative) in oil leakage for each Innovative Solution. This should follow the same principles as for reporting the CI Impact.

Working Group

- 4.37 A Working Group will be convened which will determine the following items in relation to this worksheet:
- definition of a unit for different solutions
 - consistent reporting of Innovative Solutions definitions
 - consistent reporting methods with regards to impacts.

- 4.38 Representatives from Ofgem, DNOs, and other relevant stakeholders will be invited to take part.