

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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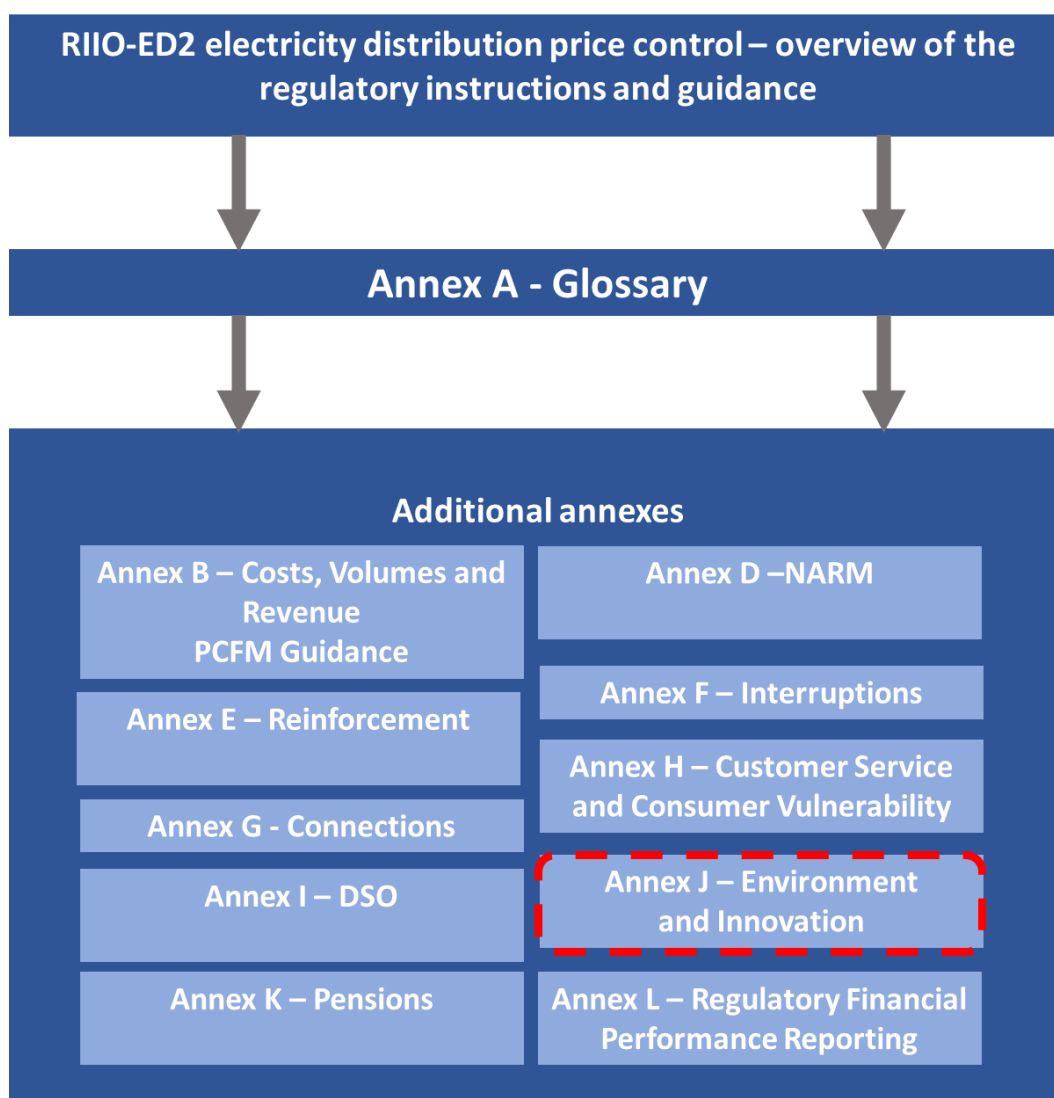
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1. Introduction

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 – 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.

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 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.
- 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.

E3 – BCF

- 2.5 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).
- 2.6 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.
- 2.7 The BCF reporting year used by the DNO should align with the Regulatory Year.
- 2.8 The following terms are defined in Annex A - Glossary and include:
- Buildings – Electricity
 - Buildings Energy Usage
 - Buildings – Other Fuels
 - Business Carbon Footprint (BCF)
 - 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

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

¹ For further details, please refer to [Greenhouse gas protocol](#)

- 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

- 2.10 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.
- 2.11 As per the decision in the RIIO-ED2 Environmental Reporting Guidance² 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.
- 2.12 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.

Detailed reporting requirements

- 2.13 DNOs must report on their BCF (in tCO₂ emitted) which includes the following:
- Building energy usage including substation energy;

² [Decision on the RIIO-ED2 Annual Environmental Report Guidance Document and Template | Ofgem](#)

- Operational Transport;
 - Fugitive emissions (eg from SF₆).
 - Fuel combustion from temporary generation; and
 - Losses.
- 2.14 DNOs will report the total Scope 1 and 2 emissions in two categories: one excluding losses and one including losses.
- 2.15 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 RIIO-ED2 Environmental Reporting Guidance. 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

- 2.16 When the emissions data is not available for individual Distribution Service Areas then the apportionment factor used must be transparent.
- 2.17 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

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

- 2.18 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 Year being reported, unless there is a compelling case for using an alternative factor.

- 2.19 DNOs are required to enter volumes and applied conversion factors within the worksheet tables for the RIIO-ED2 period.
- 2.20 Where multiple conversion factors are required to calculate BCF within a particular category, 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.
- 2.21 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

- 2.22 Emission for electricity usage in buildings must be converted according to the relevant DEFRA conversion factor.
- 2.23 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.
- 2.24 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

- 2.25 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).

- 2.26 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.
- 2.27 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).
- 2.28 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.
- 2.29 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

- 2.30 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 (eg 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)

- 2.31 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.

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

Losses

- 2.32 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. 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.
- 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
 - RIIO-ED2 Final Determination
 - Annual 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
 - RIIO-ED2 Business Plan
 - RIIO-ED2 CBA Tool
 - 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, Fault Level Reinforcement and Other.

- 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 R, 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 S to W, 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 X to AB 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 being reported on, 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 AC to AG, 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 AH and AI, 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 AJ and AK, 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 AL and AM, 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 AN and AO, 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

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 Assessment⁴. 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 complete Row 12 columns U to Y.

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 RIIIO-ED2 CBA Tool. Please refer to the RIIIO-ED2 CBA Tool guidance. Where the DNO is unable to use the RIIIO-ED2 CBA Tool, it should justify this and instead use an

⁴ [DECC Smart meter roll-out for the domestic and small and medium non-domestic sectors \(GB\): Impact Assessment \(Jan 2014\)](#)

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 SpC 1.2 (Definitions and references to the Electricity Distributors).

5. Instructions for completing the Innovation Measurement Framework

IMF – tabs

- 5.1 These worksheets collect the DNOs' performance under the Innovation Measurement Framework. Further guidance for completing the individual tabs is included in the IMF – Guidance tab.