



Promoting choice and value
for all gas and electricity customers

Environmental Issues Working Group

18 August 2010

Agenda

- **Introductions**
- **Terms of reference**
- **Introduction to RIIO and GDPCR2**
- **Environmental Outputs**
 - **Primary outputs**
 - **Secondary deliverables (i.e. distributed gas)**
- **Way forward & next meeting**
- **Any other business**

Introductions

- Who we are
- What our roles are
- What our expectations are

Terms of Reference

- Forum to discuss environmental issues for GDPCR2
- Open letter invited third parties to be involved
 - REA & ENA responded to date
- Discuss and help to develop policy options
- Opportunity for attendees to present their views/proposed options on key issues
- Meeting *circa* every 3 weeks from August to November 2010
- Meeting notes and presentations published

The background features a large, semi-transparent white arrow pointing to the right. Behind the arrow, there are two main visual elements: a close-up of interlocking blue and white gears on the left, and a stack of white gears on the right. In the upper left, there is a perspective view of solar panels under a bright sky. The overall color palette is light and airy, with soft lighting and a sense of motion and energy.

RIIO and GDPCR2

Brief Overview

Key proposed components of revised controls

Objective: encourage network companies to (1) play full role in the delivery of a sustainable energy sector (2) deliver long-term value for money network services for existing and future consumers

2. Enhanced engagement with published guidelines on third party 'modification requests'

1. Primary outputs that companies expected to deliver over time and secondary deliverables relating to the way a company plans, develops and maintains its network to deliver primary outputs

➤ Facilitate effective competition upstream and downstream

3. Innovative and efficient delivery for long term

Longer-term ex ante

Well-justified business plans

Proportionate assessment

Upfront symmetric incentive rate

Best use of existing assets

Focus on total cost

Limited use of ex-post efficiency assessments

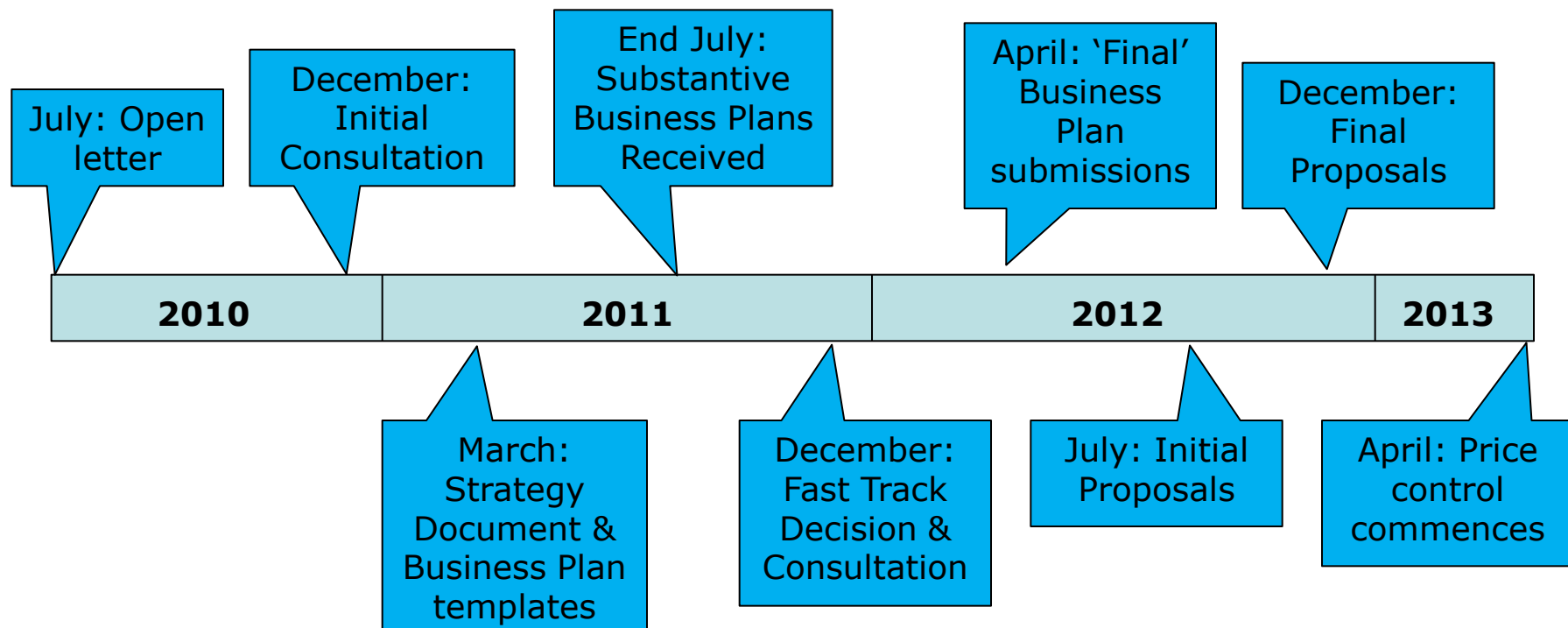
Option of giving third parties greater role in delivery

5. Innovation Stimulus
(time limited)

4. Principles on when and how to include uncertainty mechanisms

6. Long-term commitment to principles for ensuring financeability

Timetable



Initial Strategy Consultation

- Applying RIIO (Revenue = Incentives + Innovation + Outputs) principles will require key elements of price control to be taken forward at earlier stage
- Significant changes to the content of initial consultation – document will include consultation on:
 - primary outputs
 - approach to cost assessment
 - additional detail on business plans
 - the outline of the financial methodologies
 - length of control
 - the level of the incentive rate + level of the sharing factors
 - an outline of how the incentive framework should be applied etc.
- Will publish a decision on Strategy elements in March 2011 to enable companies to develop business plans

The background features a composite image. On the left, there are rows of solar panels under a bright sky. On the right, a glowing incandescent lightbulb is shown. At the bottom, a large blue gear is partially visible. A large white arrow points from the left towards the center text.

Environment Outputs

The outputs-led framework

OBJECTIVES

Outcome 1: Play a full role in the delivery of a sustainable energy sector

Outcome 2: Deliver value for money over the long term for existing/future consumers

OUTPUT CATEGORIES

Environmental
impact

Conditions for
connections

Customer
satisfaction

Safety

Reliability

Social
obligations

PRIMARY OUTPUTS

Indicators to determine performance in the output categories during the price control

- There are environmental conditions in the price controls e.g. the SF₆ incentive

SECONDARY DELIVERABLES

Intended to facilitate delivery of primary outputs in future price control periods

- For example, the Health Index and Load Index developed as part of DPCR5

Considerations in setting primary outputs

Need to also consider the principles for setting primary outputs

Principles guiding the development of primary outputs

Material

Controllable

Measurable

Comparable

Applicable

Compatible with the promotion of competition

Legally compliant

Environmental impacts

Potential to use narrow or broad outputs

“Narrow” primary outputs

Reflection of the direct environmental impact from operation of the network

**Business carbon footprint
including shrinkage**

**Reflects the impact of the network
company on GHG emissions**

**Other
emissions**

Reflects the impact of the network company on other emissions

**Visual
impacts**

**Reflects the landscape and visual impact of the network
company operation**

**Role in consumer
energy efficiency**

➤ **Reflects the impact of the network company in terms
of improving its consumers’ energy efficiency**

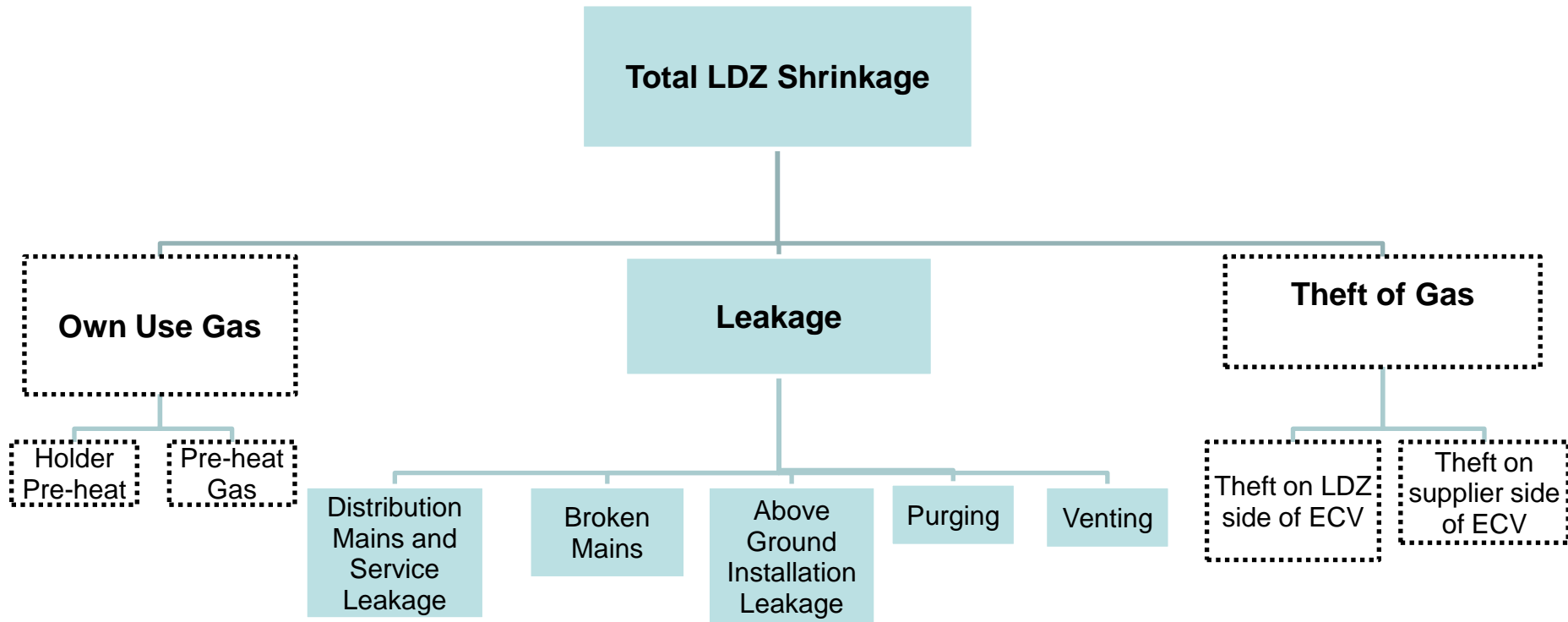
Are these the right primary outputs for the distribution companies?

Business carbon footprint inc. shrinkage

- Recognise BCF will be dominated by shrinkage
- However, GHG emissions of remainder of operations still important
- DPCR5 – separate losses incentive and BCF reporting

Shrinkage = 1% of GB GHG emissions	Incentives to reduce shrinkage
<p>Leakage (95% of LDZ shrinkage)</p>	<p>GDPCR Shrinkage Incentive Allowance in allowed revenue to purchase gas to replace that lost to shrinkage. GDNs retain any allowance not spent or pay for any excess</p> <p>GDPCR Environmental Emissions incentive GDNs penalised/rewarded against target emissions baseline. Shrinkage model used for reporting purposes</p>
<p>Theft (3% of LDZ shrinkage but higher for total shrinkage)</p>	<p>? We understand the shrinkage model used to assess 'actual' shrinkage assumes a set amount as theft therefore no incentive to beat this assumption</p>
<p>Own Use Gas (2% of LDZ shrinkage)</p>	<p>? We understand that the shrinkage used to assess 'actual' shrinkage assumes a set amount of own use gas therefore no incentive to beat this assumption.</p>

Leakage breakdown



How are these leakage elements modelled – fixed or assumed?

Broad Questions

- What impact can operational practices i.e. pressure management and gas conditioning have on leakage?
- What other operational practices could reduce leakage e.g. design of network, location of distributed gas connection, reduced venting?
- What financial incentives are there on GDNs to reduce theft and own use gas?
- What operational practices could reduce theft and own use gas?
- Is all gas purchasing to cover LDZ shrinkage done on the day ahead market?

Would a single output measure (like electricity distribution) be feasible?

Business carbon footprint

DPCR5 scheme:

- **Annual report on total operational greenhouse gas (GHG) emissions (CO₂ equivalent) from each network company**
- **Scope 1 and 2:** Direct emissions and indirect emissions from purchased energy
 - **Subset of scope 3:** Business travel and external contractors
- Benchmark against other network companies or own performance?

Is this approach appropriate for gas?

Other emissions

**Are there any other non GHG emissions in gas?
(or emissions that require particular focus?)**

**Defra's environmental key performance indicators aim to help businesses
address their most significant environmental impacts**

Emissions to air

Emissions to water

Emissions to land

Resource use

Key impacts: GHG emissions, metal emissions to water and land, oil leakage

The EU ETS includes provisions to allow extension to Methane and SF₆

Are these areas where incentives would be appropriate?

Landfill? Contamination from gas holders?

Are these requirements covered by existing reporting arrangements e.g. EA?

Environmental management systems (EMS)?

Visual impacts

Are there any visual amenity issues for gas?

- i.e. Gas holders?

- There are tools that network companies could use to identify areas where there might be significant associated visual impacts from new network projects
 - This could inform an incentive related to visual impacts

TPCR5 considerations

For 'significant' projects, could develop principles for assessing visual impacts

Natural England are developing National Character Areas covering England

- Identify priorities for preservation of the visual landscape
- The impact of significant projects could be assessed against key priorities

Similar provisions in Scotland/Wales? What are the links to planning?

Energy efficiency

Is there any role for distribution companies in end user energy efficiency?

Information provision

Provision of information to a range of different types of users on demand side response

This could follow a similar format to the DG information initiative

Demand side contracts

- **Interruptible contracts (and investment?)**
- **Provision of other demand side products**
- **Cooperation with suppliers seeking to offer demand side contracts to large industrial users**

Is there any other role that the distribution companies could assume?

“Broader” environmental impacts

Key issue: Can we place incentives on network companies allowing them to treat low carbon network users differently from conventional users?

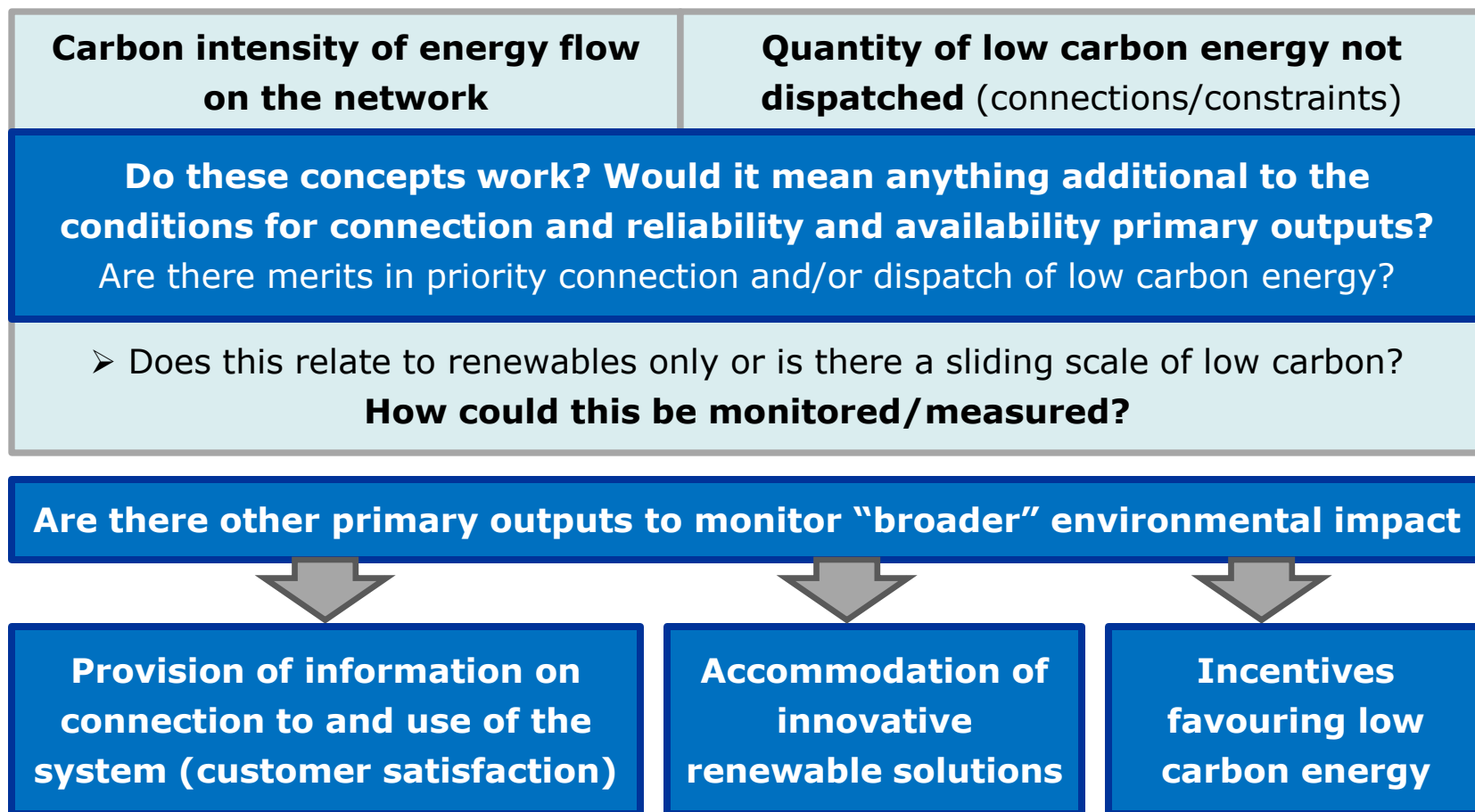


Change to wording of our principal objective

Clarifies that interests of existing and future consumers include their interests in the reduction of targeted green house gases

Key legal question but also key from a policy perspective given Ofgem’s previous position on treating low carbon network users differently

Form that “broader” primary outputs could take



Secondary Deliverables

Distributed Gas

- Bio-methane stakeholder workshop- issues raised:
 - Entry capacity:
 - firm/interruptible contracts (producers setting out contract issues)
 - information provision (producers would like info on good and bad places to connect)
 - Gas quality (DECC/HSE)
 - Measurement equipment (CV Liaison Group)
 - CV enhancement – UNC Working Group 251 to feed in to DECC
 - Ownership of connection assets
- Feeling that trials are informing and reducing costs
- Are there any GDPCR2 issues?
- Does distributed gas provide network benefits?

DECC clarifying whether EU Renewable Energy Directive considers propination as renewable

Any other environmental outputs/deliverables/incentives that we have not yet considered?

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Way forward & next meeting

Way forward & next meeting

- How should we run future meetings?
 - Structure
 - Approach
- What shall we discuss in the next meeting?
- When shall we have the next meeting? (w.c. 6 Sept)



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Any other business?

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

ofgem

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