

RIIO-GD1

Environmental Working Group
Discussion

25 January 2011

December Consultation Document

**Environmental Outputs and
Incentives**

Key dates

- 17th December 2010 Publication of RIIO-GD1 Consultation
- 25th January 2011 EWG Meeting #5
- 4th February 2011 Strategy consultation closes
- 17th February 2011 EWG Meeting #6
- 28th March 2011 Strategy Decision Documents (incl. business plan guidance) published

Broad Environmental Objective

overall approach is to create an enabling regulatory environment to ensure that companies play their role in delivering a low carbon energy sector

Many elements of our proposed regulatory framework contribute to the broad environmental objective, including

Connection Standards

we propose to extend connection standards to bio-methane and other distributed gas customers, and will require companies to develop suitable information provision

Network Reliability

we will improve the current incentive arrangements for companies to engage in demand-side management (or 'interruptible contracts') to meet new load requirements

Customer service and stakeholder engagement

encourage companies to be more consumer focused, and where we will reward companies that demonstrate that they effectively engage with and understand their stakeholders' needs

Innovation stimulus

we will provide financing for trialling of technologies relating to the delivery of a low carbon future

Broad environmental measure

Primary Measure

Report the capacity of bio-methane connected on the system

Not sufficiently controllable to

- * Set an output target
- * Attach a financial penalty / reward

Publish an annual league table for reputational incentive

- Do you agree GDNs should report on the capacity of bio-methane connected as a broad measure of environmental impact but no associated financial reward/penalty?
- Is there any other measure of environmental impact which you believe could be financially incentivised, bearing in mind the need for an output to be measurable and controllable by the GDNs?

Bio-methane

Proposal Summary	Our thinking
Licence requirement on GDNs to provide information on how and where to connect	<ul style="list-style-type: none"> - encourage connections - allow developers opportunity to participate in developing information requirements
Maintain current charging regime with funding arrangements for potential future changes.	<ul style="list-style-type: none"> - provide flexibility - provide certainty on future funding
Not considering to recover connection and downstream connection costs through general network charges	<ul style="list-style-type: none"> - do not consider we have the vires to introduce cross subsidy through charging

Also consulting on.....

- **expected take up of connections**
- **benefits of bio-methane injection**
- **rationale for socialising connection costs**
- **other possible issues affecting bio-methane not covered in the consultation**

Funding Options

- Option 1 – Logging up with ex-post efficiency review
- Option 2 – Pass through with incentive

Prefer option one as do not consider we have a detailed understanding of efficient costs of distributed gas to set the percentage of costs to be passed through under the incentive

Business Carbon Footprint (BCF) excluding shrinkage

Propose reputational incentives only

- GDNs **report annually** the CO2 equivalent emissions for the company (kgCO₂e)
 - leading to annual league table publication
- **To work with the industry to develop a standard framework for reporting BCF**, drawing on
 - Existing reporting frameworks
 - Electricity distribution reporting template
- Require companies to identify cost-beneficial schemes that reduce their BCF in their business plan submissions, and fund schemes which are well-justified.

Consulting on views on the reporting and annual league table but no financial penalty/reward

Other emissions and natural resource use

Resource use	Our thinking
Land Remediation	<ul style="list-style-type: none"> - Forecast in business plans by category <ul style="list-style-type: none"> <input type="checkbox"/> those sites requiring routine monitoring and containment against statutory obligations (included in business plan cost allowances) <input type="checkbox"/> additional sites remediated to low risk (included in business plan cost allowances) <input type="checkbox"/> additional land remediation not funded within the business plan cost allowances but undertaken in response to stakeholder requests or for commercial reasons (eg for land sales). - Compare business plan baseline with annual returns
Extraction of Aggregates	<ul style="list-style-type: none"> - submit the expected cost of aggregate extraction and the expected amount extracted within business plans - report on aggregate use in annual regulatory return
Spoil to Landfill	<ul style="list-style-type: none"> - include the expected cost of spoil to landfill (including the landfill tax) within business plans - Required to report on the annual tonnes of spoil in annual regulatory return
Emissions to Water	<p>Report annually on:</p> <ul style="list-style-type: none"> - number of environmental permits obtained (and/or discharge consents) - number of incidence reports/infringements, i.e. where they have discharged beyond their consents.

- **Is this information useful and is it proportionate for us to require it on an annual basis?**
- **Is an annual league table an appropriate incentive?**

Shrinkage

Key Proposals in December Document

Maintain broad structure of EEI & Shrinkage incentive

Update value of EEI in line with DECC guidelines – circa £66 per MWh

Maintain Cap & Collar for EEI and possibly introduce one for Shrinkage

Licence condition to use actual shrinkage to set and report target baselines for future price controls

Introduce a code of practice for processing unregistered sites

Enable modifications to be made to reporting assumptions for theft

Not to introduce a rolling incentive for EEI

Welcome views on these proposals....

Rationale for new Shrinkage proposals

Introduce a code of practice for processing unregistered sites:

- Legal advice indicates that unregistered sites falls within theft in conveyance & is GDNs' responsibility
- Aware that this is being taken forward by an Xoserve working group
- Want to align incentives and obligations on GDNs with these developments
- Reporting of unregistered sites detected and processed will create reputational incentive and a degree of benchmarking

Enable modifications to be made to reporting assumptions for theft

- Want to provide an incentive on GDNs to reduce theft
- Aware that wider industry work may enable audit of current assumptions and updated values to be used
- Any changes are subject to the provision of robust evidence supported by industry.

Welcome views on these proposals

Rationale for new Shrinkage proposals

Maintain Cap & Collar for EEI and possibly introduce one for Shrinkage

- Uncertainty around repex programme due to HSE review
- Want protection for companies and customers should repex programme change during course of RIIO GD1
- Interested in views on level of EEI Cap & Collar
- Interested in views on how a Shrinkage Cap & Collar could work

Not to introduce a rolling incentive for EEI

- Want to encourage efficient investment throughout price control
- But requires us to extrapolate shrinkage performance to 2029
- Uncertain of ability to do this with accuracy

Summary of secondary deliverables (list not exclusive)

	Business Plan	Annual Reporting	League Table
Broad Measure – capacity of bio-methane	X	✓	✓
Distributed Gas	X	✓	X
Shrinkage:			
Forecast shrinkage and leakage baseline	✓	✓	X
Unidentified gas (unregistered sites)	✓ ?	✓	X ?
BCF (excl shrinkage) (BP - justification of costs)	✓	✓	✓
Land remediation	✓	✓	} ✓ ?
Extraction of aggregates	✓	✓	
Spoil to landfill	✓	✓	
Emissions to water	X	✓	

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

Promoting choice and value
for all gas and electricity customers