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Dear Tom

**Environmental Discretionary Reward under the RIIO-T1 price control – consultation response**

National Grid owns and operates the high voltage electricity transmission system in England and Wales, and as National Electricity Transmission System Operator (NETSO) operates the Scottish high voltage transmission system. National Grid also owns and operates the gas transmission system throughout Great Britain and through its gas distribution business distributes gas in the heart of England to approximately 11 million homes, schools and offices. The issues addressed in this consultation directly affect National Grid.

We broadly support the proposed Environmental Discretionary Reward. Our responses to the questions set out in Ofgem's consultation document can be found on pages two and three of this letter.

Please do not hesitate to contact me should you require further information.

Yours sincerely

By email

**Pauline McCracken**  
**RIIO-T1 - Price Review Manager**

<b>1</b>	<b>Do you agree it is appropriate to have an EDR?</b>
	<p>Yes.</p> <p>There are areas covered by the proposed scheme which may otherwise not be financially incentivised by the other outputs which form part of the RIIO-T1 package. These areas cover additional work to accommodate new forms of generation and do not involve discrimination in favour of low carbon and renewable generation.</p> <p>Whilst we sympathise with the concerns raised by some stakeholders that an automatic financial incentive based on the carbon intensity of electricity could potentially duplicate rewards and is largely outside the control of the TOs, these concerns have been addressed with the proposed discretionary scheme.</p>
<b>2</b>	<b>Do you support the proposed environmental balanced scorecard?</b>
	<p>We broadly support the proposed environmental balanced scorecard.</p> <p>As an integrated SO and TO with responsibility for the interface between the transmission companies and generation and demand customers, the categories appear appropriate, although we observe that it may be difficult for other Transmission Owners to demonstrate performance against some of the aspects described.</p> <p>Given this, it may also be appropriate to consider whether certain aspects would be better covered under the SO incentives arrangements.</p> <p>It is unclear how the associated weightings have been developed, and the weighting associated with the approach taken to connections for low carbon generators appears low considering the crucial nature of the aspect of performance, and the stakeholder feedback received to date.</p>
<b>3</b>	<b>Are we asking the right questions in the balanced scorecard reporting template we are asking Transmission Owners (TOs) to complete?</b>
	<p>The questions appear comprehensive, but given that we do not currently know about all of the aspects we will need to cover to support the decarbonisation of the electricity sector, it is advisable to avoid being overly prescriptive at this stage and to allow the opportunity for transmission owners to include other relevant evidence.</p>
<b>4</b>	<b>Do you support the proposed requirement for TOs to publish an annual report on what they have in place to meet the requirements for the transition to a low carbon system?</b>
	<p>This description of the annual planning statement on page 23 lists items associated with planned infrastructure build. This appears to be more restrictive than the introduction which mentions 'what TOs have in place to meet the requirements for the transition to a low carbon system.'</p> <p>If the intention is just to cover planned infrastructure build, then this requirement could be better covered by including additional information in other documents, such as the proposed Electricity Ten Year Statement. This is likely to make access to information easier for stakeholders.</p> <p>The specification of the form of the statement, and the requirement for this to be presented to stakeholders by the Chief Executive seems unduly prescriptive, and does not appear consistent with the RIIO emphasis on regulating outputs rather than inputs. This statement will be more effective if Transmission Owners have the flexibility to present it in ways which are most useful to our stakeholders, for example, using web-based tools such as the Electricity Scenarios Illustrator tool that we have developed and published as part of our RIIO-T1 stakeholder engagement activities.</p>

<b>5</b>	<b>Do you believe the proposal would be effective in driving TOs towards facilitating low carbon energy?</b>
	Subject to the points raised above, the proposal has the potential to provide further incentives to drive TOs towards facilitating low carbon energy.
<b>6</b>	<b>What is your view on the standards to be met to receive the reward and do you believe the level of the reward is appropriate?</b>
	We would welcome further information on how the standards to be met and level of reward have been derived.
<b>7</b>	<b>Do you believe the outlined timetable for making the reward is appropriate?</b>
	Yes.