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Dear Tom

Environmental discretionary reward under RII-O-T1

The Renewable Energy Association is pleased to submit its comments on Ofgem's consultation on introducing an overarching environmental element into the next transmission price control. The REA has members who work on all types of renewable power and heat projects including many electricity generation projects that are transmission connected. We support a mechanism designed to put sustainability at the core of transmission companies thinking.

One overarching issue that will have to be carefully considered is the relationship between the TOs and the SO function as many of the issues discussed as possible elements to the incentive scheme have significant elements of SO involvement; for example as far as the customer is concerned the connection process interface is entirely through the System Operator, even though much of the work behind the scenes may be undertaken by transmission owners.

Considering the specific questions that you have asked:

Question 1: Do you agree it is appropriate to have an EDR?

Yes, whilst we understand the argument that it might be paying transmission owners for activities that they are already being paid to undertake the proposed level is modest and it should be designed to reward companies that think holistically about facilitating greenhouse gas reduction and particularly those that come up with new ways that they can do this.

Question 2: Do you support the proposed environmental balanced scorecard?

The basic methodology of getting the transmission owners to give details of what they have been doing under a number of headings related to broad environmental performance is sound.

Question 3: Are we asking the right questions in the balanced scorecard reporting template we are asking Transmission Owners (TOs) to complete?

We agree with the possibility of changing the questions asked over the period of the price control as experience is gained and possibly new challenges emerge that should be reported on. We also think that there should be space for each company to describe what it has been doing to promote environmental goals that do not fit into any of the categories described. In other words there should be space for a TO to describe an activity that does not fit into any of the categories because it has not yet been thought of. It would be appropriate for something described in this category that is felt to have merit to earn some "bonus" points – care would be needed to split this away from question 4 on innovation. The idea is that whilst this category would be related to innovation it would be an especially radical form of innovation or finding a completely new way to look at an issue. As this category would effectively earn bonus points for the overall score it would not be necessary to define it clearly other than it would be for something that did not fit well into any other category. It could also possibly be used to give additional points for any especially environmentally innovation, over and above what could be earned from category 4.

Considering each of the proposed questions in turn:

- 1. Strategic understanding of and commitment** to low carbon objectives and the role of the TO in their facilitation – we have no issues with the inclusion of this question.
 - 2. Involvement in whole electricity system planning for low carbon future**, including integration with DNOs and involvement in development of demand side interventions – we think that this is a good category but would question the respective roles of the SO compared to the TOs with respect to demand side interventions.
 - 3. Approach taken to connections for low carbon generators** – we would query how much of this is an SO matter rather than a TO one.
 - 4. Quality of innovation** work and use of new ideas and results of innovation projects across TO – we think that this is an excellent category to report. We think that particularly innovative thinking should be eligible to be reported in addition in the additional "undefined" category for a bonus score.
 - 5. Development of approaches to demand side response** and "smarter" networks, including storage and best use of existing network – we are again concerned as to how much of this is an SO rather than a TO function. There is mention in the performance level descriptions of "negotiations on contract terms", something that is undertaken by the SO rather than a TO.
 - 6. Direct environmental impact** of activities and associated reporting – we consider this a reasonable category to report on.
- 6a Business greenhouse gas emissions** management – As 6 above.

Question 4: 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?

Yes

Question 5: Do you believe the proposal would be effective in driving TOs towards facilitating low carbon energy?

It is the cumulative effect of this and all the other incentives rather than this mechanism individually that we think increase TOs' efforts in facilitating low carbon energy.

Question 6: 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?

Whilst ideally we would like all scores to be "excellent" it seems that if this is the only score that will be eligible to gain points towards an award there is no incentive for companies to improve from "weak" to "good" and therefore no point in having these as separate categories. In other words if it is only "excellent" that counts then one only needs to define "excellent" and "not excellent". We would prefer some points are given for each performance level above weak, perhaps with a minimum total corresponding to half the categories being "excellent" before any award is made.

We think that the maximum award of £4m per year (presumably per TO) is an appropriate amount to be sufficient to motivate each company to put in an appropriate amount of effort to consider what more they could possibly do to promote a green agenda. We are unconvinced however of the merits of carrying part of any unearned amount over to succeeding years.

Question 7: Do you believe the outlined timetable for making the reward is appropriate?

Yes

If you would like to discuss any of these comments further please let me know,

Yours sincerely

Gaynor Hartnell
Chief Executive
Renewable Energy Association