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Dear Tom,

**RenewableUK consultation response REF 17/12
ENVIRONMENTAL DISCRETIONARY REWARD UNDER
THE RIIO-T1 PRICE CONTROL**

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 660 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies. The association's response aims to represent these industries, aided by the expertise and knowledge of our members.

Summary

RenewableUK welcomes Ofgem's proposals for a broader environmental incentive on Transmission Owners, recognising the full role that network companies can play in the development and delivery of a sustainable energy system, and the need for organisation-wide culture and process change to this end. The renewables industry is not asking for discrimination, but is asking for appropriate treatment for generation that has some different characteristics to those of large thermal plant.

We believe the incentive will have greatest impact if:

- **It is a financial incentive that is of sufficient magnitude for senior personnel to take action. As such, an incentive of a similar magnitude to other RIIO-T1 incentives would seem appropriate.**

- **It focuses on material outputs. RenewableUK believes the connection of renewables capacity and progress on the decarbonisation of electricity are the big issue items for this incentive.**
- **It focuses on practical implementation throughout the organisation and on meaningful outcomes. It is not enough to have isolated programmes or projects the results of which are not internalised in business processes.**
- **It recognises that the TOs have a wide reach – with DNOs regionally, with ENTSO-E in Brussels, with the generation community, and indeed in their approach to Government and Ofgem themselves – and encourages them to play a leadership role in all of these areas.**

Introduction

RenewableUK welcomes this consultation by Ofgem on the introduction of a broader environmental incentive on Transmission Owners. This is an area that RenewableUK has explored in some detail, and we are pleased to see that Ofgem has put serious thought into it. The reason for our interest is not entirely positive feedback from RenewableUK's members who are trying to connect renewables plant on the ground.

Survey evidence suggests that grid issues represent a notable barrier to renewables deployment.¹ Grid issues account for 14% of the barriers identified for projects (others of a similar prevalence include radar, awaiting sale of project, and commercial viability issues). Delays amount to from three months to three years in the context of a Consent to Operation process that typically lasts 2½ years.

Difficulties specifically in relation to transmission include:²

- connection costs: high and sometimes unnecessary
- confusion on liabilities and securities: harsh, particularly on large generators
- rigidity: inflexible “customer service”, although technical personnel are praised
- complexity: lack of clarity on the connection process, with unexpected changes
- integration: lack of joining up between what is the ideal and operational fact
- lack of interactiveness: no collaboration on how best to develop and connect sites

¹ Conducted by Parsons Brinckerhoff for RenewableUK. Note that this assessment does not distinguish between transmission and distribution issues.

² “Rough and ready” web survey of RenewableUK membership on transmission issues.

63% of respondents stated that project profitability was reduced as a result of these difficulties. It is worth noting that “technical and grid requirements” came out as the most prevalent grid related difficulty (55% of respondents), followed closely by cost of connection (45%), then information on grid availability, process of application for grid connection, and cost of using the network (each cited by 37% of respondents).

In this context, RenewableUK has been keen to see an overarching incentive on TOs (and on DNOs) to engage more pro-actively and more widely with the low-carbon agenda, in addition to more detailed incentives on specific issues.

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

RenewableUK agrees that it is appropriate to have a financial incentive on the TOs to play a full role in facilitating climate change mitigation objectives. RenewableUK has been arguing that this should be a core incentive, but a discretionary financial reward is also welcome, provided that it is meaningful.

RenewableUK broadly agrees with the aims of the EDR, to “sharpen companies’ focus on strategic environmental considerations” and to “drive corporate and operational culture change to facilitate growth in low carbon energy.”

One argument that has been raised repeatedly is that around undue discrimination. RenewableUK does not see the EDR as a means of discriminating unduly in favour of low-carbon technologies. Indeed, the network companies must treat all connection applications according to the requirements of their Licence Conditions. They cannot favour one generator over another. However, this does not mean that all generators should be treated exactly the same. – Clearly there is a difference in the customer service and technical support needs of an independent medium sized windfarm developer, as compared with the developer of large thermal plant for whom processes have been tailored over the course of the past fifty years. RenewableUK wants to see renewables developers receive the *appropriate* level of customer service that allows them to connect as quickly and easily as possible.

2. Do you support the proposed environmental balanced scorecard?

RenewableUK welcomes the balanced scorecard as a thoughtful, analytical approach to what is required. We believe it would be worth working out early on the level of

resource required by Ofgem to review the information provided by the TOs and assess the scorecard in a meaningful way. This is also affected by the number of categories, and the level of clarity the balanced scorecard offers.

RenewableUK believes the scorecard should focus on the “*strategic environmental considerations*” as set out in the aims of the EDR. As such, we would support some amendments to ensure it focus on the most material issues. In particular:

- recategorisation of item 5, to focus on best use of existing networks, which should include demand side response, storage, etc.
- removal of category 6 on the direct environmental impact of the TOs’ own activities, including their business carbon footprint and approach to visual amenity, as these are already covered under the RIIO-T1 environmental outputs

Subject to these changes regarding items 5 and 6, the categories could carry equal weighting. This would also help with simplicity. We do not believe that auditability or ease of measurement should be considerations in the weighting. These are process issues that need to be worked out.

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

RenewableUK broadly supports the categories in the balanced scorecard, subject to the comments in the previous question. Our overall advice is that the categories be followed through to practical implementation and outcomes.

Suggestions for further questions are provided by category, taken in turn:

1. Strategic understanding and commitment

A linkage to an unambiguous national metric would be appropriate. Although Ofgem has rightly said that the TOs are not solely accountable for the decarbonisation of electricity, the decarbonisation trajectory of the Climate Change Committee is a useful benchmark against which to assess TO activity, and ask how TOs are contributing towards it.³ RenewableUK notes the wide reach of TOs – with DNOs regionally, with ENTSO-E in Brussels,

³ See Annex I for the Trajectory.

with the generation community, and indeed in their approach to Government and Ofgem themselves – and to ask them about the leadership they are displaying in these areas.

Accordingly, we suggest the following additional question:

d) What steps are you taking across the organisation to facilitate adherence to the decarbonisation of electricity trajectory set out by the Committee on Climate Change?

2. Involvement in whole electricity system planning for low carbon future

The Electricity Networks Strategy Group has set out a vision to 2020, and is working on a vision to 2030. In this context, we propose the following additional question:

d) How is your company progressing with delivery of the ENSG 2020 vision, and what measures is it taking to ensure delivery continues?

We note that this category might usefully incorporate consideration of and interaction with other TOs, offshore transmission companies, interconnectors, and the System Operator.

3. Approach taken to connections for low carbon generators

RenewableUK believes one of the key issues for TOs is their concern about stranded assets, and in particular, building transmission infrastructure into areas where developers do not then wish to invest. RenewableUK would like to see a little more pro-activity among TOs, and would suggest the following additional question:

d) What measures do you have in place to anticipate and generate demand for connections in areas of obvious high renewable resource?

4. Quality of innovation work and use of new ideas and results of innovation

It is important the innovation work is related to the environmental agenda, is material, and furthermore, that it results in practical action. We suggest:

d) How is the roll-out of innovation work furthering the low-carbon agenda on the ground?

5. Development of approaches to demand side response and “smarter” networks, including storage and best use of existing network

We have already suggested adapting this category, to one that focuses on use of existing assets.

6. Direct environmental impact of activities and associated reporting

We suggest removal of this category. Note that visual amenity may to some extent be picked up under item 2 on whole electricity system planning.

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?

We support the requirement for a high-level annual report by the TOs. It is important that this sets out, perhaps in an annex, how the high-level requirements are being translated into business processes and rolled out to achieve tangible, positive outcomes.

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

This proposal will be effective if:

- it is a financial incentive that is of sufficient magnitude
- it focuses on material outputs
- It focuses on practical implementation throughout the organisation and on meaningful outcomes

The importance of a financial incentive should not be underestimated. – In large, monopoly companies, there are of course people who are committed, but the corporate structure and the governance processes will not be conducive to change unless there is an incentive for this. The CEO should be able to stand up in front of his shareholders and say “these changes make business sense.”

6. What is your view on the standards to be met to receive the reward and do you believe the level of the rewards is appropriate?

RenewableUK broadly supports the standards proposed, noting again the need to focus on how high-level statements are translated into organisational processes that are rolled out and achieve tangible outcomes.

We would like to query the limitation to carry-over, of £2M per year. There is a simplicity to this, but it may discourage investment in systems and processes that may only reap their rewards in the longer-term. We would ask Ofgem to consider a full carry-over, but perhaps with the safeguard that the systems and processes put in place must demonstrate tangible, positive outcomes.

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

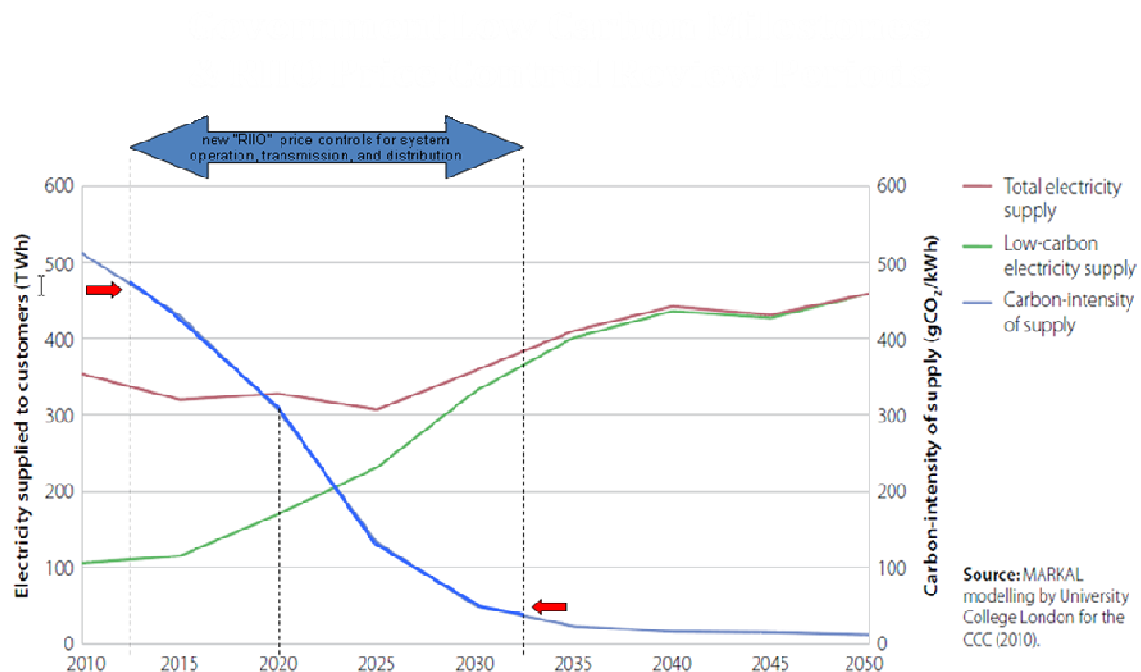
In terms of the process of introduction of the EDR, RenewableUK believes there is a need for a clear interface with finalisation of the TO business plans. It is important that the EDR not be a “bolt-on,” but rather a demonstration of how the business plans are going to be interpreted in a pro-active manner, with business processes conducive to the advancement of the broad environmental agenda.

In terms of the annual EDR assessment, the outlined timetable seems appropriate if it allows sufficient resource from TOs to write the necessary report, and from Ofgem to review this and audit the outcomes.

Yours sincerely,

Zoltan Zavody
Grid Policy Team

ANNEX I: COMMITTEE ON CLIMATE CHANGE: ELECTRICITY DECARBONISATION TRAJECTORY OVER TWO PRICE CONTROL PERIODS



Source: The Committee on Climate Change www.theccc.org.uk