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Your ref

Our Ref

Date 3 April 2012

Contact / Extension

Alan Michie  
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Dear Tom,

**Environmental Discretionary Reward under the RIIO T1 Price Control**

I am writing in response to the consultation paper issued on 7 February 2012.

We agree with the aims of the Environmental Discretionary Reward. We believe, however, that the approach needs to recognise the differing roles of System Operator (SO) and Transmission Owner (TO). TOs generally work at one remove from developers, and are not in a position to negotiate DSM or other contractual terms with customers. Although we support the principle of a balanced scorecard approach, this should be sufficiently flexible to accommodate both TO and SO roles.

We assume that the measures proposed for RIIO T1 will implement in April 2013, and the first assessment of the transmission companies would be undertaken in 2014 on conclusion of regulatory year 2013/14. In the medium term once RIIO ED1 concludes, and if a similar approach is taken in ED1, we may look to prepare a combined executive level planning statement that includes sections for all of our licensed networks businesses covering SP Transmission, SP Distribution and SP Manweb.

In terms of the score card, we agree with the suggestion at the recent EDR workshop held on 8 March that item 5 in Table 2 relating to demand side response should be renamed as Best Use of Network (which would include, for example, demand side response). We also agree that the scoring system should be revisited, based on criteria set out in the early RIIO documents. For example, we believe that the revised category 'Best Use of Networks' should perhaps warrant a higher weighting than 2.

Our comments on the detailed questions in the consultation paper are set out below.

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

Yes.

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

We have some concerns with the scorecard as currently drafted, as it assumes that the TO will be in a position to agree contract terms with developers and does not take sufficient account of the different roles of TOs and the SO. As drafted, a TO would have difficulty meeting even "Fair" scores for a number of measures in the scorecard. We are also not convinced that only "excellent" scores in each category would be sufficient for consideration of a reward.

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

Following on from our response to question 2, some of the questions in the scorecard seem more appropriate for the SO to address (in particular number 3, connections for low carbon generators). We also think that more account should be taken of non-carbon factors such as wider environmental impact, environmental stakeholder engagement and so on. Question 6 appears to focus on environmental reporting and benchmarking.

Questions 2 and 5 overlap in respect of demand side response, so that a clearer distinction may be needed here. Question 2 (integrated planning) should take into account existing mechanisms for joint planning across TOs and the SO through the SO/TO code ('STC'). Also, least cost solutions developed as a result of innovation and implemented through collaboration with other parties could feature across a number of categories in the draft scorecard, so this should also be taken into account.

**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?**

We support the proposal for a report on planned works and their impacts that take into account stakeholder engagement and feedback.

Our understanding is that this would not be a mandatory requirement, but a component of the discretionary reward process.

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

TOs will already have taken this account in their business plans for RIIO T1, but an annual discretionary reward process may serve to further incentivise companies to this end.

**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?**

The maximum level of reward across all TOs combined seems comparatively modest in the light of combined allowed revenue in 2012/13 of the order of £1,500m.

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

We think that a June 2014 submission date for the first EDR is a sensible proposal.

I hope that these comments are helpful but please contact me if you would like to discuss.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Alan Michie', with a stylized, cursive script.

**Alan Michie**  
**Transmission Policy Manager**  
**SP Energy Networks**