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Eric McRory

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By email: [RIIO.ED1@ofgem.gov.uk](mailto:RIIO.ED1@ofgem.gov.uk)

Dear Ms Rossington

## **STRATEGY CONSULTATION FOR THE RIIO-ED1 ELECTRICITY DISTRIBUTION PRICE CONTROL: OUTPUTS, INCENTIVES AND INNOVATION**

Thank you for providing the Scottish Environment Protection Agency (SEPA) with the opportunity to comment on the above consultation document. This response is limited to those areas that fall within SEPA's remit.

SEPA welcomes the development and inclusion of outputs to provide greater clarity for Distribution Network Operators (DNOs) and greater transparency for other stakeholders. This makes it easier for DNOs to see what is required of them in order to achieve the transition towards a low carbon energy sector. Linking the outputs to the DNO Business Plans ensures clarity in their delivery.

Participating in the Environmental Issues Working Group has enabled SEPA to be part of the process and that has worked well. SEPA is also consulted by the DNOs and welcomes their commitment towards a low carbon energy sector.

SEPA would like to see more accounting of the carbon and ecosystem services implications of the DNOs business plans. This would also enable performance ranking and the Business Carbon Footprint could be more detailed, reporting not just headline carbon but more revealing net carbon figures.

DNOs need to be recognised and perhaps rewarded for facilitating maximum take up of renewables, however this does need to be caveated to ensure that it is the right renewable in the right place and steps should be taken to ensure that this happens. Development of the distribution networks should be predicated on the connection of the most appropriate technologies in the right location. Tests should be developed to take account of this in order to ensure the optimal sustainable solution.

SEPA feels that Smart metering is the key (and a fundamental prerequisite) to sustainable demand management and supports efforts to accelerate its take up. Ofgem should adopt a lead role in defining the information that smart meters will provide. If inconsistencies are allowed to develop then a major strategic opportunity is lost. There is considerable merit in an independent body having control of the data and Ofgem should encourage DECC to consider that.



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Whilst a 'use of system' charge sounds inherently fair care must be taken not to penalise the fuel poor, many of whom may not have the most efficiently insulated housing and thus incur excessive costs. SEPA would support a mechanism that passes these costs on to the landlord and would encourage more energy efficient housing with a consequent cost saving to the occupier.

Since its inception in April 2011, the Low Carbon Network Fund has been successful and although this success is illustrated within the Ofgem website it could be publicised more widely to encourage the wider take up of these good practices.

Ofgem's concern that there exists no mechanism to ensure the most efficient outcomes across the value chain is shared by SEPA. We believe that taking more account of the whole of life carbon consequences of investments will go some way towards sustainable solutions and would recommend this course.

SEPA agrees that ED1 should incentivise the uptake of low carbon technologies and new grid developments should take account of this. For example the trend away from oil fired heating in rural areas will lead to increased grid demand and this must be fully anticipated in order to encourage this move away from fossil fuel to more renewable solutions. Coordination and cooperation down the demand chain should be encouraged; perhaps through reporting and accommodating in the business plans?

SEPA agrees with Ofgem that strategic investment should be encouraged and suggests that a closer look is taken to understand DNOs' feelings that this is somehow discouraged.

Using a common reporting structure for transmission losses allows direct comparisons per km to be made and this facilitates a clearer understanding of the differences between the most and least efficient. This information enables fair application of the incentives scheme and SEPA agrees with the combination of the duties based approach and the losses based approach. The auditing provision should ensure accurate reporting.

Unregulated theft needs to be addressed as it is impossible to have efficient demand management with significant unrecorded demand. The known links with organised crime also make this an imperative. That there exist disincentives to the DNOs to reduce theft needs to be addressed and SEPA welcomes the proposed clarification of responsibilities and making the tackling of theft more mandatory.

Undergrounding is a serious issue in Scotland with much proposed undergrounding being on peat soils. SEPA has worked with Ofgem to raise awareness of the greenhouse gas (GHG) consequences of undergrounding in peat and suggested that this (peat) should be a concern and given serious discussion. SEPA welcomes the inclusion of peat in this consultation and the case by case consideration suggested. Guidance to developments on deep peat is available from SEPA and Scottish Natural Heritage and they should prove useful to DNOs in this situation. The bottom line needs to be: if it makes GHG emissions worse it should not be encouraged.

SEPA endorses the position taken with the Business Carbon Footprint, particularly its use as a business reputational incentive. Widening it to take account of net carbon and not just headline production and saving would be more informative.


The continuing reduction in the amount of Fluid Filled Cables is welcomed and continued reporting ensures progress is monitored. This is also the case with fugitive emissions of SF<sub>6</sub> and SEPA particularly welcomes the proposed incentivising of its replacement in switchgear. SEPA supports raising awareness of forthcoming legislation around mandatory reporting regulations as part of the Greenhouse Gas Emissions (Director's Report) Regulations 2013 and encouraging preparedness.

The Environmental Discretionary Reward could be an extremely powerful motivator if it is given a large enough platform. Presenting the rewards at an annual event would raise their status above the mere financial and provide a very significant reputational accolade. With appropriate media coverage and subsequent usage in advertising it would very quickly become a desirable accolade. This reward could be reinforced with a prize trophy presented at an annual dinner or larger event. Such a high profile award would provide the sort of publicity that companies could not ordinarily buy and would be a significant competitive driver towards excellence. Ofgem should build upon the Environmental Discretionary Reward to raise its profile and reputation. The cost could be drawn from the existing fund.

Reliability, safety, customer satisfaction and social obligations do not fall within SEPA's remit and whilst recognising their importance we have no comment to make.

As a public body committed to openness and transparency, SEPA feels it is appropriate that this response be placed on the public record. If you require further clarification on any aspect of this correspondence, please contact Eric McRory, Principal Economist, SEPA Corporate Office, at the address shown below.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paula Charleson', with a long, sweeping horizontal stroke at the end.

**Paula Charleson**  
**Head of Environmental Strategy**