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Electricity Transmission licensees
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Dear Colleague

Refinement of the Environmental Discretionary Reward Scheme – an open letter consultation on changes from the 2013/14 scheme year

This letter seeks stakeholder views on proposed changes to the Environmental Discretionary Reward (EDR) Scheme. The closing date for responses is 17 January 2014 and responses should be sent to sustainable.energy@ofgem.gov.uk.

The Environmental Discretionary Reward (EDR) Scheme is a key environmental incentive for electricity transmission licensees,¹ with total funding of up to £32 million over the price control period (1 April 2013 to 31 March 2021). The objective of the EDR Scheme is to encourage licensees to achieve high standards in environmental management as well as facilitate the industry to move towards a low carbon energy system where it can do so effectively and provide value for money to consumers. It is a progressive scheme in which standards of performance are expected to increase over the price control.

On 4 July 2012, we issued our decision on the scheme following consultation. In response to consultation we decided that the scheme should be based on:

- a balanced scorecard comprising six key strategic and operational environmental objectives against which each of the companies will be measured and scored; and
- presentation of an executive-level annual statement which defines and explains in clear terms what the company has in place to meet the requirements for the transition to a low carbon system.

The EDR Scheme Guidance contains further information on the purpose and form of the EDR Scheme and can be found at this [link²](#).

In 2012-13 we ran an unfunded trial of the EDR Scheme in advance of the first funded scheme year (2013-14). The purpose of this trial was to test the EDR Scheme and the processes involved for the licensees and for us. This consultation sets out our proposed amendments to the EDR Scheme as a result of what we learnt, the advice of the EDR Panel on the development of the scheme and company feedback.

¹ National Grid Electricity Transmission's system operator role is also recognised in the Scheme.

² <https://www.ofgem.gov.uk/ofgem-publications/53548/ngedr.pdf>

The executive-level annual statement should be produced in a way that is accessible for stakeholders and meets our minimum requirements. However, although we regard it as good practice, we are proposing to remove the specific requirement for the statement to be presented at stakeholder meetings by the CEO (or equivalent) and the need to consult stakeholders through an annual public event or series of events. The requirement to publish the statement for consultation and to provide us with a feedback summary and details of any changes made in response would remain. This proposed change recognises the substantial focus that is already placed on stakeholder engagement in the RIIO-T1 price control mechanisms. We also propose to clarify that it is only possible to gain a financial reward if the executive-level annual statement meets the stated requirements and a leadership score is obtained.

In addition, we have proposed a number of changes to the EDR Scorecard categories, attributes and weightings. Category 4 'quality of innovation work and the use of new ideas and results of innovation projects across the applicant company' has had three sub-categories removed. The new title 'Collaborative working to remove barriers to low carbon and wider environmental benefits through innovation' reflects the revised focus. An additional sub-category on procurement has been added to Category 6a (direct environmental impact of activities and associated reporting). In the trial year, we also identified a potential for ambiguity between licence compliance and EDR Scheme compliance. For this reason we have changed the descriptors of the relevant performance categories. We have proposed these modifications to simplify aspects of the EDR Scheme and the associated scoring process following feedback from the companies and the EDR Panel.

We view these revisions as minor changes. As the forthcoming year is the first in which financial benefits may be gained by participating companies we seek the views of stakeholders. The consultation period of five weeks reflects the minor nature of the changes and allows an additional week for the holiday period.³ The proposed revised guidance document can be found at this [link](#)⁴.

We have four questions on these changes:

1. Do you agree that the requirement for public presentation of the results of the executive-level annual statement should be removed from the 2013/14 scheme year onwards?
2. Have you any comments on the revised descriptors of company performance in the EDR Scheme?
3. Is the proposed adjustment to category weightings appropriate?
4. Have you any comments on the modifications to Category 4 (innovation)?

You are also invited to comment separately on the draft scoring spreadsheet which describes the evidence that must be supplied to be awarded points in the EDR Scheme. This has been provided in a format which highlights where changes have been made see [link](#)⁵. An example of a slight change is in 'Category 2, impact' where the requirement to encourage local use of resources that would otherwise be constrained has been removed as the trial showed that attributes with multiple elements were creating unwarranted complexity.

Following consideration of responses, a direction in accordance with Paragraph 3F.11 of the Special Conditions of the relevant transmission licences may be made.

³ Under Ofgem's Consultation Policy, a four week consultation period may be applied in respect of consultations following on from earlier consultations or where only minor changes to existing policies are proposed. Full details can be found at:

<https://www.ofgem.gov.uk/ofgem-publications/37043/guidance-ofgems-approach-consultation.pdf>

⁴ <https://www.ofgem.gov.uk/ofgem-publications/85101/edrguidancedocumentrevision1draft.pdf>

⁵ <https://www.ofgem.gov.uk/ofgem-publications/85103/edrscoringspreadsheetfromschemeyear201314draft.xlsx>

We welcome responses by 17 January 2014. Unless clearly marked as confidential, responses will be published on our website. Please email responses to sustainable.energy@ofgem.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Bass', written in a cursive style.

Dr Stephen Bass
Acting Associate Partner, Sustainable Energy Policy