

Electricity Transmission licensees
and other interested parties

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Dear Colleague,

Environmental Discretionary Reward Scheme Guidance - response to open letter consultation and next steps

Introduction

The Environmental Discretionary Reward (EDR) Scheme is a key environmental incentive for electricity transmission licensees¹ with total funding of up to £32 million over the price control period (1 April 2013 to 31 March 2021). The EDR Scheme Guidance sets out the submission requirements, assessment process and procedures, administration and governance of the EDR Scheme. An electricity transmission licensee may make a submission to be considered under the EDR scheme.

In December 2013 we consulted on a revised version of the EDR Scheme Guidance (referred to as Revision 1).² Following a review of the responses to the consultation we have made changes where necessary to the guidance proposed to be used for the 2013/14 scheme year onwards.

Legal Framework

The EDR Scheme Guidance is an associated document to the electricity transmission licence of the following licensees:

- National Grid Electricity Transmission Plc (NGET)
- Scottish Hydro Electric Transmission Plc (SHE Transmission)
- SP Transmission Limited (SPTL)

Responses to the consultation

We received responses to the consultation from all of the above licensees and RenewableUK. The responses can be found [here](#).³

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

² A copy of the consultation letter is available at: <https://www.ofgem.gov.uk/publications-and-updates/refinement-environmental-discretionary-reward-scheme-%E2%80%93-open-letter-consultation-changes-201314-scheme-year>

³ <https://www.ofgem.gov.uk/publications-and-updates/refinement-environmental-discretionary-reward-scheme-%E2%80%93-open-letter-consultation-changes-201314-scheme-year>

The responses to the specific questions we asked in the consultation are summarised below:

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?

All three licensees agreed that this requirement should be removed. RenewableUK indicated that they considered that it was important to maintain high visibility of EDR Scheme reports and that these should be presented by senior members of staff at relevant (but not necessarily bespoke) events.

2. Have you any comments on the revised descriptors of company performance in the EDR Scheme?

NGET and SHE Transmission agreed the change while no comment was made in the other two responses.

3. Is the proposed adjustment to category weightings appropriate?

NGET and SHE Transmission thought that the adjustments were appropriate. SPTL thought that less weighting should be given to Categories 1 and 2.

4. Have you any comments on the modifications to Category 4 (innovation)?

All three licensees agreed with the changes to the innovation category. SPTL commented that this removed overlap with the specific innovation incentives. SHE Transmission consider that it will provide a better opportunity to include a greater number of examples of innovation.

Consideration of responses to consultation

We have considered the responses following our consultation. Some general comments are outlined below.

The removal of the need for presentation of the executive-level annual statement is welcomed by all licensees. However we are also mindful that engagement in the process by senior management is best practice as reflected in RenewableUK's comments. We expect that the success of applicant companies in this regard should be demonstrated in the feedback submitted by stakeholders as part of the process. Hence, while removing the requirement we will keep this feedback under review.

We are pleased that the changes to the innovation category are supported by the licensees. We also note that there was positive support to the changes in performance descriptions.

We have considered the case for a substantial reduction in the weightings given to Categories 1 and 2, however we think that this would not accord with the rationale for the EDR Scheme. This links to an issue identified by SPTL. It suggested that the EDR Scheme focusses on low carbon aspects of changes in the energy system. As such, the title 'EDR' is misleading and the scheme should seek evidence of what the RIIO-T1 plans are achieving. It also felt that the EDR Scheme also tends to overlap with other licence requirements. SPTL indicates that this would require a substantial restructuring of the scheme.

While we acknowledge the centrality of investment in the RIIO business plans, the EDR Scheme is designed to assist the planning process. Amongst other things, it is designed to encourage organisational and cultural change to facilitate growth in low carbon energy. We expect that these changes will ensure that the licensees' business plans are achieved more efficiently, with better engagement and faster resolution of problems than would otherwise be the case. The proposed changes to the scoring spreadsheet would change the

focus from organisation and cultural changes to delivery alone and hence away from the underlying rationale.

Finally, in addition to the points outlined above, a number of changes to the proposed EDR Scheme Guidance have been made to improve the clarity and readability of the guidance and scoring spreadsheet.

Next steps

The EDR Scheme Guidance may be modified by direction of the Authority. The Authority is required under Paragraph 3F.12 of Part D of Special Condition 3F of the electricity transmission licences to give notice to the licensees that it proposes to modify the EDR Scheme Guidance.

Having carefully considered the consultation responses outlined above, notices have been sent to the licensees today attaching copies of the proposed EDR Scheme Guidance (including the scoring spreadsheets) and specifying the time in which representations can be made. Subject to consideration of any further responses, we intend to direct that the proposed EDR Scheme Guidance (Revision 1) and EDR Scoring Spreadsheet (Revision 1) will take effect from 7 March 2014 and apply in respect of submissions for the 2013/14 scheme year onwards.

Any questions should, in the first instance, be directed to Harvey Beck (telephone 020 7901 7000).

Yours sincerely,

Dr Stephen Bass

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