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Dear Stephen,

Response to refinement of the Environmental Discretionary Reward Scheme open letter

SHE Transmission welcomes the opportunity to respond to the 13 December 2013 open letter regarding the refinement of the Environmental Discretionary Reward (EDR) Scheme.

Please see the responses to the questions posed below, along with additional comments on the EDR Scorecard Spreadsheet.

We would also like to take the opportunity to suggest that a Transmission Owner (TO) should be considered for payment once reaching a lower threshold during the first performance year of 2013/14.

For 2013/14 there will be a possible 99 points which can be scored on the scorecard. As a result of the EDR mechanism, there is a requirement to score 70 of these 99 points in order to successfully be considered for the discretionary reward. This is very challenging, particularly in the first year of performance as the learning process is still ongoing throughout following the trial carried out over the last year.

We therefore suggest that a lower hurdle rate of scoring 60 of the possible 99 points in the first year of performance would be more effective in continuing the active engagement process of EDR during the remaining seven years of RIIO-T1.

Further to this, should any weightings or categories change over each of the subsequent years in the RIIO-T1 price control period, we would like early notification of any such changes.

If you have any questions on this, please don't hesitate to contact me.

Yours sincerely,

Jenny Smith

Regulation, Networks

Responses to questions posed as part of the refinement of the Environmental Discretionary Reward Scheme open letter

1. We agree with Ofgem's proposal that the requirement for a public presentation of the result of the executive statement should be removed from the 2013/14 scheme year onwards.
2. We would like further clarification in regards to the meeting of the minimum requirements for the executive-level statement. Within the Guidance Document (Revision 1), section 2.15 outlines the four minimum criteria which the executive-level statement is required to meet. If the process is mechanistic, further clarification regarding these specific requirements which must be met will be required in order to fully understand the criteria which must be reached before consideration of successful funding.
3. We agree with the updated weighting of the EDR scheme included within the Guidance Document (Revision 1) on Page 18. We feel that the new weights give more emphasis to areas that are fundamental to the EDR scheme and have not been previously assessed elsewhere within the RIIO T1 incentives.
4. We agree with the updated Category 4 (Innovation) in terms of the reducing the number of categories from 12 to three in order to reduce the level of duplication in the evidence that was provided. We believe these three broader categories, along with the enhanced Guidance, will provide a better opportunity to include a greater number of examples of innovation.

We would also like to make the following observations in terms of the EDR Scorecard Spreadsheet:

- Category 1 - The total amount of points available for category is 17 and no longer 18 as the first point in the 'Management' focus has been removed and the maximum score for the table is now two;
- Category 3 – There is very similar wording used for the 'use of resource' focus within Sub Category 3 (ii) 'Effective Stakeholder engagement strategy' and Sub Category 3 (i) 'approach to connections'. Although these are different sub categories, further clarification of the wording would be beneficial in order to avoid generic evidence being used twice;
- Category 5 – the total possible points for this category is 27 and no longer 18;
- Category 6b – the total possible points for this category is eight as the first point in the 'impact' focus has been removed. There is also a typo in the category as there are two 'impacts' instead of one being 'management focus'.