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Your ref

Our Ref

Date

17th January 2014

Contact / Extension

Alan Kelly/0141 614
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Dear Tom

Refinement of the Environmental Discretionary Reward (EDR) Scheme

Thank you for your letter and updated guidance document for the EDR scheme. SP Transmission plc supports this scheme and was pleased to prepare an Annual Statement and make a full submission in the pilot year of 2012/13. Our experience during this process has identified some opportunities for improvement in the scheme and I am grateful for the opportunity this consultation makes to highlight these.

In your open letter of 13th December 2013 you define the objectives of the scheme are; *“to encourage the 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.”*

The current balance of the EDR scheme is weighted towards the licensees demonstrating how they are facilitating the industry move towards a low carbon energy system. This can be seen in that only 1 of the 6 scoring areas is directly related to environmental management. The focus of the five other areas is on facilitating a move towards a low carbon system. This would suggest the title of the scheme is misleading, but more significantly that it should be seeking evidence that our RIIO-T1 investment plans are achieving a move towards a low carbon energy system. The EDR scheme, particularly Category 1, tends to seek evidence that would be required to establish such a plan, rather than deliver it.

Over the RIIO-T1 price control period we will invest £2 to £3 billion in our Transmission network, demonstrating our commitment to move the industry towards a low carbon energy system. The investment plan, approved in the fast track decision by Ofgem, is established to support UK low carbon energy targets, primarily by delivering infrastructure investment and generation connections to meet the ‘Gone Green’ scenario.

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The building of that plan through the engagement of stakeholders, use of innovation, partnership with other UK Transmission owners, restructuring of our organisation, invigoration of the supply chain demonstrates we have a plan that will move the industry towards a low carbon energy system. We consider the scheme is therefore lagging behind the very good progress we have already made in respect of facilitating a low carbon energy system.

To the extent that the scheme does seek evidence of delivery of our investment plans it tends to overlap with other licence requirements such as the strategic wider works process, stakeholder satisfaction, timely connection and innovation incentives, and Network Access Policy. It would be beneficial if the scheme made these linkages more explicit, examining their implementation, effectiveness and co-ordination by the licensee. For example, the proposed development to the annual regulatory reporting process to publish an Annual Performance Report for stakeholders, should also be considered in conjunction with the EDR schemes Annual Executive statement.

The changes proposed in the revised guidance do not constitute a substantial restructuring as would be required to address the above issues, but do reflect improvements identified in the pilot year which we support and welcome. I have responded to the specific consultation questions in the attached appendix accordingly.

If you have any queries please do not hesitate to get in touch with myself or Alan Michie on 0141 614 1958

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Alan Kelly', written in black ink.

Alan Kelly
Transmission Policy Manager
SP Energy Networks

Appendix 1: Response to Consultation Questions

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?

We agree with your pragmatic position on the executive-level annual statement. We intend to consult on our annual statement and also circulate at every opportunity at stakeholder events. However, we feel this would be improved if the scheme allowed us to include consultations made beyond the 31st March up to the final submission date.

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

We agree the revised descriptors in section 4.4 are more appropriate

3. Is the proposed adjustment to category weightings appropriate?

We would prefer to see more focus on effective implementation of existing plans rather than development of new plan as our RIIO-T1 investment plan has already been developed. Categories 1 and 2 reflect development of investment plans so should be weighted less.

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

The changes remove potential overlap with the specific innovation incentives and are appropriate.

Changes to the Scoring Spreadsheet

With respect to the adjusted scoring system, we also acknowledge that the process for awarding points will involve providing appropriate and sufficient evidence that justifies our performance has for the relevant year. There are certain changes to the scorecard which we consider are not relevant or practical for a TO to address as follows:

Cat1 Impact

b) The TO is reviewing progress against decarbonisation goals, eg the decarbonisation rate of grid electricity as recommended by the Climate Change Committee (CCC).

We are delivering our RIIO-T1 business plan to support decarbonisation of grid electricity progress of which is measured in delivery of specific outputs. It does not seem relevant to measure this using alternative metrics.

Cat1 Management Focus

b) The applicant company has analysed its whole business in order to define its approach to the transition to a low carbon economy.

This was achieved as part of our RIIO-T1 submission and will be reviewed against the successful delivery of outputs which is considered in subsequent sections of the scorecard.

Cat 1 Resources

a) The applicant company has published a strategy document in the reporting year which outlines an analysis of the impacts of the UK's low carbon policies (for example, the 2020 and 2050 carbon targets, and the 2020 renewable energy target) on its business. (1 point)

The electricity ten year statement is the established NGET document that addresses these issues. It is primarily an SO requirement but TO's contribute to this. It is unclear what benefit a separate document produced by each TO would achieve.