Making a positive difference
for energy consumers

Industry participants,
stakeholders and interested
parties

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Dear Stakeholders,

Consultation on the draft RIIO-ED1 Environment Report Guidance Document (ERGD)

We are seeking your views on the content of the attached draft guidance. In particular we would welcome your views on the specific consultation questions outlined below.

Background

In our RIIO-ED1 Strategy Decision[1], dated 4 March 2013, and our recent licence condition consultation[2] dated 10 January 2014, we announced that we will require DNOs to publish an annual Environment Report detailing their activities in relation to environmental matters.

As part of the licence condition consultation, we said we would separately consult on the draft Environment Report Guidance Document (ERGD), and this is the purpose of this letter.

Purpose of the Environment Report

The purpose of the Environment Report is to provide interested stakeholders with a transparent and public account of each DNO's commitment to address environmental matters and its role in the low carbon transition. It is our view that a public, transparent report providing a holistic overview, clear rationale for actions, and details of actual benefits to customers is of value to DNOs stakeholders and will encourage ongoing stakeholder participation and engagement on environmental matters.

Standard Licence Condition 47 establishes the requirement for DNOs to publish an Environment Report, on an annual basis, from 1 September 2016, in accordance with the Environment Report Guidance Document (ERGD) that we are consulting on here.

The rationale for the ERGD is to set out at a high level, specific required content of the Environment Report that all DNOs must include. DNOs can include the additional discretionary content given their stakeholders' interests and/or their own business commitments. We anticipate the discretionary content will evolve over time as DNOs individual stakeholders participate in shaping certain aspects of the report. This draft ERGD

[1] https://www.ofgem.gov.uk/publications-and-updates/strategy-decision-riio-ed1-overview
[2] https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-standard-licence-conditions

has been informed by extensive stakeholder and DNO participation through the Environment Working Group.

Consultation

We welcome views from all interested parties on the attached draft ERGD. While we appreciate your views on any aspect of the ERGD, we are particularly interested in your views on the following questions.

1. Have we covered all the relevant environment matters? If not, what have we missed and should it be mandatory or discretionary?
2. Within the environment activities covered in the report, are there particular activities where you would like information that is not currently described? Please provide detail on the information you would like included.
3. Does the format of the Environment Report as outlined in the ERGD adhere to good practice for environment reporting? If not, what would improve the structure of the report?

Please email your responses to connections@ofgem.gov.uk. Any questions on this consultation can be directed to Stacy Feldmann at the same email address or by phone as listed above. Please send us your responses by the deadline of **Friday 4 April 2014**.

We will take into account your comments in our decision on the final content of the ERGD. Once this is finalised we will publish it on our website for use by DNOs in preparing their Environment Reports.

Yours faithfully,

Dora Guzeleva

Environment Report Guidance Document

What is the Environment Report Guidance Document?

This Environment Report Guidance Document (ERGD) provides guidance on the scope and contents of the DNOs annual Environment Report. It outlines the activities that we require to be reported and where DNOs have the discretion to provide details of additional activities undertaken to manage its environmental impact. Standard Licence Condition[3] (SLC) 47 sets out this requirement; see our recent consultation on this licence condition[4].

This draft guidance document below has been prepared together with DNOs and other relevant stakeholders through the Ofgem Environment Working Group.

The Environment Report Obligation

SLC 47 sets out requirements for the DNO to inform stakeholders about activities it has undertaken in relation to environmental matters, through the publication of an annual Environment Report. The annual Environment Report is a single report covering all licensed regions held by each DNO, eg a UK Power Networks Environment Report.

Purpose of the Environment Report

The purpose of the Environment Report is to provide stakeholders with a transparent and public account of DNO's commitment to address environmental matters and the DNOs role in the low carbon transition. It is our view that a public Environment Report that provides a holistic overview, a clear rationale for actions and details of actual benefits to customers, is of value to DNO's stakeholders and will encourage ongoing stakeholder engagement on environmental matters.

We acknowledge that there are other related licence requirements for RIIO-ED1 in SLC 50, requiring reporting of RIIO-ED1 commitments on an annual basis and in SLC 49, a requirement for DNOs to produce a losses strategy and an annual report on losses actions. DNOs may also have other overarching strategies in place to deliver on their commitments, for example smart grids and smart metering strategies. In addition, reporting under the regulatory reporting packs to Ofgem under the relevant categories below, will also continue as normal.

The Environment Report should, where appropriate, include clear signposting to other relevant publicly available documentation. Use of data from regulatory reporting should be used where it aids justification of the benefits of specific solutions or strategies. We consider all licence requirements and all related strategies can be met while limiting duplication of effort.

Publication of the Environment Report

The licence condition requires DNOs to publish a publicly accessible annual Environment Report on its website to inform stakeholders about activities it has undertaken in relation to environmental matters. It is intended for SLC 47 to specify the date on which the annual report should be published.

[3] SLCs set out the duties and obligations applicable to all holders of an electricity distribution licence.
[4] https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-standard-licence-conditions

Draft Environment Report Guidance Document

We are consulting on the scope and content of this draft Environment Report Guidance Document. We are seeking your views on the content of the Guidance Document and also whether you think there are other examples, content or matters that might usefully be included. We are requiring the DNOs to include certain information, but also to allow them to include additional information their stakeholders would be interested in reading. We have clearly outlined which aspects we require the DNOs to report on and which are discretionary.

Format of the report

The aim is to provide the reader with a common structure across all the DNOs Environment Reports, while also providing flexibility for each DNO to provide company-specific details on its environmental approach and commitments.

Examples of best practice[5] in public facing environment reports were presented to the Environment Working Group and there was general consensus that these constituted sensible components of a good report. The DNOs agreed to embed some key principles into their Environment Report to address concerns regarding transparency and public accountability, which we indicated in our decision[6] were the primary reasons to introduce this reporting requirement.

Below we outline the structure of the report and indicate which aspects are mandatory or discretionary.

High-level structure

1. Introduction
2. Managing our environmental impact
    - 2.1. Visual amenity
    - 2.2. Oil leakage from fluid filled cables
    - 2.3. Carbon impact and climate change
    - 2.4. Other environment related activities
3. Our role in the low carbon transition
    - 3.1. Smart grids
    - 3.2. Innovation
    - 3.3. Smart meters
    - 3.4. Distributed generation

[5] https://www.ofgem.gov.uk/publications-and-updates/meeting-notes-riio-ed1-environment-work-group-4-december-2013
[6] https://www.ofgem.gov.uk/ofgem-publications/47068/riioed1decoutputsincentives.pdf para 5.106

Content of the report

Below are the minimum requirements of the Environment Report. We also outline additional discretionary elements that DNOs have indicated they wish to be included as part of the content of this report. Under each we have provided some high level explanation as necessary. We would like your views on the proposed content and details of any additional elements you think should be included.

1. Introduction

We **require** an introduction section with the following sub-headings, but the content under each section is discretionary.

- Executive summary
    - Highlights and summary of progress and challenges with focus on the coming year and beyond
- Our business/Who we are
    - How we manage our network in an environmental context— operational strategy, asset stewardship, assumptions and responsibilities
- Purpose of the report
    - Why the environment is important to our business and what are our commitments in this area
    - How we do our work/the impact of our work
    - Role of stakeholders in how we manage our impact on the environment

2. Managing our environmental impact

2.1. Visual amenity[7]

Required

- Visual amenity schemes[8] in designated areas
    - Strategy for project assessment and delivery including analysis of costs and benefits, stakeholder engagement and support
    - Progress on schemes in progress, location and designatio

[7] Stakeholders have told us that they would like to see a level of detail from DNOs in this area which they can use to demonstrate to local communities the benefits of this scheme.
[8] This is in reference to the DNO voluntary undergrounding scheme incentivised through a spending allowance for undergrounding within specific designated areas of Areas of Outstanding Natural Beauty, National Scenic Areas (for Scotland) and National Parks. Their allowed expenditure for this incentive is established through CRC 3J.

- Impacts and benefits—visual, carbon (such as in peat land) etc
- Assessments of projects, forthcoming projects and instances of best practice eg 10% allowance[9]

2.2. Oil leakage from fluid filled cables

Required

- Oil leakage[10] from fluid filled cables
  - Strategy/policy to address leakage including engagement with relevant stakeholders eg Environment Agency, new technology/detection strategies etc
  - Proactive actions and programmes current and forthcoming
  - Actual and forecast benefits and impacts eg carbon equivalent savings/leakage reduction, analysis of costs and benefits

Discretionary

- Other relevant undergrounding/environmental impact mitigation schemes funded outside the Charge Restriction Condition (CRC) 3J[11].

2.3. Carbon impact and climate change

Required

- Sulphur hexafluoride emissions (SF_6)
  - Strategy/policy to address emissions including engagement with relevant stakeholders and new technology/detection strategies etc
  - Proactive actions and programmes current and forthcoming
  - Actual and forecast benefits and impacts eg carbon equivalent savings/leakage reduction, analysis of costs and benefits

[9] 10% allowance is a mechanism to allow DNOs to spend up to ten per cent of their allocated expenditure for undergrounding of lines outside of the boundaries of designated areas

[10] Means leakage into the environment as a result of DNO's equipment and activities, ie fluid leaking from cables, SF_6 gas emissions from specific assets. It can include other emissions released into the atmosphere or ground that has a particular impact on the environment. There are specific reporting requirements on DNOs, submitted to Ofgem, relating to this leakage. This core set of requirements, as well as any other discretionary leakage activities should be covered off in this report.

[11] CRCs apply specifically to each licensee (ie each DNO has its own set). However, certain conditions may be similar and, in some cases, identical across the DNOs. Broadly, CRCs place obligations on companies that have an impact on their allowed revenue.

- Public reporting on Business Carbon Footprint[12] (BCF) in accordance with GHG Protocol including:
    - Business policy and strategy to carbon reduction including analysis of costs and benefits and challenge
    - Proactive actions and programmes current and future
    - Actual and forecast benefits and impacts eg carbon equivalent savings including losses (as reported to DECC), reduction in energy consumption etc
    - Table of performance against GHG Scope 1-3 including losses
- Losses
    - Intro - what are losses[13] and where are they generated
    - Current assessment of losses (technical & non-technical), including progress in developing adequate methodologies and tools for their measurement
    - Actions taken under the losses reduction strategy and plans for the following year ie details of current and forthcoming programmes to reduce losses including
        - Investment profile/cost-benefit analysis around individual actions
        - Development of tools and methodology for measurement and monitoring
        - Actual and forecast benefits and impacts eg carbon equivalent savings, analysis of costs and benefits of actions

2.4. Other environment related activities

Discretionary

This section is an opportunity for DNOs to outline additional environment related activities outside of regulatory obligations. It is also potentially a section where best practice and innovation can be highlighted. Examples of activities raised by the Environment Working Group, which is non-exhaustive, include:

- Waste/landfill/recycling
- Noise and air quality/pollution reduction activities and strategy
- Street-works

[12] This refers to the amount of carbon (CO_2) and/or carbon equivalent (eg SF_6) emitted by a DNO in any given year whilst conducting its business activities. The reporting of this is guided by Greenhouse Gas (GHG) Protocol established in 2001.

[13] Distibution Losses means Units lost while being transported through the licensee's Distribution System, including: (a) Units lost in the course of that process as a result of the electrical impedance of electric lines and electrical plant or the operation of that plant; and (b) Units unaccounted for that can be attributed to Relevant Theft of Electricity, or to inaccuracies or errors in inventories of unmetered supplies.

- Other undergrounding outside the scheme (if not specifically detailed elsewhere)
- Employee awareness schemes/incentives/practices
- Community awareness/environmental commitments eg protection of habitats, community and wildlife
- Adaptation/flood preparedness

3. Our role in the low carbon transition

Discretionary

- What comes next and how will we address it

Provides an opportunity for DNOs to provide an overview of impacts and challenges, including government policy or EU wide trends affecting them. The DNO can also provide rationale for their particular company focus, activities, highlights of specific work being undertaken.

- Our role in the low carbon transition

DNOs detail their approach in facilitating the low carbon transition, providing detail and insight into the progress to date and plans going forward including the key successes and challenges.

3.1. Smart grids[14]

Required

This section is for the DNOs to outline how smart grid solutions are transitioning into business as usual (BAU), including detail on key drivers, net benefits, impacts and savings for customers. Where appropriate this should reference the DNOs smart grid strategy.

We expect the following aspects to be included in the Environment Report:

- Smart solutions identified, how have they been assessed including tools and methodology, analysis of costs and benefits and investment decisions underpinning particular smart solutions
- Analysis and identification of 'tipping point' where a given smart solution has reached maturity and is fit for business as usual rollout
    - Strategy and progress of rollout of smart solutions into the business as usual
- Impacts and net benefits of rolled out smart solutions into BAU
    - Net benefits including cost savings to consumers, security of supply etc

[14] Our definition of 'smart grid' is: A smart grid is part of an electricity power system which can intelligently integrate the actions of all users connected to it - generators, consumers and those that do both - in order to efficiently deliver sustainable, economic and secure electricity supplies – see https://www.ofgem.gov.uk/ofgem-publications/56829/rpt-ofgem-final-report-smart-grids-forum-310311-stc.pdf

- Carbon/environment impact including losses impacts
- Avoided network reinforcement/additional DG or low carbon technology (LCT) accommodated

- Where appropriate, details of how DNOs have considered learning from the Innovation Funding Incentive (IFI), Low Carbon Networks Fund (LCNF) and innovation stimulus[15], as part of the rollout of specific solutions into BA

3.2 Innovation

Required

This section is for the DNO to share details of other innovation activities (eg related to improved customer service, reliability, etc) rollout into BAU and the resulting net benefits. These innovation projects are not only those directly conducted by the DNO, but must demonstrate consideration and, where appropriate,adoption of other solutions or technologies and learning from other DNOs or other industry participants. In addition, the DNO can outline other activities, at their discretion.

- Innovative solutions identified, how have they been assessed (including CBA and investment decisions)
- Impacts and net benefits of the rollout of innovative technologies and approaches including
  - Tools for measurement and monitoring of benefits, includingsavings to consumers, carbon benefits
  - Estimated benefits (eg. improved customer service, reliability/resilience improvements, etc)

Discretionary

- Any other smart or innovation related projects in line with the DNO's overall strategy and their benefits to consumers and the environment.

3.3 Smart meters

Required

Smart meters[16] and the use of data generated from this technology will have a tangible effect on the DNO's network including environmental impact, eg electricity losses. Therefore we expect the DNOs to include the following information on achieving the benefits of smart metering:

- Strategy for use of smart meter data
- Progress in implementing systems and processes for use of smart metering data

[15] https://www.ofgem.gov.uk/ofgem-publications/47068/riioed1decoutputsincentives.pdf
[16] Smart meters are the next generation in gas and electricity meters. They are designed to provide a range of intelligent functions which can contribute to better network management (ie can facilitate 'active' network management), and calculation of customer usage (and in turn, demand side response).

- Progress against delivery of net benefits to the customer of achieving the smart metering data strategy

3.4 Distributed generation (DG)[17]

Required

- Activity summary providing DG technology types, size of jobs/total amount of a specific technology connected. This can be extracted from their regulatory reporting to Ofgem (eg CM9 table).

- Strategies to facilitate the connection of DG eg responsiveness, accelerating connection and reduction of costs

    - Including technical and commercial solutions eg demand side response, active network management, facilitating generator consortia, use of novel technology etc

    - Capacity released[18] in accommodating DG using various identified solutions

    - Signpost DG connections related information which should be available in other publication

[17] Distributed generation (DG) is also known as embedded or dispersed generation. DG is electricity generating plant that is connected to a distribution network rather than the transmission network. The connection of distributed generation can have positive environmental effects (eg reduced carbon compared to other forms of generation).

[18] Means the capacity released on the network due to specific activities as considered in the Low Carbon Networks Fund.