

Report on the RIIO-T1 Environmental Discretionary Reward Scheme 2013-14

A summary of the scheme's results for 2013-14, for stakeholders and interested parties. No applicant obtained a high enough score to achieve the 'leadership' performance required to obtain a financial reward, but all improved on the trial year's results.

1. Key results

1.1. The Environmental Discretionary Reward (EDR) is a reputational and financial incentive for electricity transmission licensees operated by the Gas and Electricity Markets Authority. The aims of the scheme are:

- to help move the industry towards a low carbon energy system, where it can do so effectively, while providing value for money for consumers; and
- to encourage companies to achieve high standards of environmental management.

1.2. Participation in the incentive is voluntary, but all three licensees (National Grid Electricity Transmission Plc (NGET), Scottish Hydro Electric Transmission Plc (SHE), and Scottish Power Transmission Ltd (SP)) applied to the scheme. We assessed each application against our requirements for a forward looking annual statement. This statement identifies the strategic activities, which relate to the EDR aims, that the company will undertake in the next three years. It is satisfactory if it identifies the drivers for strategic initiatives, provides information on their status, assesses sustainability impacts, describes stakeholder involvement and justifies decisions.

1.3. We also considered how evidence provided of activities during the 2013-14 scheme year met specific criteria. We scored the evidence and assigned the companies to a performance band. These are: engaged (0 to 49%), proactive (50% to 69%), or leadership (70% plus). Only companies that have a satisfactory statement and a leadership score can get a financial reward. As shown in the table below, no company accomplished this.

Results of 2013-14 Environmental Discretionary Reward

Company	Annual Statement	Performance band	Financial Reward
NGET	Satisfactory	Proactive	No
SHE	Satisfactory	Engaged	No
SP	Satisfactory	Proactive	No

2. Background

2.1. This is the first year in which the EDR has been run after a trial in 2013. The scheme had a maximum annual financial reward of £4 million across all applicants.

2.2. The assessment was carried out by an Ofgem review team. We took advice from a panel made up of external experts in low carbon and environmental issues. Its members are:

Loretta Bowman, Director for Energy Services, Worley Parsons

Ruth Chambers, Public Policy Specialist

David Grantham, Environmental Management Consultant

Jiggy Lloyd, Sustainability Adviser

Simon Roberts, Chief Executive at the Centre for Sustainable Energy

3. Annual Statement and scores

3.1. As required, each company consulted on its annual statement and a few stakeholders responded. We would encourage more stakeholders to comment in future years. These comments and the company's response are an important factor in our assessment.

3.2. The overall percentage score is based on evidence provided by the applicant under the following categories:

- strategic understanding and commitment to low carbon objectives
- whole electricity system planning
- connections for low-carbon generators
- collaboration on innovation
- network development solutions that avoid the need to reinforce the network
- direct environmental impact
- business greenhouse gas emissions

3.3. Each category has a separate weight which reflects its importance. To obtain a high score within a category several specific evidence criteria must be met. Overall the scheme has almost 100 separate evidence criteria. NGET's joint role as system operator is taken into account in the criteria.

3.4. In all cases the underlying scores were higher than in the trial year and the panel expressed its appreciation for the efforts that the companies had put into providing the evidence and explaining how they met the criteria.

3.5. Each company provided evidence to support that they were demonstrating leadership in at least two categories. All scored well on innovation but the other categories where leadership was demonstrated varied.

3.6. The companies performed less well in the connections for low-carbon generators category. No company scored over 50% in this category. The reasons differed but in future all three companies will need to present more evidence.

3.7. We note from SHE's submission that new processes are under development in key areas. During a feed-back session with the companies all indicated that they were improving evidence gathering.

3.8. In our guidance we indicate that a leadership company will look beyond conventional approaches, take a whole system perspective, and collaborate with a range of stakeholders to implement new thinking. We would hope to see the companies in this category in future years.

3.9. As we made no financial rewards, up to half of the £4 million available for this year's scheme will roll over to next year. This means the maximum reward for 2014-15 will be up to £6 million¹.

¹ Subject to final determination by the Gas and Electricity Markets Authority