

# Environmental Discretionary Reward Scheme: Guidance (Revision 2)

## Associated document for electricity transmission licence

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**Contact:** Harvey Beck, Environmental  
Economist

**Team:** Sustainable Energy Policy

**Tel:** 020 7901 7088

**Email:** [harvey.beck@ofgem.gov.uk](mailto:harvey.beck@ofgem.gov.uk)

### Overview:

This document is the Environmental Discretionary Reward Scheme Guidance referred to at Part C (The EDR Scheme Guidance) of Special Condition 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme) of the Electricity Transmission Licences. It:

- sets out the purpose of the Environmental Discretionary Reward Scheme (EDR Scheme)
- provides guidance to applicants on the two main components of the scheme: an executive-level annual statement and a scorecard
- explains the assessment process and procedures, and the basis on which any reward will be made.

## Context

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In March 2011, we published our strategy for the RIIO-T1 gas and electricity transmission price control. The price control was set for an eight-year period from 1 April 2013 to 31 March 2021. For the electricity transmission companies, under this framework we sought a reputational incentive on promoting low carbon energy flows and a financial reward to help achieve a greater contribution to Britain's environmental objectives. The Environmental Discretionary Reward (EDR) is a scheme which combines both goals.

We consulted on our proposal for an EDR Scheme in early 2012. Respondents noted that key areas of performance that we proposed to measure in the EDR scheme involved the SO. As a result of this we decided to incorporate the role of the system operator (SO) into the EDR Scheme to encourage the SO and TO to play their roles and co-operate to generate benefits which go beyond the individual SO and TO schemes.

In July 2012, we published our decision on how we would implement the EDR. The original EDR Guidance was published in 2013<sup>1</sup> and was applied in trial form for scheme year 2012/13.

This current document, like the original, sets out the purpose and form of the EDR Scheme and guides applicant companies in preparing their submissions. A major element of the scheme is a scorecard which sets out the strategic and operational environmental categories relevant to the EDR Scheme. The other important element is an executive-level annual statement. These were both features of the original guidance, but this revised version clarifies that to be eligible for a financial reward both elements must be completed to our requirements.

This document is published by the Gas and Electricity Markets Authority (the Authority) under Part C (The EDR Scheme Guidance) of Special Condition 3F of the electricity transmission licences of the transmission companies. This document may be modified by the Authority in accordance with Part D (Modification of the EDR Scheme Guidance) of Special Condition 3F.

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<sup>1</sup><https://www.ofgem.gov.uk/ofgem-publications/53548/ngedr.pdf>

## Associated documents

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### Documents that accompany this guidance document

**EDR scoring spreadsheet** (Ofgem, 2015)

<https://www.ofgem.gov.uk/ofgem-publications/93206/edrscoringspreadsheetrevision2.xlsx>

### Policy documents

**RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas. Overview document** (Ofgem, December 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=342&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=342&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes)

**RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd**  
(Ofgem, April 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=190&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=190&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes)

**Decision on strategy for the next transmission price control - RIIO-T1**  
(Ofgem, March 2011)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=77&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=77&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES)

**System Operator incentive schemes from 2013: principles and policy** (Ofgem, January 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent)

**EDR consultation** (Ofgem, February 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=152&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=152&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES)

**EDR decision letter** (Ofgem, July 2012)

[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=210&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=210&refer=NETWORKS/TRANS/PRICECONTROLS/RIIO-T1/CONRES)

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# 1. Introduction

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## Chapter Summary

Explains the form of the EDR scheme, its objectives, the annual funding level and timetable for assessment.

1.1. In March 2011, we published our decision on strategy for the transmission price control, RIIO-T1, which set out our decision on the key elements of the regulatory framework covering the eight-year period from 1 April 2013 to 31 March 2021. This is the first transmission price control to reflect the RIIO (Revenue = Incentives + Innovation + Outputs) model. This model is designed to achieve real benefits for consumers, providing network companies with strong incentives to meet the challenges of delivering a low carbon, sustainable energy sector at a lower cost than would have been the case under our previous approach.

1.2. Environmental objectives are central to the current and future development of the energy sector, largely driven by EU and UK decarbonisation, renewable energy and security of supply objectives. The electricity sector is expected to help achieve these aims by increasing its use of low-carbon technology. Our duties and approach to regulating the sector reflect these imperatives.

1.3. Decarbonising Britain's electricity supply will depend on the timely provision of supporting transmission infrastructure delivered by the electricity transmission owners (TOs). A key impetus for investment in the GB transmission system from 2013 to 2021 is to connect new sources of low carbon generation to meet government policy targets.

1.4. The regulatory framework recognises the need to encourage transmission infrastructure development. The new RIIO framework contains outputs and targets that we will use to assess TOs' performance. TOs will be rewarded for timely connections, investment in the wider system, customer satisfaction, and reducing harm to the environment by using low-carbon energy.

## Objective of the EDR Scheme

1.5. The EDR Scheme is a key environmental incentive under the RIIO-T1 price control. Up to £32 million is available to electricity transmission licensees over the price control period (1 April 2013 to 31 March 2021). The objective of the EDR Scheme is to encourage licensees to achieve high standards in environmental management as well as to help move the industry towards a low carbon energy system, where it can do so effectively while providing value for money to consumers.

1.6. In 'System Operator incentive schemes from 2013: principles and policy consultation', published in January 2012,<sup>2</sup> we committed to considering a reputational output incentive scheme for the electricity transmission system operator (SO), complementing RIIO-T1 environmental outputs. In our consultation on the EDR Scheme in February 2012, respondents noted that key areas of performance that we proposed to measure in the EDR Scheme involved the SO. We reached the view that the benefits derived from the separate TO and SO regimes could be considerably enhanced by providing a mechanism that encourages the SO and TO to play their roles and co-operate to generate benefits which go beyond the SO and TO schemes. In view of this, and further to the July SO Incentives consultation on initial proposals, we designed the EDR Scheme to encourage the TOs and the SO to play a full role in the transition to a low carbon economy.

### **Form of the EDR Scheme**

1.7. The EDR Scheme is operated by the Authority, with a financial element covering 1 April 2013 to 31 March 2021. The scheme year runs from 1 April to 31 March. Each scheme year will involve a full EDR Scheme application, with annual funding of £4m.

1.8. We intend that the EDR Scheme will continue until 31 March 2021. However, we will review the operation of the EDR Scheme from time to time to ensure that it continues to meet its objectives. Any changes we make following a review would be subject to the modification process under the licence. For more material changes additional consultation may be appropriate. We would also take into account the implications of any changes on timing, for example considering whether to delay the implementation of changes to ensure that the requirements do not change significantly mid-year.

1.9. Applications to the EDR Scheme will take the form of an annual submission by transmission companies in accordance with the provisions of Chapter 2 of this document. Applying to the EDR Scheme is not compulsory.

1.10. Each year, companies wishing to apply for the EDR Scheme must comply with the application process described in Chapter 2. This includes providing evidence to us of their performance against the specified scheme requirements, which are defined in the EDR scorecard (see Chapter 4). We will then assess each company's performance (see Chapter 3). This will include review by an expert panel and ultimately be decided by the Authority.

1.11. A company will only be eligible for a financial reward if it achieves a leadership score and produces a satisfactory executive-level annual statement. The method for allocating the financial reward is described in Chapter 5. The applicable

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<sup>2</sup>See System Operator incentive schemes from 2013: principles and policy, available on our website:  
[www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhlMkts/EffSystemOps/SystOpIncent](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhlMkts/EffSystemOps/SystOpIncent)

cap is the total annual funding of £4m plus any rolled over amounts as set out below. We will publish the Authority's decision on our website.

### Allocation of payments under the EDR Scheme

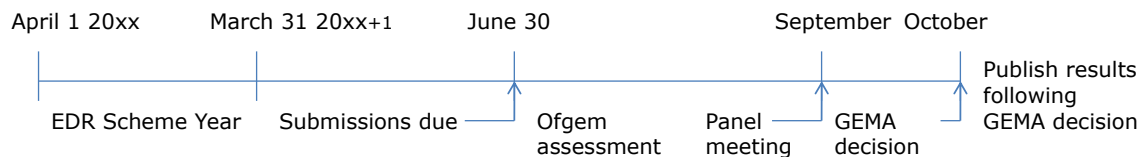
1.12. Each scheme year between 2013 and 2021 will have available a base funding amount of £4m plus any applicable rolled over amounts from previous years. The Authority may award all, some or none of the funding each scheme year. If the full amount is not awarded in any one scheme year, up to half of the total available annual funding can be rolled over into the next scheme year<sup>3</sup>.

1.13. Allowing up to half of the previous year's available funds to be rolled over balances the need to provide appropriate incentives under the EDR Scheme with encouraging regular participation and protecting consumers' interests.

### Timetable

1.14. The EDR process is outlined in the timeline below (figure 1).

Figure 1 – EDR timeline



1.15. Applications must be submitted to us by the end of June following the relevant scheme year. By way of example, applications in respect of the scheme year 1 April 2013 to 31 March 2014 are due by 30 June 2014.

1.16. The outcome of the EDR Scheme will be determined by the Authority in the autumn following the deadline for applications.

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<sup>3</sup> For example, none of the £4m funding for the 2013-14 scheme year was awarded, so £2m will be rolled over to the 2014-15 scheme year and added to the base funding allocation (£4m). The total funding available for the 2014-15 scheme year will therefore be £6m. Should only £1m be awarded in 2014-15 then £2.5 million rolls over to the next scheme year.

## 2. Application process

### Chapter Summary

Explains the eligibility criteria and application process for companies intending to apply to the EDR Scheme.

### Eligibility

2.1. Those eligible to apply for the EDR Scheme are onshore electricity TOs operating in Great Britain, including National Grid in its role as combined TO/SO.

2.2. Each eligible company is entitled to submit one application only for the EDR Scheme in each scheme year. National Grid is only entitled to submit one application in any scheme year to apply to its role as a TO in England and Wales and SO for Great Britain.

### Applying for the EDR Scheme (2013/2014 scheme year onwards)

2.3. To apply for the EDR Scheme, each company must complete and submit an EDR application form to us by the application deadline. The application form is an electronic form available in Microsoft Word.

2.4. The application form requires:

➔ evidence of the activities and behaviours set out in the EDR scorecard. These are the seven key strategic and operational environmental categories being measured under the EDR Scheme:

1. Strategic understanding of, and commitment to, low carbon objectives and the role of the applicant company in their facilitation
2. Involvement in whole electricity system planning for a low carbon future, including integration with distribution network operators (DNOs) and involvement in development of demand side interventions
3. Approach taken to connections for low carbon generators
4. Collaborative working to remove barriers to low carbon and wider environmental benefits through innovation
5. Approach to network development (for example outage planning) that considers alternatives to building/reinforcing, eg smarter network use, demand-side response and energy storage
6. Direct environmental impact of activities and associated reporting
7. Business greenhouse gas emissions management.

The complete scorecard is provided in Chapter 4.



- an executive-level annual statement, with evidence that it has been published, consulted on and revised as appropriate, in accordance with the guidance below.

#### *EDR scorecard evidence*

2.5. The EDR is an evidence-based scheme. Each applicant must provide evidence of its performance against the seven categories during the relevant scheme year. The EDR scorecard provides information on the specific evidence required, the assessment criteria and the weighting of each category.

2.6. For each category, the applicant must provide a hyperlink to one or more documents that provide evidence of it having demonstrated the relevant activity or behaviour, together with a brief explanation. A brief explanation should include page and paragraph references to clarify how the evidence meets our requirement. We do not require extensive narrative explanations. The purpose of providing these documents is to enable us to assess evidence of performance against each of the activities and behaviours being measured under the EDR Scheme.

2.7. Where evidence is not publicly available online, for example in the case of restricted management papers, we prefer these to be submitted as electronic documents (eg Microsoft Word or Excel). Alternatively, companies may submit PDF email attachments alongside the EDR application form. Attachments should be clearly labelled, and referred to in the relevant explanation box.

2.8. The EDR scorecard sets out any additional evidence that National Grid should provide to cover both TO and SO function. The purpose of this is to ensure that the EDR Scheme evidence requirements are relevant to the TOs and the combined TO/SO based on their respective licensable activities and responsibilities.

#### *Executive-level annual statement*

2.9. Each applicant must also prepare an executive-level annual statement in accordance with this guidance.

2.10. The executive-level annual statement must explain clearly and concisely how each applicant is adapting their business strategy to manage the transition to a low carbon energy system, over the next three years. It should highlight significant relevant initiatives that contribute to sustainability and low carbon objectives, relating to but not limited to areas covered by the scorecard.

2.11. As a minimum, it should include:

- details of the drivers for the strategic initiatives
- details of the current status of the key strategic initiatives and the timescales for their completion

- an assessment of the sustainability impacts of each relevant strategic initiative, including decarbonisation and local environmental impacts as appropriate
- A summary of the justifications for the strategic decisions taken, eg cost, timing issues, local environmental impacts and mitigation measures. It may also cover any alternative options which have been considered.

2.12. The applicant company must publish the executive-level annual statement in a form accessible to external stakeholders and seek feedback, including in relation to the relevant sustainability impacts.

2.13. Applicant companies must publish and consult on the executive-level annual statement within the relevant scheme year. For example, in the scheme year April 2013 to March 2014, they must publish and consult on the executive-level annual statement by 31 March 2014.

2.14. Each applicant's EDR application form should include:

- the executive-level annual statement
- a summary of responses received to the statement
- details of any changes considered or made in response to feedback, and the revised executive-level annual statement if appropriate.

2.15. Please note that, aside from these requirements it is not our intention to be overly prescriptive in terms of the length and style of the executive-level annual statement. Applicants are encouraged to prepare and submit the style of document which best reflects the relevant issues for their company. We may revise our requirements from time to time based on our experience of the operation of the EDR Scheme in future years.

#### *Submitting the application*

2.16. As indicated above, applicant companies should submit a completed EDR application form, together with any attachments required. The EDR application form should be approved and signed by a relevant director on behalf of the applicant company and sent to [sustainable.energy@ofgem.gov.uk](mailto:sustainable.energy@ofgem.gov.uk) by 30 June following the relevant scheme year.

#### **Treatment of confidential information**

2.17. Where information contained in the completed EDR application form (including any attachments) or the executive-level annual statement is confidential or the applicant does not wish it to be disclosed, this should be made clear when the relevant documents are submitted to us. There may still be circumstances in

which its disclosure is required for legal reasons. Information provided, including personal information, may be subject to publication or disclosure in accordance with the relevant access to information regimes (these are primarily the Freedom of Information Act 2000, Environmental Information Regulations 2004 and the Data Protection Act 1998).

## **Compliance**

2.18. This guidance document does not relieve relevant parties, including each TO and the SO, from their responsibility to ensure compliance with legislation, including competition, environmental and consumer protection laws, and duties under the licence.

## 3. The assessment process

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### Chapter Summary

Applications are assessed in three stages: our internal review, advice is given by an expert panel following a question and answer session with the company and a decision is taken by the Authority.

### Initial internal review by Ofgem

3.1. The first stage of the assessment process will involve an initial assessment of each application to be undertaken by us. This will be carried out following the application deadline, in the period prior to the meeting of the expert panel. During this period, we may request meetings, or clarification in writing, via email or telephone from applicants regarding their applications and supporting documentation submitted. As part of the process, each company is therefore required to provide a point of contact to deal with this phase of the process. This should be detailed in the relevant section of the EDR application form.

3.2. As part of this process, we will assess whether the application and executive-level annual statement has been provided in accordance with the requirements in Chapter 2.

3.3. We will assess scorecard evidence by completing a scoring spreadsheet to score each submission against the relevant scorecard categories, sub-categories, measures and attributes<sup>4</sup>. The scorecard is contained within Chapter 4 of this document, and the spreadsheet is published alongside this document<sup>5</sup>.

3.4. The process for awarding a point to any particular attribute will involve checking that:

- i. appropriate and sufficient evidence has been supplied
- ii. the evidence supports the performance required
- iii. the evidence relates to the relevant scheme year
- iv. any previous point requirement is met (if relevant).

3.5. The assessment process relies on a close reading of the relevant attribute and the specific evidence requirements. The applicant should only submit clear and

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<sup>4</sup> This is the term used for the lowest discrete level of performance for which evidence is sought

<sup>5</sup> <https://www.ofgem.gov.uk/ofgem-publications/93206/edrscoringspreadsheetrevision2.xlsx>

appropriate evidence to show how it meets the specific performance required. We expect evidence to be targeted, specific and clearly referenced (ie through precise page and paragraph numbers references or equivalent).

3.6. We will provide the expert panel (see below) with a report on each application, detailing the provisional score we have given for the submission and our rationale. The expert panel will be invited to identify evidence or issues that they wish to discuss with the companies. We will communicate these to the applicants ahead of the panel meeting.

### **Assessment by the EDR expert panel**

3.7. We will convene an expert panel to act in an advisory capacity in the decision-making process. In particular it will be responsible for

- providing strategic oversight to us on the award of the EDR Scheme
- reviewing our analysis of submissions for the EDR Scheme
- participating in a question and answer session with the companies and providing high-level feedback on their submissions
- recommending messaging for EDR Scheme communications relating to decisions and other publicity and promotional materials
- recommending adjustments for future EDR Scheme years as appropriate.

3.8. For further information on the role of the panel, please see the Annex (EDR Panel terms of reference).

### **Panel composition**

3.9. The panel will be six members with relevant expertise, including a non-voting chairperson. The chairperson will be an Ofgem employee. To guard against conflicts of interest, the remaining five members will not be employed by or hold shares in a company, or an affiliate of a company, that we regulate.

3.10. Tenure on the panel will be time-limited, with a proportion of members changed from time to time to allow for representation of a diversity of views and organisations. Panel members' tenure will be limited to four years initially, with an option to extend in some cases to allow for retention of panel experience.

### **The Authority's decision**

3.11. Drawing on the views expressed by the panel, we will make a recommendation to the Authority in relation to the award of the EDR Scheme.

3.12. The Authority will make a final decision in relation to the award of the EDR Scheme. Its decision will be informed by the assessment process outlined in this chapter but it will not be bound by any recommendations or analysis made by us or the Panel. The Authority's decision will be published in the autumn following the receipt of applications.

## 4. The scorecard and weightings

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### Chapter Summary

Describes the EDR scorecard, including details of the weightings attributed to each category.

4.1. The scorecard is a central reference point for applicant companies' submissions. We have developed it to establish the categories against which we will assess evidence submitted to us in the application form. This is designed to give applicant companies a clear set of objectives and to indicate transparently how we will assess each company's submission.

4.2. The aim of the EDR Scheme is to encourage applicant companies to integrate sustainability into their strategic development and business practice. It assesses performance against seven categories:

1. Strategic understanding of and commitment to low carbon objectives and the role of the applicant company in their facilitation
2. Involvement in whole electricity system planning for low carbon future, including integration with distribution network operators (DNOs) and involvement in development of demand side interventions
3. Approach taken to connections for low carbon generators
4. Collaborative working to remove barriers to low carbon and wider environmental benefits through innovation
5. Approach to network development (for example outage planning) that considers alternatives to building/reinforcing, eg smarter network use, demand-side response and energy storage
6. Direct environmental impact of activities and associated reporting
7. Business greenhouse gas emissions management.

4.3. As well as the scorecard, we have developed a scoring spreadsheet. The two should be read together. The scorecard is contained within this chapter, and the spreadsheet is published alongside this guidance document on our website<sup>6</sup>.

#### *The EDR scorecard*

4.4. The scorecard describes the type of activities and outcomes that we seek evidence of in each category outlined in paragraph 4.2. We have defined the activities and outcomes that we would expect for three different levels of performance. We would assess that:

- an 'engaged' company meets minimum requirements in the relevant category.
- a 'proactive' company goes beyond its minimum requirements to consider innovative solutions to challenges.
- a 'leadership' company looks beyond conventional approaches, takes a whole-system perspective, and collaborates with a range of stakeholders to implement new thinking and best practice.

#### *The EDR scoring spreadsheet*

The spreadsheet is our framework for assessing an application. For each of the scorecard categories, the spreadsheet sets out the evidence we require to assess the submission. The spreadsheet is our framework for assessing an application. For each of the scorecard categories, the spreadsheet sets out the evidence we require to assess the submission. The number of points that can be obtained depend on the specific measure and the attributes within it. In some measures, points are obtained cumulatively so that to get the highest number of points all attributes must be evidenced successfully. In others the point allocation is independent of the other attributes within the measure.

4.5. We will consider the evidence, assess the submissions and score each category. Next we weight the score (see paragraphs 4.9-4.11) and combine the weighted scores from all categories to produce a final percentage. We then rank these percentages:

- <50%: 'engaged'
- 50-70%: 'proactive'
- ≥70%: 'leadership'

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<sup>6</sup> <https://www.ofgem.gov.uk/ofgem-publications/93206/edrscoringspreadsheetrevision2.xlsx>



4.6. The EDR Scheme is designed to encourage applicant companies to achieve high standards in sustainable management and help the transition to a low carbon economy. We are therefore rewarding only those companies which produce an executive-level annual statement that meets all the requirements in this guidance. They must also have an overall score that falls into the 'leadership' category. Our method for allocating reward funding is provided in Chapter 5.

## Weightings

4.7. Each category of the scorecard is weighted to reflect:

- ➔ the importance of the category to the overall performance of the company
- ➔ the extent to which other rewards are available under the price control, including the SO incentive regime, covering aspects of the behaviour being measured
- ➔ the company's role in fulfilling the scorecard requirements.

4.8. We developed the initial scorecard weightings in consultation with stakeholders and amended them based on feedback from the EDR panel and applicant companies. The six categories are weighted as follows:

Scorecard category	Weighting
1. Strategic understanding of, and commitment to, low carbon objectives and the role of the applicant company in their facilitation	10
2. Involvement in whole electricity system planning for a low carbon future, including integration with DNOs and involvement in development of demand side interventions	10
3. Approach taken to connections for low carbon generators	10
4. Collaborative working to remove barriers to low carbon and wider environmental benefits through innovation	5
5. An approach to network development (for example outage planning) that considers alternatives to building/reinforcing, eg smarter network use, demand-side response and energy storage	5
6 Direct environmental impact of activities and associated reporting	5
7. Business greenhouse gas emissions management	2

4.9. The spreadsheet indicates the number of points available for companies able to provide evidence for each scorecard category.

4.10. We reserve the right to amend the weightings each year to focus the scheme on particular aspects of performance. We will consider this at the conclusion of each annual competition and make any changes following the process described in paragraph 1.7.

**Scorecard Category 1:** Strategic understanding of and commitment to low carbon objectives and the role of applicant company in their facilitation

The purpose of this category is to assess the extent to which applicant companies demonstrate a strategic understanding of the way that their business culture and operational practices will need to change to meet the needs of a diverse new portfolio of renewable and low carbon electricity generators.

<b>Aspect of performance</b>	<b>Engaged &lt;50</b>	<b>Proactive 50-69</b>	<b>Leadership 70-100</b>
Leadership, governance and values with respect to understanding and commitment to low carbon objectives	Applicant company has made public statements about the importance of low carbon objectives to its business operation.	Applicant company has explicitly identified risks and opportunities for the business to facilitate low carbon objectives and has addressed these in strategy, policies and responsibilities.	Applicant company has taken a systematic approach to ensuring that its business practices meet the needs of the low carbon economy.
Operational analysis of the impact of low carbon objectives on the business	Applicant company has modelled the potential energy market scenarios in terms of generator development to meet low carbon objectives. Evidence of using this to inform business planning, for example in relation to network development plans under RIIO-T1.	Applicant company has consulted stakeholders on the findings from modelling work undertaken, and received and acted on that feedback.	Applicant company has developed and evolved its approach to connecting low carbon generation in line with the UK's statutory renewable energy and carbon reduction commitments.

**Scorecard category 2:** Involvement in whole electricity system planning for low carbon future, including integration with DNOs and involvement in development of demand side interventions

The purpose of this category is to assess the extent to which the SO and TOs adopt a whole of system planning approach to identify timely and cost-effective network solutions for all network users. We seek evidence that TOs' own plans and the SO's GB system planning have been influenced by others' plans and integrate wider system challenges and opportunities. We're also looking for evidence of established processes and resourcing to foster integrated planning.

Aspect of performance	Engaged <50	Proactive 50-69	Leadership 70-100
Whole electricity system planning for low carbon future	Applicant company plans in a way that provides a reliable view of possible gaps in network capacity. Uses these plans to coordinate whole system developments in a timely manner.	In addition to 'Engaged' behaviours, the applicant company effectively engages with DNOs to ensure consistency between DNO plans and TO plans and to identify more integrated network solutions for accommodating low carbon energy.	In addition to 'Proactive' behaviours, the applicant company plays a proactive role in encouraging cooperation amongst wide range of stakeholders for development of whole system planning to integrate the behaviour and actions of all users to facilitate cost-effective sustainable power systems.
<b>SO specific roles and duties</b>	<p>The SO co-ordinates with the TO to deliver a planning statement. The SO</p> <ul style="list-style-type: none"> <li>• develops generation market ranking order, transmission system criteria and planning assumptions and shares these with TOs</li> <li>• incorporates feedback from TOs on modelling assumptions</li> <li>• verifies the TO's own models against its datasets.</li> </ul>	<p>In addition to 'Engaged' behaviours, the SO</p> <ul style="list-style-type: none"> <li>• Ensures consistency and coordination between transmission and DNO plans, even if investment process may be managed at high and low voltage networks.</li> </ul>	<p>In addition to 'Proactive' behaviours, the SO</p> <ul style="list-style-type: none"> <li>• Encourages cooperation amongst a wide range of stakeholders to develop a smarter grid that integrates the behaviour and actions of all users to facilitate cost-effective, sustainable power systems</li> <li>• Takes account of, and where appropriate facilitate potential market network services, including demand-side participation solutions</li> <li>• Develops highly effective operational</li> </ul>

	<ul style="list-style-type: none"> <li>• Models GB investment plans</li> <li>• Disseminates convergent models of GB investment plans.</li> </ul>		practices and commercial arrangements to improve network services, incorporating new and innovative approaches where appropriate.
<b>TO specific roles and duties</b>	<p>The TO co-operates with the SO to provide information on its own transmission system development plans. The TO</p> <ul style="list-style-type: none"> <li>• Provides feedback to SO on modelling assumptions based on information and data within its transmission system</li> <li>• Develops medium term investment plans for its own system to efficiently meet the reasonable demands of users and security standards with due regard to the environment</li> <li>• Provides SO with information on proposed network configuration changes to ensure secure and efficient operation.</li> </ul>	<p>In addition to 'Engaged' behaviours, the TO</p> <ul style="list-style-type: none"> <li>• Contributes effectively to the SO's scenario development</li> <li>• Identifies cost effective infrastructure solutions to accommodate new energy sources wherever they may be sited on high and low voltage networks.</li> </ul>	<p>In addition to 'Proactive' behaviours, the TO</p> <ul style="list-style-type: none"> <li>• Identifies barriers to smarter grid development</li> <li>• Develops novel arrangements, or applications of existing network equipment, that is effective, or likely to be effective in removing barriers to smart grid development.</li> </ul>

### Scorecard category 3: approach taken to connections for low carbon generators

The purpose of this category is to assess the performance of applicant companies in delivering effective connections for low carbon generators, and to focus on the programme management of delivering connections rather than individual projects. We are looking for how applicant companies review their performance, translate lessons learned into future improvement, and prepare to meet future technical and organisational challenges arising from connections. We are looking for applicant companies to appropriately resource technical expertise to research and maintain a high degree of understanding of issues that arise in relation to connecting low carbon generation elsewhere in GB and internationally, so that where such challenges arise it is in a good position to respond.

We will bear in mind the different roles and responsibilities of SO and TO. In terms of reputational impact, while the TOs cannot be held responsible for contacting the connecting party of a particular scheme or directly facilitating the connection, their conduct affects their reputations with the SO and other stakeholders with past experience of connections in which it played a part.

Aspect of performance	Engaged <50	Proactive 50-69	Leadership 70-100
<b>TO specific roles and responsibilities</b>  Contributing to the delivery of connections for low carbon generators by carrying out activities in response to SO requests.	The TO <ul style="list-style-type: none"> <li>has a process to manage the contribution to connections.</li> <li>records contribution to specific connection projects to aid future contributions to connections</li> </ul>	In addition to 'Engaged' behaviours, the TO <ul style="list-style-type: none"> <li>has a process to maintain performance to inform its contributions to future connections</li> <li>has built technical and organisational preparedness</li> <li>reviews past performance and has a process to use lessons learned to inform future activity.</li> </ul>	In addition to 'Proactive' behaviours, the TO <ul style="list-style-type: none"> <li>proactively develops the technical capabilities required to deliver its activities to a high standard</li> <li>has a clear reputation for excellence including demonstrable evidence of comprehensive preparedness, enabling flexible delivery and technical expertise</li> <li>has an effective system (flexibly updating for changes in circumstances and knowledge) for recording and reviewing performance and ensuring this feeds into project management.</li> </ul>
<b>SO roles and responsibilities</b>	The SO <ul style="list-style-type: none"> <li>Records contribution to specific connection projects to aid future</li> </ul>	In addition to 'Engaged' behaviours, the SO <ul style="list-style-type: none"> <li>has a process to maintain performance for future connections</li> </ul>	In addition to 'Proactive' behaviours, the SO <ul style="list-style-type: none"> <li>proactively develops the technical</li> </ul>

<p>Interacting effectively with the connecting party, and managing the overall connections process.</p>	<p>contributions to connections. Records contribution to the overall connections process to aid future contributions to connections</p> <p>The above includes interaction with all relevant stakeholders along with management of the overall project.</p>	<ul style="list-style-type: none"> <li>• reviews past performance and has a process to use lessons learned to inform future activity</li> <li>• has a process for interacting with different connecting parties and other stakeholders that evolve with lessons learned to inform future interactions</li> <li>• assesses and reviews the overall project management (including interactions with TOs and stakeholders where applicable) and identifies and applies lessons learned.</li> </ul>	<p>capability required to deliver its activities to a high standard</p> <ul style="list-style-type: none"> <li>• has a clear reputation for excellence including demonstrable evidence of comprehensive preparedness, enabling flexible delivery and technical expertise</li> <li>• has an effective system (flexibly updating for changes in circumstances and knowledge) for recording and reviewing performance and ensuring this feeds into project management</li> <li>• has a flexible and high quality approach to interacting with connecting parties and other relevant stakeholders, particularly in managing the solving of technical problems</li> <li>• can demonstrate how previous experience has informed a high quality project management process</li> <li>• Interacts with consumers in a way that creates and maintains a good reputation.</li> </ul>
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**Scorecard category 4:** Collaborative working to remove barriers to low carbon and wider environmental benefits through innovation

The purpose of this category is to assess the extent to which the SO and TOs foster productive working relationships with other companies and stakeholders in relation to their innovation activities. This includes the development of bids for the Network Innovation Competition (NIC) and implementation of successful NIC bids, innovation work funded through the Network Innovation Allowance (NIA), as well as innovation that has not received NIC or NIA funding.

Aspect of performance	Engaged <50	Proactive 50-69	Leadership 70-100
Collaborative working to remove barriers to low carbon and wider environmental benefits through innovation	Applicant company participates in engagement activities with a range of stakeholders, and assigns collaboration responsibility to a member of staff.	Applicant company actively engages with a range of stakeholders, listening to their views and works collaboratively to incorporate innovative ideas into business practices, hosting events and participating in others' events.	Applicant company takes a systematic approach to collaboration led by senior management. Works with a range of stakeholders and partner organisations to identify and implement innovative solutions to challenges. Board assesses alternative collaborative approaches.

**Scorecard category 5:** approach to network development (for example outage planning) that considers alternatives to building/reinforcing, eg smarter network use, demand-side response and energy storage

The purpose of this category is to assess the extent to which the SO and TOs interact and look beyond conventional approaches to developing the network. We are looking for applicant companies to demonstrate that they have engaged with each other, and with other relevant stakeholders, to seek new solutions and operationalise where appropriate.

Aspect of performance	Engaged <50	Proactive 50-69	Leadership 70-100
Network development approach considers alternatives to conventional approaches, eg smarter network use, demand side response and energy storage.	Applicant company provides limited evidence and/or clarity that its approach to network development approach looks beyond conventional solutions.	Applicant company's network development approach incorporates commercial and/or operational alternatives to conventional asset investment.  Elements of innovation strategy are aligned to addressing uncertainties in smarter approaches to network availability (eg DSR, energy storage, line ratings, accelerated workings, smarter networks, etc).	In addition to 'Proactive' behaviours, a smart approach to network development is business as usual.  The applicant company's innovation strategy is clearly and seamlessly aligned with network development strategy.
Network development approach demonstrates strong SO/TO engagement	Applicant company provides limited evidence of TO/SO engagement beyond business as usual.	Applicant company demonstrates strong TO/SO engagement, which has shaped the network development approach for both TO and SO.	Network development approach co-created by SO and TO.
Network development approach incorporates stakeholder engagement and accounts for interdependencies	Applicant company provides limited evidence that stakeholder engagement goes beyond minimum requirements in industry codes.	Applicant company's network development approach reflects evidence from TO/SO engagement with key stakeholders, including DNOs, generators, suppliers, large demand customers and other service providers (eg utilities such as gas, water, broadband).	Network development strategy informed by a proactive stakeholder engagement strategy, balancing stakeholder needs and with clear buy in from all parties.



### Scorecard category 6: direct environmental impact of activities and associated reporting

The purpose of this category is to assess how applicant companies monitor, assess and take direct environmental impacts of their activities into account in strategic decision-making.

Aspect of performance	Engaged <50	Proactive 50-69	Leadership 70-100
Direct environmental impact	Applicant company publishes an environmental impact assessment (EIA) which sets out environmental objectives for the business underpinned by a business environmental policy.	Applicant company has established environmental targets and an environmental management system for reporting against targets and communicating information both internally and externally. A competent person with appropriate authority has checked and signed off the reporting information and/or has the report reviewed for effectiveness by an independent group or third party auditor.	Applicant company's environmental performance is underpinned by <ul style="list-style-type: none"> <li>• comprehensive corporate leadership and strategy development</li> <li>• integration of environmental issues in strategic decision making</li> <li>• well developed environmental management and evidence of measurement and improvement of the businesses environmental impact through changed practices and/ products/services.</li> </ul>
Procurement practices	Applicant company has initiated changes to its procurement practices to improve the environmental sustainability of products and services procured.	Applicant company has assigned responsibility for sustainable procurement to a member of staff, eg a procurement manager.	Applicant company has a strategy to ensure that environmental sustainability is appropriately factored into procurement decisions.

**Scorecard category 7:** business greenhouse gas (GHG) emissions

The purpose of this category is to assess the extent to which applicant companies adhere to best practice in terms of calculating their GHG footprints, reporting and acting to reduce their GHG footprints.

<b>Aspect of performance</b>	<b>Engaged &lt;50</b>	<b>Proactive 50-69</b>	<b>Leadership 70-100</b>
Business GHG emissions	Applicant company publishes a GHG footprint for its GB licenced transmission business.	Applicant company publishes a GHG footprint for its GB licensed transmission business and also a stand alone report on its method for calculating its business GHG footprint which demonstrates adherence to an internationally recognised best practice reporting standard eg GHG Protocol.	In addition to “Proactive” an applicant company has established GHG reduction targets for its GB licensed transmission business and implemented initiatives to meet or exceed the targets and publishes these.

## 5. General rules and procedures

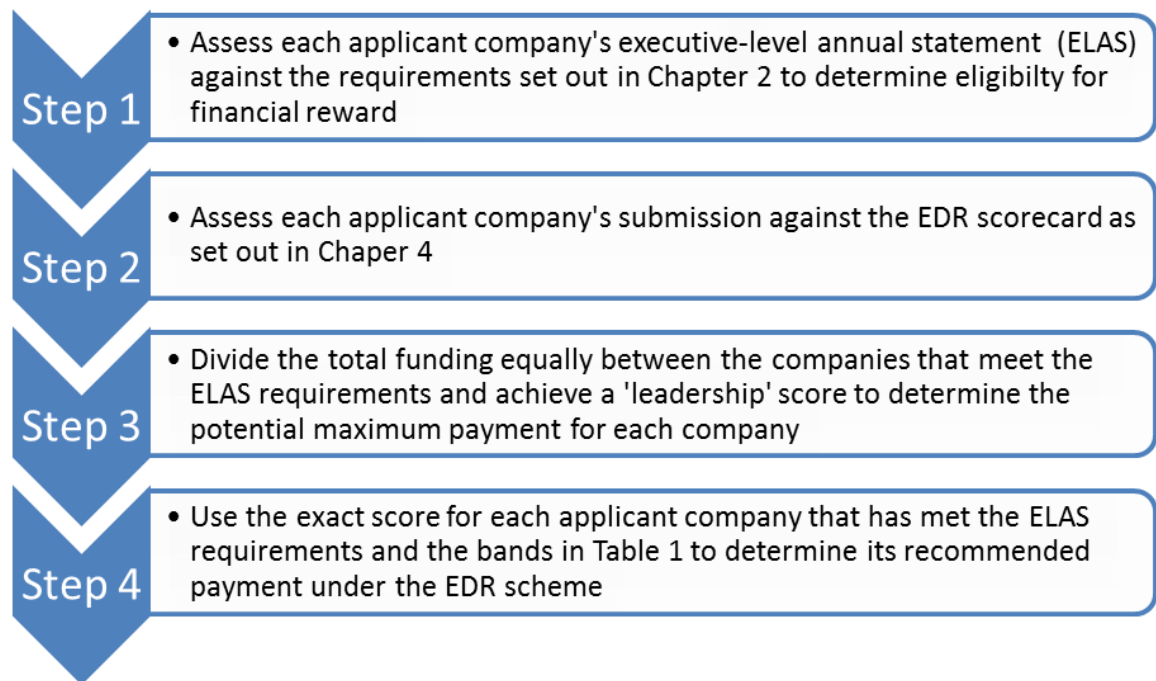
### Chapter Summary

We describe the approach we will use to make a recommendation on payments under the EDR Scheme to the expert panel. The panel will then make a recommendation to the Authority to reward one or more applicant companies, if appropriate.

### Allocation of payments under the EDR Scheme

5.1. As indicated in Chapter 1, paragraph 1.12, the total funding amount for each scheme year is made up of the base funding allocation for that year, plus any amounts rolled over from previous years.

5.2. As described in Chapter 4, paragraph 4.8, each applicant company that produces an executive-level annual statement meeting all the requirements set out in this guidance and which achieves a 'leadership' score of 70 per cent or over will be recommended for a payment under the EDR Scheme. The steps below outline our process.



5.3. The initial step reviews whether or not the executive-level annual statement is satisfactory for each applicant. Step 2 generates a score for each applicant. Step 3 combines the information from step 1 and step 2 to determine whether any payments under the EDR Scheme are to be recommended and determines the potential maximum payment for each company. For example, if there are three applicants eligible for an award and the total funding amount is £4 million, the potential maximum payment under the EDR Scheme available to each applicant company would be £1.33 million. However, if only one applicant company is eligible for an award, the potential maximum payment in this example would be £4 million.

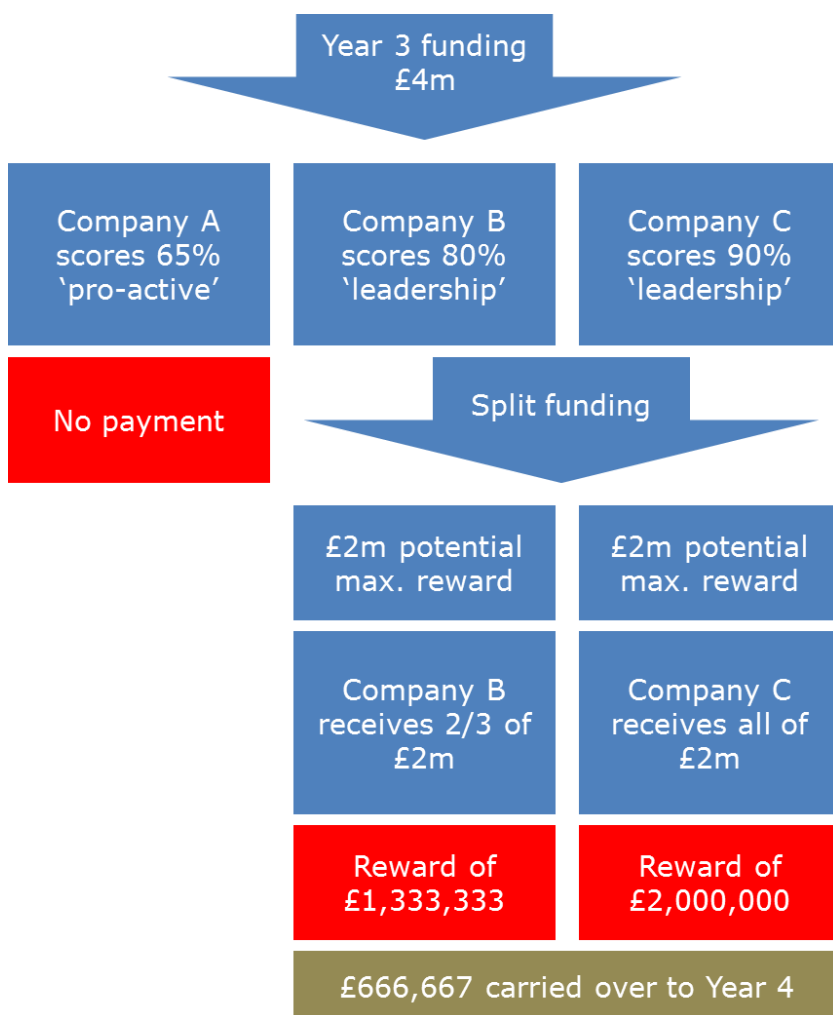
5.4. Having determined a potential maximum payment for each applicant company that has met the executive-level annual statement requirements and obtained a leadership score, under step 4 we will use three bands to determine the specific payment to these companies under the EDR Scheme. The higher an applicant's score, the more of its potential maximum payment it will be recommended to receive. Table 1 below sets out the bands and the corresponding payment under the EDR Scheme.

*Table 1 – proportion of payments under the EDR Scheme*

<b>Score</b>	<b>Recommended payment under the EDR Scheme</b>
70-79%	1/3 of potential maximum payment
80-89%	2/3 of potential maximum payment
90+%	All of potential maximum payment

5.5. The diagram below provides a hypothetical worked example of how we would determine the rewards allocated to three applicant companies.

*Flowchart 1 – hypothetical worked example of allocating EDR funding between companies that are eligible for reward (having met ELAS requirements)*



## Dealing with false or fraudulent claims

5.6. The Authority may require repayment of any part of the financial reward granted by it in the event of any false or fraudulent claims made during the application process.

## Annex: EDR Panel Terms of Reference

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### **Purpose of the EDR Panel**

The EDR Panel will act in an advisory capacity to help inform the Authority's decision making process in respect of the EDR Scheme. In particular it will:

- provide strategic oversight of submissions for the EDR Scheme
- provide feedback on companies' submissions
- recommend messaging for EDR Scheme communications relating to decisions and other publicity and promotions materials
- propose adjustments for future years as appropriate.

Though the Panel will not be tasked with a detailed critique of our scoring of submissions, it will be invited to meet with company representatives to test company performance against the EDR criteria at the strategic level. The Authority will commit to taking the Panel's recommendation seriously and giving it due weight in the deliberation process, but will not be obliged to act on the recommendations made.

Our staff will act as secretariat for the EDR Panel.

### **Role of the Panel**

The Panel will consist of five independent Panel Members and a non-voting Chair who will be an Ofgem employee.

#### Panel Member

The role of the Panel Member is to:

- attend the panel meeting and participate in a question and answer session with the companies
- provide strategic feedback to companies on their submission
- agree messaging for EDR Scheme communications relating to decisions and other publicity and promotions materials
- evaluate the success of the EDR Scheme and make recommendations on adjustments for future years as appropriate.

#### Chair

The role of the Chair is to chair the Panel. In addition to the Panel Member requirements above, this will involve:

- chairing Panel meetings, including meetings with other entities
- representing the Panel to other entities including Ofgem
- ensuring the Panel make their recommendations according to the evaluation criteria
- preparing the recommendations report and presenting it to Ofgem.

**Commitment**

Between one-and-a-half to two days per year will be required from each independent panel member. This commitment will be split between time spent reviewing at a strategic level the submissions and reports, and an all-day panel meeting at Ofgem. We expect the panel member to be available for an hour's briefing (which can be held via teleconference) before the panel meeting.