

To all holders of an Electricity  
Distribution licence and  
interested parties

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Date: 23 November 2015

Dear Stakeholders,

### **Proposal to issue the RIIO-ED1 Environment Report Guidance Document**

We are seeking representations on our proposal to issue the attached Environment Report Guidance Document (the Guidance).

#### Background

In our RIIO-ED1 Strategy Decision<sup>1</sup>, dated 4 March 2013, and our decision on the proposed modifications to the standard conditions of the Electricity Distribution Licence<sup>2</sup> dated 3 February 2015, we specified that we will require each Distribution Network Operator (DNO) to publish an annual Environment Report detailing their activities in relation to environmental matters.

The core requirements of the Guidance and the content of the Environment Report were developed with a working group<sup>3</sup> and we held an informal consultation in March 2014. We subsequently updated the Guidance, ensuring consistency of the information provided with wider regulatory reporting requirements<sup>4</sup> which were developed in parallel, and on 28 January 2015, we consulted on an updated version of this Guidance<sup>5</sup>. We are now seeking representations on our proposal to issue the Guidance. Alongside this letter, please find a revised Guidance document and a Notice to all electricity distribution licensees outlining our intention to issue the Guidance.

#### 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, which includes 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.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/strategy-decision-riio-ed1-overview>

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-modifications-standard-conditions-electricity-distribution-licences-0>

<sup>3</sup> The RIIO-ED1 Environment Work Group

<sup>4</sup> Direction issuing the regulatory instructions and guidance (RIGs) for RIIO-ED1:

<https://www.ofgem.gov.uk/publications-and-updates/direction-issuing-regulatory-instructions-and-guidance-rigs-riio-ed1>

<sup>5</sup> Environment Report Guidance Document informal consultation: <https://www.ofgem.gov.uk/publications-and-updates/consultation-draft-riio-ed1-environment-report-guidance-document>

Standard Licence Condition 47 requires DNOs to publish an Environment Report, on an annual basis, for the preceding regulatory year. This licence condition requires DNOs to prepare their Reports in accordance with the Environment Report Guidance Document that we are consulting on here. The reporting date specified by the Guidance is on or before 31 October 2016 and by each subsequent 31 October.

The rationale for the Guidance is to set out specific required content of the Environment Report that all DNOs must provide. DNOs can include additional, discretionary content given their stakeholders' interests and / or their own business commitments. We anticipate the discretionary content will evolve over time as the individual stakeholders of DNOs participate in shaping certain aspects of the Environment Report. The draft Guidance has been informed by extensive stakeholder and DNO participation through the Environment Working Group and two informal consultations.

### Summary of submissions and our responses

We received eight responses to our consultation letter<sup>6</sup>: from six DNOs and two non-DNOs, all of which are published alongside this letter.

Of these, some responses jointly addressed the proposed RIIO-ED1 Regulatory Instructions and Guidance, on which we consulted in parallel<sup>7</sup>. Where applicable to this Guidance, we have considered the relevant comments provided in response to the RIGs consultation.

#### *Location of tables*

Several DNOs requested that the relevant tables which are included in the Environment Report be separated in a dedicated RIGs pack for ease of publication. They made this request owing to the nature of the data required, including estimates and forecasts, noting that the content may need to be refined over time, and to facilitate the data assurance process.

In response:

- We have separated the tables which inform the Environment Report and updated the Guidance to reflect this. The Guidance now requires publication of the Environment and Innovation RIGs Annex, together with any relevant associated documents and commentary, as an Annex of the Environment Report.
- All key, summary information for stakeholders will still be published in the body of the Environment Report.
- We consider that giving stakeholders access to this additional information will allow interested stakeholders to examine the detail and facilitate comparison of reported information between DNOs.
- The redaction of commercially sensitive information will be allowed for, where approved by Ofgem.

We have provided further guidance on the reporting of estimates in the Guidance, but do not consider that the data assurance for reported information should be dictated by the location of the reporting within the RIGs and Environment Report – requirements for data assurance are specified by the DAG<sup>8</sup>. We have also provided further guidance on the use of Cost Benefit Analysis (CBAs) in the Environment Report and the associated Environment and Innovation RIGs pack in response to comments.

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<sup>6</sup> Environment Report Guidance Document informal consultation, issued on 28 January 2015  
<https://www.ofgem.gov.uk/publications-and-updates/consultation-draft-riio-ed1-environment-report-guidance-document>

<sup>7</sup> RIGS consultation: <https://www.ofgem.gov.uk/publications-and-updates/draft-regulatory-instructions-and-guidance-electricity-distribution-networks>

<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-data-assurance-guidance-electricity-distribution-companies>

### *Scope of reporting*

Some DNOs questioned the scope of the reporting requirements. They raised concerns about overlap with other reporting requirements under the licence and a concern that the requirements exceed the scope of the licence condition.

We consider that the Guidance provides for summarising and cross-referencing to other reporting.

One non-DNO emphasised the general importance of information being available in a single location, highlighting the risk that cross-referencing between a variety of reporting locations would cause confusion. It also emphasised the importance of clarity and key principles of reporting, including that it should be findable, simple and comparable.

We agree that it is important for stakeholders to have a single location to find information on DNOs' activities to reduce their environmental impact. We are also conscious of the range of reporting requirements, so we have provided for DNOs to summarise and cross-refer to other published reporting where available to minimise duplication of effort and facilitate accessibility of information for stakeholders. It remains the responsibility of each DNO to ensure that any such cross-referencing should remain accessible to stakeholders only interested in the contents of the Environment Report.

### *Format and level of detail*

Some DNOs expressed concern that stakeholders would find the reports inaccessible or too detailed. One DNO emphasised that its comments were supported by stakeholder engagement. Another response acknowledged there may be occasions where more detailed information should be accessible, and supported providing information in a single location.

We consider that it is for DNOs to ensure that their reports provide stakeholders with a clear view of their activities. Where additional information is required in an appendix, DNOs have the freedom to explain in the main body of their report why this is appropriate. DNOs are subject to a stakeholder engagement incentive and should ensure their reports are accessible to all stakeholders. Where stakeholders are interested in more detailed information, this should be provided. We have updated the Guidance to clarify our expectation that DNOs should ensure their reports are clear and accessible for stakeholders. We consider the flexibility provided within this Guidance enables this.

Where the reporting is intended to serve as a reputational incentive for DNOs, for example in relation to Business Carbon Footprint (BCF), one non-DNO emphasised the importance of ensuring key information was readily available to stakeholders. We have updated the Guidance to ensure BCF is clearly reported within the body of the report.

One non-DNO requested that detailed information continue to be provided on undergrounding to allow comparison between DNOs or between designated areas, as has been published by Ofgem during DPCR5 in the Annual Report. We have included this information in the Environment and Innovation RIGs pack to be published as an appendix to the Environment Report.

### *Reporting of forecasts and use of CBAs*

Several respondents raised concerns about the reporting of forecast information. They also emphasised that benefits would be estimated in some cases or derived from CBAs in others. We have provided further guidance on the reporting of estimates and the use of CBAs. Forecast information requested is limited and we consider it to be beneficial to Ofgem and stakeholders.

### *Clarification and other content*

Several DNOs provided comments on specific points of detail or clarification, both in their consultation responses and in working groups during the consultation period and

subsequently. We have reviewed and taken account of these comments in updating the Guidance and associated RIGs tables.

DNOs highlighted concerns about some definitions, particularly in areas which may evolve, such as smart grids and innovation, and requested that a working group is established to continue to develop these. We have agreed to take part in such a working group.

Other areas where clarification was requested included the use of the term 'discretionary' in headings within the Guidance document. We have removed these headings from the Guidance and ensured text distinguishes between where specific information is required or where DNOs must provide some information, but they can determine the precise detail and format.

#### *Wider reporting*

Two respondents provided comments on wider reporting, in particular Ofgem's Annual Report and Business Plan Commitments reporting. These comments will be taken into consideration as these reporting processes are developed going forward.

#### Representations

Subject to consultation responses, we propose to issue the Environment Report Guidance Document in a direction on or after 4 January 2016 in time to enable production of the first annual Environment Report in October 2016, as outlined in the associated Notice, published alongside this letter. The Guidance will take effect from 1 April 2015.

Any representations on the proposed Guidance document must be made in writing on or before 21 December 2015 to Amy Freund at Ofgem, 9 Millbank, Westminster, SW1P 3GE or via email to [RIIO.ED1@ofgem.gov.uk](mailto:RIIO.ED1@ofgem.gov.uk). Unless clearly marked as confidential, responses will be published on our website.

Yours faithfully,



**James Veaney**  
**Head of Distribution Policy**  
20 November 2015