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Decision on the RIIO-T1 Environmental Discretionary Reward Scheme 2015-16 – Electricity Transmission Licensees

This letter sets our decision on the Environmental Discretionary Reward (EDR) scheme for the 2015-16 scheme year of the RIIO-T1 price control period.

The EDR scheme is a reputational and financial incentive in the price controls for electricity transmission licensees. It takes account of National Grid's dual role as both Transmission Owner (TO) and System Operator (SO). The purpose of the EDR scheme is to sharpen the companies' focus on strategic environmental considerations and organisational and cultural changes to facilitate growth in low carbon energy.

The EDR scheme has a base funding amount of £4m plus any applicable rolled-over amounts from previous years. We may award all, some or none of the funding each scheme year. The total financial reward available for the 2015-16 scheme year is £6m, as £2m was rolled over from last year.

Following our assessment this year we have decided to award £4m to SP Transmission. The remainder of this letter sets out the detail behind our decision.

The assessment process

Our EDR guidance sets out the assessment process for this scheme.¹ Applications are assessed by Ofgem, and strategic challenge of the assessment is provided by a panel of independent experts (which is chaired by Ofgem). The panel then holds a question and answer session with each company, followed by a feedback session where the panel express views on how the companies can improve, and how the process may be improved.

The EDR application is in two parts. First, an executive-level annual statement (ELAS) that has been published by the company, and has been subject to consultation. This identifies the strategic activities related to the EDR scheme which the company will undertake over the next three years. A satisfactory statement will identify the drivers for strategic initiatives, provide information on their status, assess sustainability impacts, describe stakeholder involvement and justify decisions.

The second element is an assessment of the evidence provided by the company against the requirements of the balanced scorecard. The categories of the scorecard and the relative weighting for each category are shown in the table below.

¹https://www.ofgem.gov.uk/system/files/docs/2016/06/environmental_discretionary_reward_scheme_guidance_revision_3.pdf

The scorecard categories:

	Category name	Category weighting
1	Strategic understanding and commitment to low carbon objectives	21%
2	Whole electricity system planning	21%
3	Connections for low-carbon generators	21%
4	Collaboration on innovation	11%
5	Network development solutions that avoid the need to reinforce the network	11%
6	Direct environmental impact	11%
7	Business greenhouse gas emissions	4%

To demonstrate the company's performance against each category several evidence criteria have to be met. Following submission, we assess the evidence and awards points if the criteria are met.

Each category of the scorecard is weighted as indicated above, and the result is an overall percentage score. Performance is then ranked in a band according to these scores. The three performance bands are:

Percentage range	Performance band
<50%	engaged
50-70%	proactive
≥70%	leadership

Only companies that have a satisfactory statement and a leadership score are eligible for a financial reward. The process for determining the reward is set out in the guidance document.²

The submissions and the panel session

In the 2015/16 scheme year all three licensees (National Grid Electricity Transmission Plc (NGET), Scottish Hydro Electric Transmission Plc (SHE-T), and SP Transmission Ltd (SPT)) chose to apply to the scheme.

Following Ofgem's assessment of the submissions the companies were invited to attend the expert panel session, which was held on 12 October 2016.

The panel members are chosen for their expertise and experience in low carbon and environmental issues:

- Geoff Randall, Head of RIIO Electricity Transmission (non-voting Ofgem Chairperson)
- Ruth Chambers, Public Policy Specialist
- David Grantham, Environmental Management Consultant
- Jiggy Lloyd, Sustainability Adviser
- Simon Roberts, Chief Executive at the Centre for Sustainable Energy.

Following questioning of representatives from each company about how the company was meeting the aims of the EDR scheme, the panel confirmed the assessment team's scores.

² See footnote 1.

Results of 2015-16 Environmental Discretionary Reward

Company	Annual Statement	Performance band	Financial Reward
SPT	Satisfactory	Leadership	£4m
NGET	Satisfactory	Proactive	None
SHE-T	Unsatisfactory	Engaged	None

Executive level annual statement (ELAS) assessment

The assessment team and EDR expert panel considered that the executive-level statements of NGET and SPT were satisfactory. As required, NGET and SPT consulted on the annual statements by publishing on their websites. SPT provided evidence of feedback it received on its ELAS, and actions that came out of those responses. NGET evidenced several stakeholders who were involved in the process; however it was not clear from their submission how feedback had been taken into account. SHE-T's ELAS was regarded unsatisfactory as it did not contain clear evidence on stakeholder engagement. It also lacked strategic direction and timescales of the strategic initiatives relevant to the EDR.

Balanced scorecard assessment

We indicate below in broad terms where each company has been most successful. We have also provided a few examples to highlight what led us to award points and where we didn't think they had been justified.

SP Transmission (SPT)

The scorecard for SPT demonstrated significant improvement from last year, and that SPT had taken on board feedback from the EDR expert panel. SPT scored highly across all categories, achieving a leadership score in all areas. An example of good evidence provided by SPT was on the company's interaction with the SO, connecting parties and other relevant stakeholders (with an emphasis placed on what was beyond business as usual). Multiple pieces of evidence were provided of engagement plans, outputs and reviews at all levels of the organisation. This evidence specifically backed-up the narrative in their submission, which ensured SPT scored points in this area.

SPT described how the incentive has now bedded in across the organisation, and so the panel asked how they intend on improving next year. SPT outlined how it intends to work to further raise awareness of sustainability across the organisation. Its goal is to make people at all levels in the organisation feel that they are responsible for sustainability.

National Grid Electricity Transmission (NGET)

The expert panel were aware of NGET's important work in this area, however, consistent with the evidence based approach to scoring companies, NGET did not receive a leadership score due to a lack of tailored evidence in their submission. In a number of instances NGET did not provide the necessary supporting evidence to substantiate the stated actions/practices whereas it had done in its previous EDR submission.

NGET demonstrated leadership performance in categories 1 (strategic understanding) and 6 (direct environmental impact). It received a score of engaged in category 2 (system planning), 3 (connections) and 4 (innovation). There were some cases where claims in the submission narrative were not backed up with evidence, or the evidence provided was not tailored to answer the question. Under the use of resources' criteria of category 2 it scored no points as the evidence did not show that resources were explicitly related to system planning in the low carbon transition.

Another example of weak evidence was in category 3 (connections) where NGET did not evidence its response suitably to show impact, management focus and use of resources in this area.

Scottish Hydro Electric Transmission (SHE-T)

SHE-T demonstrated leadership performance in category 4 (innovation), where it provided good evidence of innovation activity across projects and demonstrated collaboration with stakeholders and showed how this had benefited their projects. Its scorecard has declined overall though from last year. One example of a driver for the lower score was poor evidence provided in two of the highly weighted categories, category 2 (system planning) and category 3 (connections). In category 3, it did not directly answer some of the questions posed or evidence specific resource allocation for low carbon connections, and it did not demonstrate how lessons learnt fed back into best practice.

The panel enquired how SHE-T took on feedback from last year's process. The company discussed how stakeholder engagement had been a key part of the plan this year, and feeding customer opinion into the application. SHE-T wants to continue with this work and go even further with it. It intends on improving next year by committing further resource to this incentive and concentrating on securing buy-in to delivering effectively on the EDR.

Ofgem decision on financial rewards

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. Based on the scoring by our assessment team and discussion with the company representatives, the EDR panel concluded that SPT had demonstrated this. Following its recommendation, and in line with the scheme guidance in which a sole leadership company with a score between 80% and 90% receives up to two thirds of the amount available, we have decided to make a reward of £4m to SPT.

This decision sets the value of the EDROt term for 2015-16 under Special Condition 3F. The money awarded to SPT under this incentive, with appropriate interest adjustments, will adjust the amount of the Output Incentive Revenue Adjustment term, to reflect the licensee's performance in relation to the EDR. This adjustment will be reflected in the 2017-18 Allowed Transmission Owner Revenue, as derived under Special Condition 3A.

We consider that all three companies have scope to make further progress in meeting the EDR scheme's aims and providing evidence that links well to the EDR criteria. We hope that the reward this year will motivate them to achieve more and demonstrate this successfully in their applications.

As we made a financial reward of £4m from a pot of £6m, this leaves an unallocated amount of £2m. As up to half of the total available annual funding can be rolled over to next year the maximum reward for 2016-17 will again be £6m.

Next Steps

We continue to keep the EDR scheme under review and welcome any feedback on how it is operating. Any changes would be reflected in an EDR guidance document for the next scheme year. If you have any queries about this letter please contact Arun Quayum at Arun.Quayum@ofgem.gov.uk or on 0207 901 3174.

Yours faithfully

Kersti Berge
Partner, Networks