

By email only to :

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Dear Akshay

Ofgem RIIO2 Sector Specific Methodology Consultation – Treatment of Environment, Sustainability and Low-Carbon

As you know, Sustainability First has taken an active interest in Ofgem's approach in the RIIO2 price control process on the treatment of the environment, sustainability and low-carbon.

I am pleased to attach a submission from Sustainability First on the December 2018 sector specific methodology consultation.

We have looked at Ofgem's handling of these topics across the 200-page methodology document, the separate sector annexes for electricity transmission, gas transmission, gas distribution, and the electricity system operator (ESO) – plus Ofgem's updated Business Plan Guidance. This package will shape investment plans and approaches to low carbon by GB energy networks for years to come. We wish to highlight six points :

- **Ofgem appears to have over-looked some important lessons from RIIO1 on treatment of the environment and low carbon** - weak sector signalling, fragmented incentives and little cross-sector coherence, and insufficient attention to environmental reporting. The RIIO2 methodology risks repeating these shortcomings.
- Despite welcome inclusion of a high-level RIIO2 outcome on the energy transition (Outcome 3) – in practice Ofgem **does not drive approaches to delivering this outcome into its detailed methodology documents**. This is important if company business plans are to reflect an appropriate role in low-carbon facilitation in the decade to come.
- **Ofgem has wholly 'devolved' treatment of the environment and low carbon to each separate sector methodology** (for ET, GT, GD & ESO). Inconsistent approaches and poor alignment will result. Ofgem should frame and give a strong message about its own ambition through **a short statement of principle on the environment, sustainability and low-carbon facilitation - common to all the RIIO2 methodologies**. This should be added to the main methodology document and to the Business Plan guidance. Our submission suggests six points for inclusion in any such statement.
- **Annual environmental impact reporting should be required as a standard licence condition for ET, GT, and ESO – just as for ED1**. Business Carbon Footprint reporting should continue to sit within this. Clear and comparable approaches to annual environmental reporting - at company, sector and cross-sector level – including on direct and indirect emissions - should be a basic building block of a whole-systems approach.
- **Each sector methodology needs to reflect a 'right overall balance' in the chosen mix of regulatory approaches to deliver better environment and low carbon outcomes for that sector**

– as between licence obligations, appropriate standards, metrics and stretching targets, business plan deliverables and explicitly incentivised outputs where appropriate. The Electricity Transmission methodology does address this mix of inputs to company environment and low-carbon outcomes in a considered way. **The Electricity Transmission methodology on the environment and low-carbon should be considered as a benchmark for the approaches to be adopted for GT and GD – and subsequently for ED2.**

- **The sector methodology for gas distribution takes an unduly narrow approach on low-carbon –** and does not encourage ambition in GDN culture on low-carbon facilitation. Within the bounds of continued efficiency and value for money, the RIIO2 GDN methodology should encourage a greater ambition-level on, for example : tackling methane leakage outside of repex programmes; supporting greater bio-methane volumes at a network-wide basis; and on a ‘low-regrets’ basis, considering approaches to promoting low-carbon heat, especially for consumers in vulnerable circumstances.

In high-lighting these six points from the Sustainability First submission, we wish to encourage Ofgem to consider how best to align its own detailed regulatory approaches for RIIO2 more closely with the government’s Clean Growth Strategy and the trajectories implied by the 4th and 5th carbon budgets. Customers increasingly care about the environment, sustainability and low-carbon delivery - as well as price, affordability and service. These are not choices of an ‘either / or’ nature. Ofgem’s principal objective in statute clearly defines consumer and future consumer interests, inter al, in the reduction of greenhouse gas emissions. As such, Ofgem has a clear duty to give these issues full consideration.

A copy of the full Sustainability First submission is attached with this letter. It is also published on our website – and the link is here - <https://www.sustainabilityfirst.org.uk/project-archive>

We are happy for Ofgem to publish both this letter and our detailed submission.

Best regards

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Sustainability First

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