

RIIO-ED2 Decarbonisation and the Environment (DEWG) Working Group

From: Ofgem

Date: 9 December 2019

Time: 10:00-15:30

Location:
Ofgem
10 S Colonnade, London

This document sets out the high level minutes and actions from the Decarbonisation and the Environment Working Group 1. The aim of the document is to record the main issues and themes raised in discussion. All minutes and notes were recorded in conjunction with the Terms of Reference. For reference to the presentation material, please refer to the accompanying working group slides.

1. Present

Ofgem
UK Power Networks (UKPN)
Western Power Distribution (WPD)
Northern Powergrid (NPG)
Scottish Power Energy Networks (SPEN)
Electricity North West (ENWL)
Scottish and Southern Energy Networks (SSEN)
National Energy Action (NEA)
Sustainability First
Citizens Advice
Regen
Enertechos
The ADE
BEAMA
Greater London Authority
Energy Savings Trust

2. What is the working group seeking to achieve? 10:30 – 11:15

- 2.1. Ofgem presented an overview of the objectives of RIIO-ED2 as well as the objectives of the Decarbonisation and Environment working group (DEWG). Ofgem also outlined the proposed timeline for RIIO-ED2 and the role working groups will have in this timeline.

3. What can we learn from RIIO-1? Current Arrangements? 11:15 – 12:30

- 3.1. Ofgem presented an overview of the current arrangements in RIIO-ED1, outlining the outputs and incentives in place which are relevant to decarbonisation and the environment and gave a brief summary of responses to the Open Letter question regarding what it means to be an environmentally sustainable network.

Losses

- 3.2. Suggestion from UKPN to amend q4 on the losses slide to 'manage' rather than 'reduce' losses, because this reflects the true intent of the Losses Discretionary Reward.
- 3.3. SPEN stressed importance of highlighting difference between technical and non-technical losses, and that DNOs do not have as much control over certain kinds of losses (eg non-technical losses due to theft). SPEN also noted that losses will increase in ED2 with increase in use of flexibility and renewable generation, but that the carbon intensity of losses will depend on the kind of energy being used. This all needs to be taken into consideration when thinking about appropriate ED2 arrangements.
- 3.4. SPEN noted that previous DPCR5 mechanism was suspended due to inaccuracies in reporting (losses volumes were low and inaccurate metering measures were comparatively high so incentive was not appropriate to continue).
- 3.5. ENWL suggested that losses should be accounted for in cost benefit analyses (CBA) in RIIO-ED2.
- 3.6. SPEN highlighted that the ENA Technical Losses Working Group has contributed to work being undertaken by WSP, which was commissioned to examine the impact of the low carbon transition on technical losses. It was agreed Ofgem and DNOs would organize for an update from WSP in the next session to discuss findings and key learnings.
- 3.7. Suggestion for Group to read CEER losses report as useful background.

Business Carbon Footprint

- 3.8. Ofgem highlighted a lack of consistency in the reporting of BCF, making it difficult to understand how DNOs are performing.
- 3.9. Regen suggested external indicators could be used and GLA suggested BSI's PAS 2050 could be a useful indicator.
- 3.10. WPD think it would be possible to consolidate a methodology for calculating BCF in RIIO-ED2.
- 3.11. On measurement of BCF, Sustainability First noted that scope 1 emissions are the easiest to measure and challenged that scope 2 and 3 emissions should also be captured in a common metric. WPD suggested Carbon Disclosure Project could be an option.
- 3.12. ENWL suggested that if a common metric is not possible for the beginning ED2, then an incentive to agree one for ED3 could be appropriate.
- 3.13. ENWL suggested consideration be given to measures and improvement on a company specific basis using consistent robust measures for that company if comparability is challenging to achieve in time for ED2.

- 3.14. UKPN noted that net zero targets will need to be considered when thinking about arrangements for BCF in RIIO-ED2.
- 3.15. ENWL and NPg noted that stakeholders are telling DNOs this is an important role for them and that they should be driving decarbonisation forward, eg by being ambitious and setting the direction of travel for wider industry. NPg noted that Ofwat have decided companies need to be net zero by 2030, and that Ofgem and DNOs should consider other regulated sectors when deciding level of ambition.
- 3.16. There was discussion on how ambition should be assessed in the business plans. When assessing business plans and benchmarking costs, Ofgem set out that it would likely need to see a common scenario used across all DNO plans (ie net zero by 2050), and then specific scenarios informed by stakeholder engagement for accelerated delivery.
- 3.17. Ofgem asked if DNOs know the value that consumers attribute to a reduction in BCF. DNOs have not yet carried out detailed willingness to pay studies.
- 3.18. If BCF were to be incentivized, discussion around what should be incentivized, the output (eg number of electric diggers) or the outcome (ie reduction in BCF). Discussion with Group suggested that outcomes would be appropriate and could be used where the DNO is directly able to influence the outcome.

SF6

- 3.19. ENWL noted that retrofitting old equipment is difficult ie getting a new gas to insulate old equipment, and that this could become a significant cost. Also a difference in options available to DNOs depending on where they are ie city vs rural.
- 3.20. SPEN noted there are less harmful alternatives (eg Green Gas for Grid) but that this can be very expensive.
- 3.21. SPEN highlighted that the carbon impact needs to be captured in the CBAs, including the NPV.
- 3.22. Sustainability First suggested that there should be no reason why SF6 would be used in new equipment, especially if the EU is planning to ban SF6 in 2025.
- 3.23. SSE current chair of the ENA group looking at SF6 and suggested they could circulate EU working papers for reference. A decision could be as early as March 2020 although could be significantly later.

Fluid filled cables

- 3.24. Regen suggested there may be a relationship between oil leakage and refurbishment vs. replacement works.
- 3.25. Weather is also a consideration to be factored in when thinking about oil leakage.
- 3.26. Sustainability First noted that improved reporting in all areas is a piece of work that needs to be carried out sooner rather than later.

Noise reduction

- 3.27. ENWL thinks that if Ofgem wants to use league tables in RIIO-ED2, RIGs reporting should be improved. Of the total number of complaints reported in 17-18, a significant proportion of reported complaints are from ENWL despite being roughly 1/14th of the ED industry raising questions about consistency of reporting.

Visual amenity

- 3.28. SPEN highlighted challenge to the current arrangements is that some stakeholders don't want overground or underground solutions.
- 3.29. UKPN suggested the current arrangements work well and that it would make sense to continue as is.
- 3.30. Group agreed to return to this subject in more detail at a later date to make sure there are no barriers to projects going forward.
- 3.31. Query was raised on if and how to engage Transmission VIP parties from Ofgem T2 process. Ofgem was going to see what extent if any Transmission views apply to ED and what they were?

RIIO-2 Cross Sector Environmental Action Plan and Open Letter Responses

- 3.32. Ofgem set out that, where appropriate, there should be coherence across sectors, for example with the RIIO-ET2 Environmental Action Plan.
- 3.33. Regen suggested any action plans should be regionally aligned and there may need to be some additional governance from Ofgem around how this is done. BEAMA cautioned against incentivising companies on activities that may be in the region's interest but not in the national interest overall. Ofgem needs to find overall balance.
- 3.34. Sustainability First cautioned against a patchwork of incentives in RIIO-ED2, if net zero is the goal then arrangements should be organized holistically to ensure there aren't perverse incentives or unintended consequences.
- 3.35. On embedded carbon, it was noted that arrangements may be different and granularity of reporting of this data may be less in ED2 compared to ET2 as the size of projects in ET2 are bigger.
- 3.36. On anything missing from the ET2 plan relevant for ED2, the Group suggested climate adaptation, water use, air quality, flood risk and PCBs.

Emerging challenges for ED2 and how far ED1 arrangements go to meeting ED2 objectives

- 3.37. NPg suggested that access/SCR should be considered in scope item (iii) and that this item (facilitating decarbonisation) is the most important of the three areas.
- 3.38. There was discussion about the role of the DNO in facilitating the transition to a low-carbon energy system.

3.39. ENWL suggested that Ofgem should measure capacity created through a capacity mechanism.

3.40. Equity in the carbon transition - must support a just transition - key to support vulnerable customers in more general

3.41. Regen noted that DNOs rarely have regret costs, it is more a question of timing.

4. Any DNO presentations on what has been effective in each policy area and what are the considerations necessary for ED2 – 13:00 – 15:00

4.1. SPEN and UKPN presented individually (see slides for detail)

5. Next steps

5.1. Focus of next session will be on losses with presentation on losses from WSP and DNOs. Will also be an update on actions (see below) regarding BCF, SF6 and losses – with options for discussion on possible outputs and incentives as well as update on comparability of reporting on environmental issues.

Appendix 1 – Summary of Actions

Action	Allocated to	Due date
Review DEWG Working Group Terms of Reference (ToRs) and feedback thoughts to Ofgem.	All Group members	20 December 2019
Provide more detail on work plan for the DEWG, including when outputs from Overarching Working Group will be available for discussion in the DEWG.	Ofgem	20 December 2019
Invite WSP to present on findings and key learnings on work undertaken to date on technical losses. SPEN and Ofgem to arrange for next session in January.	Ofgem and SPEN	20 December 2019 (WSP to provide material for presentation by 17 January)
DNOs to bring back options for how losses should be treated in RIIO-ED2, eg through CBAs and/or whether an output would be appropriate/needed.	DNOs, led by SPEN	Provide update to Ofgem (and material for session) by 17 January 2020
DNOs to bring back options for how a common methodology could be used to measure BCF in ED2, including consideration of scope 1,2 and 3 emissions and of external indicators.	DNOs, led by WPD	Provide update to Ofgem (and material for session) by 17 January 2020
DNOs through ENA to bring back options for how SF6 could be captured in CBAs in ED2 and whether an output would be appropriate/needed.	DNOs, led by SSEN	Provide update to Ofgem (and material for session) by 17 January 2020
All material for January shared a week prior to the session.	Ofgem to circulate	21 January 2020

