

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

From: Ofgem

Date: 29 October 2020

Location:

Time: 10:00 – 13:00

Teleconference

This document sets out the high level minutes and actions from the Decarbonisation and the Environment Working Group 11. 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)

BEAMA

Sustainability First

Citizens Advice

Enertechos

2. Financial Incentive – Ofgem

- 2.1. Ofgem presented some opening considerations on financial incentives, outlining the SSMC position; a summary of stakeholder responses and how the NGET environmental scorecard could be applied to RIIO-ED2. Ofgem highlighted some questions for the group to bear in mind in the discussion of financial incentives.

- 2.2. Ofgem noted that as this has been provisionally accepted in the other sectors the group should keep it in mind when considering other options presented. Ofgem also noted that the slide highlights a potential scope and this will need further consideration.

3. Financial Incentive – Sustainability First

- 3.1. Sustainability First presented slides outlining why they consider a financial incentive is needed in this area and why they consider a Strategy ODI approach may be applicable and how this could work. They emphasised that action on losses and SF6 needed a financial signal to ensure it is prioritized by DNOs.
- 3.2. Ofgem reflected that for the other areas covered by the Strategy ODI, the volumes of customers/stakeholders may be low/not statistically significant and they may have additional or more complex needs. For these areas DNOs will need to develop services accordingly and so we are interested both in how services are delivered and what is delivered, which may differ from the environmental area. Ofgem asked the DNOs whether the incentive would drive behaviour in areas such as losses and SF6, which can require high cost solutions. NPg suggested it wouldn't 'drive' behaviour and stronger drivers are compliance with obligations. Sustainability First suggested it was not just about driving behaviour but retaining the focus on losses. In terms of driving thinking on losses without the LDR, they argued that there should be a financial element.
- 3.3. UKPN made the point that the LDR, despite its flaws, was driving focus on losses which is key. Sustainability First noted that there seems to be a gap in understanding losses, and how they tie in with innovative approaches.
- 3.4. Ofgem asked where the stretch would be if embedding ED1 progress on losses in the baseline standards. UKPN stated that it would be more about rewarding companies they go above and beyond in the period, than rewarding them for BAU.
- 3.5. CitA asked about losses and SBT interaction. SSE clarified some of the thinking being progressed by SPEN and SSE on scope 1 and scope 2.

4. Financial Incentive – UKPN

- 4.1. UKPN presented slides on their current thinking on a financial incentive. They asked the group on whether 0.5% base revenue was reasonable as financial exposure. SSE agreed that it was, as long as losses and SF6 were included.
- 4.2. UKPN stated that they had doubts on the appropriateness of the weighting of the NGET incentive. Any incentive should be more focused on BCF reduction. It is important to ensure that rewards and penalties are based on deliberate action by the DNOs.
- 4.3. NPG asked how this would interact with TIM and PCDs. UKPN suggested that there should be a place for PCDs alongside decarbonisation of DNO fleets, but that we would need to ensure that double-counting is avoided. Citizens Advice stressed that we should ensure any reward is proportionate to cost and outcomes.
- 4.4. Ofgem stated that in transmission, companies had to justify in business plans how the targets go above and beyond EAP. Ofgem suggested that the RIGs could be used to start collecting data in these areas, to give more of a feel on what the stretch may be. NPG made the point that this approach could mean a high volume of work for Ofgem mid-period in ED2.
- 4.5. **Action: Ofgem asked for reflections on how an incentive similar to the NGET scorecard could look in ED-2, and whether including harder to measure areas would undermine the scorecard. Ofgem to send more specific questions to the group for views.**

5. Update on outstanding actions

Reopener

- 5.1. Ofgem clarified that the reopener window in the other sectors is proposed to be in January but that there is flexibility for policy areas to be treated on a case by case basis.
- 5.2. Ofgem returned to the discussion on the scope of the reopener and queried what else may be on the horizon beyond SF6. SPEN noted biodiversity and pollutants as examples. Citizens Advice noted internal combustion engines legislation and the potential for these

targets to change. It was queried whether this would come under the Net Zero reopener and how this could be delineated.

5.3. ENWL noted their support for tightly bound reopeners and highlighted the three categories they consider could form the scope: introduction of new legislation; change of enforcement practice and change to/new standards imposed by external bodies.

5.4. SSE highlighted that the environmental bill is due to go through parliament in December.

WTP

5.5. Ofgem asked the group about the progression of DNOs' WTP studies in regards to Visual Amenity and whether there is potential still for a joint WTP study between DNOs. UKPN and ENWL noted their support for a joint piece of work, but time constraints were noted.

5.6. Sustainability First noted their surprise at the amount of underspend against the pot. SPEN noted spending of the pot must be determined by stakeholder support and that they consider greater clarity on what level of stakeholder endorsement is needed. NPg noted circumstances outside the DNOs' control, such as present circumstances, can also impact underspend. NPg noted ongoing work they are doing on WTP as part of their business plan development engagement.

Losses

5.7. SPEN presented the development of how a reputational incentive could operate for Losses management and options for scoring progress. The proposal involved considerable detail and SPEN invited the group to take further time to digest and feedback views.

5.8. Noting the earlier discussion items, ENWL questioned whether the mechanism could be used within a financial incentive. SPEN suggested this would be good for all to reflect on and feedback views on. SPEN noted ongoing concerns with regards to how losses are outside of DNOs control. They stated that activities need to be CBA-justified, at which point they are subject to overall incentive mechanisms rather than individual incentives.

Common BCF Methodology

5.9. WPD provided an update on the draft common BCF methodology and how it had been developed. **The group and Ofgem were asked to feed views back to WPD on the draft and they would take this back to the ENA Environment Committee for further iteration.** Sustainability First queried the lack of reference to SBT and WPD clarified this was omitted whilst the approach to SBTs is still being developed.

Metrics Update

5.10. UKPN provided an update on the work to develop metrics for wider environmental impact activities. They noted it would be useful to have a steer from Ofgem on how these metrics will be used within the framework to aid further development.

6. Next steps

6.1. Ofgem will reflect on the discussion and clarify some questions for the group to consider and feedback on.

6.2. ENWL queried whether a further session may be needed in a couple of weeks for follow up discussion. Ofgem suggested written feedback would be useful in the first instance to inform what further discussion may be needed and that it will reflect on this.

Appendix 1 – Summary of Actions

Action	Allocated to	Due date
Feed views back to WPD on draft BCF methodology ahead of further iteration at the ENA Environment Committee.	All	Monday 9 November
Respond to Ofgem questions regarding an environmental financial incentive for ED2.	All	Monday 9 November