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RIIO-ED2 Decarbonisation and the Environment Working Group: session 11

RIIO-ED team
29 October 2020

Aims and agenda

Aims of session:

- To consider the case for a financial incentive, including what the scope of this should be and next steps for the SSMD
- To share updates on outstanding actions on the EAP minimum requirements and potential metrics

Timings	Agenda item
10:00-11:30	1. Environmental financial incentive • Environmental Scorecard Applicability (Ofgem) • Case for Strategy Delivery ODI (Sustainability First) • EPI and EQUAM (UKPN) • Discussion
11:30-11:45	Break
11:45 - 12:45	2. Update on outstanding actions • Reopener window clarification and scope discussion (Ofgem) • Losses ODI R (SPEN) • BCF Methodology update (WPD) • ENA Environment Committee workplan (UKPN and NPg)
12:45 – 13:00	3. AOB and Next steps

Environmental financial incentive

SSMC position

We considered the use of financial incentives to encourage ambitious performance, in particular in areas such as BCF, losses and SF6. We did not propose to introduce an ODI-F for the environment due to the following challenges:

- We need to ensure we are not incentivising one outcome at the expense of another.
- Difficulties in accurately measuring the impact of DNOs' activities.
- We need to ensure that arrangements are sufficiently flexible to reflect different regional and local approaches to achieving Net Zero.
- DNOs have a role to play in achieving Net Zero, but are not always wholly responsible for outcomes. Arrangements must encourage DNOs to undertake activities towards net zero whilst mitigating against windfall gains or losses

Consultation response challenges

- The majority of stakeholders supported our proposed environmental framework, noting it as an improvement on ED1 arrangements. However, a number of stakeholders also noted that a financial incentive would be needed to drive DNOs to outperform EAP targets and to look for additional ways to deliver decarbonised/environmentally sustainable networks.

- In response to our challenges, stakeholders noted that:
  - careful calibration would ensure certain positive outcomes would not be achieved at the expense of others
  - An ODI-F would help focus DNOs' efforts on activities that are fully in their control, and which provide the most effective level of carbon reduction for their network and region, i.e. the most effective use of customers' money

- Of the respondents supportive of an ODI-F, some noted NGET's scorecard as a viable approach for the following reasons:
  - NGET's scorecard will ensure the company has a financial interest, proportionate with its involvement and effort, in achieving or exceeding the RIIO-2 targets set out in its EAP. We do not see why these principles would not also apply to electricity distribution.
  - If applied across the sector, the scorecard would ensure consistency and comparability across sectors. If Ofgem is satisfied by the information provided in Business Plans, then it would be appropriate at the draft determinations stage to explore the merits of an ODI-F similar to that in the transmission sector.

- Some respondents suggested alternative mechanisms could be used such as an in-the-round 'strategy delivery' approach, Environmental Performance Incentive and Environmental Quality Assessment Measure. They argued that these would provide an appropriate balance of quantitative and qualitative incentives, and would drive environmental performance and progress, in particular for decarbonisation and net-zero.

Options for an environmental ODI-F

- There are various options we could consider implementing for RIIO-ED2
- We have previously discussed the option (which was also raised in stakeholder responses) of adopting NGET's ODI-F:

Area	NGET ODI-F metric	Potential additional metrics to consider for ED2
BCF	• Adoption rate of alternative vehicles • Percentage reduction in business travel CO2e emissions	• **Percentage reduction in controllable BCF?**
Resource use and waste	• Operational and office waste recycling rate • Percentage reduction in office waste • Percentage reduction in office water use	• **Percentage reduction in waste to landfill?**
Biodiversity and/or natural capital	• Percentage increase in environmental value of non-operational land • Biodiversity net gain in every new construction project	
Other		• **Percentage reduction in the volume of leakage from fluid-filled cables?** • **Percentage reduction in noise pollution?** • **Percentage reduction in embodied carbon emissions?**

For all options under consideration…

We need to consider how they address challenges in the SSMC:

1) We would need to ensure areas in scope are calibrated appropriately, so that one area was not incentivised above others, and so as not to drive risk averse behaviour.
2) The areas in scope are measurable
3) There is sufficient flexibility to reflect different regional and local approaches to achieving Net Zero
4) Areas in scope are those for which DNOs are wholly accountable and responsible

There are additional questions we will need to consider:

- Were we to introduce an NGET-style scorecard, would we need to make amendments to the seven areas to account for differences between transmission and distribution?
- Which EAP areas, if any, should we consider adding/removing?
- What would be the rationale for adopting an ODI-F that is broader than a scorecard/involves qualitative assessment?

Sustainability First

Ofgem ED2 DEWG

29 October 2020

Incentivising decarbonisation & net-zero in ED2

Maxine Frerk, Associate
Judith Ward, Associate

Decarbonisation & net-zero in ED2 - we will cover

1. SF views on the ED2 methodology - and why a strategy delivery incentive is important

2. The potential scope

3. Balancing metrics and qualitative input – building on OAWG discussion

4. Other possible incentive structures

ED2 Methodology Consultation: SF Headline response

Welcome:

- New and **more automatic mechanisms for dealing with uncertainty for future investment.** More work needed on detailed design
- **Introduction of strategies** for key areas - vulnerability, DSO, large connections – **with financial 'output delivery incentives'** linked to delivery of those company strategies.

Questions / Concerns:

- **Decarbonisation & net-zero** - why has Ofgem not adopted an ***equivalent*** **'strategy delivery' approach** - with a financial incentive.
- Plus, why no explicit DSO role on decarbonisation & net-zero ?
- **Short- to medium-term de-carbonisation – sharper incentive signals also needed** for business carbon footprint - especially for distribution losses & SF6 leakage.

From a wider sustainability perspective, ED2 incentive package is at best incremental. Will not deliver environmental 'step-up' needed for ED2.

Why a Strategy Delivery incentive for de-carbonisation and net zero ?

- **Messaging**: What signal does it send - given a financial incentive for vulnerability, large connections & DSO – but not for de-carbonisation and net-zero ?

- **Strength of incentive**: senior management more likely to focus on areas with financial incentives rather than reputational

- **Holding to account for delivery**: CEGs and CG on DDs – a general concern on how to hold companies to account for EAP delivery (esp if a tight price control overall)

- **Balancing conflicting pressures in ED2**: financial incentives to increase utilisation and connections - but nothing on losses - creates distorted signals

- **Encouraging companies to continue to look strategically for opportunities to go further throughout ED2**: especially in what will inevitably be a fast changing area

What might an incentive cover - Scope

- **Proposed focus on de-carbonisation and net zero as 'new'.** Wider environmental impacts also important but separate.
- But, recognise that EAP scope may provide a practical framework given the stage we are at (ie the EAP = analogous to "strategy")
- Net zero considerations must also be built into DSO strategy framework

- **Losses as a key element** – carbon-impact = short-term. Efficiency = short & longer term (impacting ability to meet net zero at lowest cost)
- Current proposal – to remove Losses Discretionary Reward (LDR) – is a **BACKWARDS** step…
  - LDR failure to make any award in phase 2 or 3 = seen as problem with purely subjective assessment
  - But, removing it won't encourage the companies to do more !
- Mechanistic incentive inappropriate - given expectation that losses will increase

- **Ofgem's proposed strategy delivery incentive seems ideally suited** – dependent on metrics (so not purely subjective) but also not mechanistic
- Details of how it would work in other areas **still being developed** through OAWG

What might an incentive cover - Metrics

Business Carbon Footprint – ambition-level measurable (cf Science Based Targets)

Strategy for Losses

- The key task = to incentivise companies to better understand, monitor, measure and start to report
- Measure (estimate) losses – and have plans to improve measurement
- Report BCF with / without carbon from losses (i.e. to avoid claiming 'BCF reductions' due to de-carbonising energy mix)
- Report on inputs eg improvements in LV monitoring, low loss equipment installed, progress against milestones in strategy

Strategy for SF6 – to reduce leakage, to look across (1) T&D and (2) supply-chain to develop alternatives

- Measure leakage
- Report on progress against milestones in strategy

- **Net-zero** – balanced incentives for new connections / losses strategy
- **DSO role** – to deliver decarbonisation and net-zero eg on network planning, measure low carbon flexibility

Ofgem Framework from OAWG (23 Oct 2020)

EX ANTE

View of baseline/ambition:

• Plan scoring?

• ‘Formal opinion’ within DD/FD

• Delivery schedule

Metrics:

• Common metrics – Ofgem or company defined target?

• Bespoke metrics

• Regularly Reported Evidence – predefined KPIs without a performance target

Stakeholder views:

• Stakeholder survey CSAT/SSAT score for defined areas, option for with associated target

EX POST

Use of Evaluation Criteria:

• Defining appropriate criteria

• Use of weighting

Use of a performance panel:

• Does the framework use a panel? If so, who is this comprised of?

• What’s the panel role? Recommendation or independent assessor

Ex post stakeholder views:

• Call for evidence

• Bilaterals

Scoring:

• Scoring range eg 1-5

• Is there a pre-defined monetary value with a score

Summary: Benefits of Strategy Delivery Incentive approach

- Metrics are important and comparability is critical – for companies, regulators and external stakeholders

BUT in some areas :

- Metrics may not be completely robust
- May not be fully under the DNOs' control
- It is unclear what level of stretch will be achievable
- There may be potential unintended consequences that need to be balanced

  ⇒ **Mechanistic incentives not appropriate**

But can use metrics **<u>alongside</u>** more qualitative information to assess performance

- External factors
- Stakeholder feedback
- Comparative performance

Balancing the metrics and qualitative view - option

QUALITATIVE VIEW	QUANTITATIVE METRICS FAIL	V TARGET EXCEED
-ve	PENALTY	-
+ve	-	REWARD

Example

QUALITATIVE VIEW	QUANTITATIVE METRICS FAIL	V TARGET EXCEED
-ve	Metric: SF6 leakage increase No extenuating circumstances	Metric: LCT connected above target Sig. govt subsidies introduced Performance below other companies
+ve	Metric: EV penetration above target GB penetration low LA feedback positive	Metric: Volume of low loss equipment installed > plan Metric: Estimated losses < forecast Better than industry average New approaches to monitoring demonstrated

Calibrating the incentive

Calibration inevitably difficult !

- Need to ensure that strong enough to drive action - but limited scope for windfall gains / losses
- Robustness of metrics and consumer willingness-to-pay will be considerations
- Should be in step with ££ levels for other strategy delivery incentives

Interplay with BPI

- BPI reward available for ambitious strategies
- Potential for gaming: eg submit less ambitious plan (forego BPI) but plan to exceed (delivery reward)
- Could vary the delivery reward / penalty range depending on ambition of plan judged at BPI stage – but still potential for gaming
- Considering performance against industry average as well as against company strategy should help address

Other possible financial incentive structures to drive de-carbonisation in ED2 ?

Strategy Delivery Incentive = modelled on **ESO** incentive framework

Also other options – each w pros & cons :

- **NGET Scorecard** accepted in DD as a financial ODI. But, does not cover losses – and SF6 leakage separately incentivised
- **Transmission Environmental Discretionary Reward from T1**
- **Losses Discretionary Reward 'plus' –** what lessons & how to improve ?

An SDI for decarbonisation and net-zero - would give a clear signal to companies & others about the importance of this area for ED2. Plus, offers regulatory consistency

Contact us

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Sustainability First

Environmental incentives

Environmental Working Group
29th October 2020

UtilityWeek Awards 2016 WINNER Utility of the Year

INVESTORS IN PEOPLE | Gold

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2019

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Customer and stakeholder views

Customer engagement	Our engagement with customers and stakeholders to date clearly demonstrates the importance they attach to companies acting to address decarbonisation and environmental concerns.
SECV 2020 willingness to pay research	Customers were **willing to pay** for reducing the carbon footprint of network, reducing plastic waste from operations and improving air quality.
Sustainability First SSMC response	Suggests a 'strategy' **financial incentive** for the EAP along the lines of vulnerability, major connections etc.
Government policy	Net zero by 2050 commitment, ban on internal combustion engines by 2040, plastic carrier bag charges etc.

Addressing our internal environmental impact is a priority for customers and stakeholders

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Setting the size of an Environmental Incentive in the context of RIIO-ED2 incentive package

Case for an incentive
Illustrative examples
Key questions

*note that Net Zero and DSO incentive strengths TBC

How can the scale of the environmental incentive be set to align with customers' overall prioritisation of the environment?

Form of the incentive

Case for an incentive
Illustrative examples
Key questions

Ex-post review

Company performance is assessed by Ofgem at different intervals in the control and a reward or penalty assigned.

- ✓ Can cover all elements of environment even if more qualitative
- ✓ Aligned with approach to other incentives for ED2 e.g. vulnerability
- x Less incentive to be ambitious – there isn't a clear route from action to a reward or penalty (lacks transparency)
- x Penalty element would be misaligned with precedent for discretionary incentives
- x Less clear link from ambition to outcome
- x Timing issue if only 2 reviews for ED2

National Grid scorecard

Points assigned based on whether targets are met, with different weightings for some areas. Reward or penalty based on total points.

- ✓ Can cover all elements of environment that can be in some way quantified
- ✓ More transparent link between outcome and reward/penalty than ex-ante, but still some abstraction
- x Mixture of inputs and outcomes measured
- x Pre set target levels reward ambition, but only up to a point (i.e. the top target level)
- x Less aligned with approach in other areas (e.g. vulnerability)
- x Bespoke to National Grid – not common with other TOs and doesn't fit DNOs

Customer outcome based

Reward or penalty directly tied to performance in each category, with penalty or reward linked to a measure of customer benefit (e.g. SROI, carbon value)

- ✓ Directly links reward to a benefit for consumers (or penalty to disbenefit)
- ✓ Allows trade-offs between different activities – deliver the most customer benefit at lowest cost
- ✓ Rewards ambition (although could be up to a set cap % of base revenue)
- ✓ Transparent link between what you deliver and the reward or penalty
- ? Less aligned with approach in other equivalent areas (but we encourage adopting a similar approach elsewhere where possible)
- x Relies on quantitative measures of performance and customer, impact which may be difficult for some areas

Setting the incentive based on quantitative measures of customer outcome is the best way to improve on National Grid's proposal from T2

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Illustrative example – business carbon footprint

Business carbon footprint (non-losses)

Companies propose a target in their EAPs of the reduction in emissions they will achieve (this could then be adjusted based on benchmark across all plans – see slide below).

Incentive reward or penalty would be based on the extent to which the company's actual performance differs from the target and the chosen valuation rate.

More quantitative measures can feature a mechanistic approach to incentive calculation

Illustrative example – more qualitative area

Biodiversity

"We will increase biodiversity at 100 sites, increasing Natural Capital by x%"

Commitment target set using customer and stakeholder research and valuation tools

"We addressed an additional 30 sites increasing overall Natural Capital by an additional 25%"

Difference in actual delivery quantified using equivalent valuation tool

Work to be done to establish a robust process with clear guidance for how assessment and valuation will be carried out ahead of RIIO-ED2

Companies make commitments in EAP, but are then required to demonstrate ongoing engagement and delivery of the outcomes they requested.

Where actual performance differs from the target set out in the EAP (i.e. the company has gone further), this should be justified based on stakeholder engagement.

Ex-post assessment of the whole basket of measures would be based on both delivery of concrete actions and targets in the EAP and the quality of stakeholder engagement and outcomes you achieved.

Wherever possible the benefits should be quantified i.e. you used a common SROI or Natural Capital tool to demonstrate your action delivered a customer benefit

Qualitative measures may still need an element of ex-post review but the review process should be defined upfront

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Key questions

1. Scope of the incentive
   - Including link to losses
2. Method of setting targets – benchmarked or developed with stakeholders?
3. Strength of Incentive – including cap and collar

Initial proposals discussed in additional slides

4. Quantitative vs Qualitative
   - Work on common measures
   - Links to assessment of EAPs
   - Options for qualitative incentive
5. Interactions with CVP

For future discussion

Industry Working Groups can be used to further develop proposals ahead of and after SSMD

ADDITIONAL MATERIAL

1. Scope of the incentive

Case for an incentive
Illustrative examples
Key questions

National Grid's Environmental Scorecard
Percentage of fleet alternative fuel
Reduction in carbon emissions from business mileage
Percentage of operational and office waste recycled
Percentage reduction in waste created at offices
Percentage reduction in water use at offices
Percentage increase in environmental value of non-operational land
Percentage net gain on construction projects

Measures reported in RIIO-ED1
Business Carbon Footprint (excluding losses)
Business Carbon Footprint (including losses)
Reduction in losses from actions taken
SF6 leakage
Fluid filled cable leakage
Noise pollution
Visual Amenity

Including qualitative assessment of **losses** in the incentive drives improvement throughout the period, as well as in company plans.

Measures being discussed in RIIO-ED2 Working Groups
Supply Chain and Scope 3 Carbon Emissions
Embedded Carbon
Biodiversity
NOx and Air Quality
Waste Management and Resource Use
Circular Economy and Plastic Waste

Measures included in a common mechanistic ODI must be measurable, consistent across industry and have ability to set a baseline - other measures could be assessed through ex-post EAP delivery incentive

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2. Options for setting targets

Case for an incentive
Illustrative examples
Key questions

Option	Strengths	Weaknesses
Set by benchmarking	• Objective view of target performance • Can be used to encourage normalisation of performance	• Requires consistent reporting of performance measures • May not reflect companies' ambitions as put forward in EAP
Set by companies in EAP	• Reflects companies' ambitions as put forward in EAP • Informed by customer and stakeholder engagement	• Lack of objective view of target performance • Does not normalise performance across industry
Hybrid – benchmarking used to inform EAP assessment	• Supports robust assessment of EAPs • Good balance between objective targets and reflecting company ambition	• Requires consistent reporting of performance measures

Use of comparable, objective measures for outputs of environmental activities will also support robust assessment of EAPs

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3.1 Strength of incentive

Option	Observations
Based on CBA values– use emissions valuations based on values from CBA templates	• Direct link from customer benefit to incentive • In line with National Grid scorecard • Unlikely to provide sufficient incentive to make reductions in line with net zero by 2050 target (or more ambitious if supported by customer engagement) • If used to value annual savings, would not factor in full benefit of some actions • May not lead to balanced weighting relative to other incentives and stakeholder priorities
'Goal seek' for net zero – set an incentive rate calculated back from achieving net zero by 2030, 2040 or 2050 depending on customer engagement	• Direct link to achieving net zero in a particular timeframe • Higher incentive to be ambitious • Reduced link from customer value to incentive (although it could still be weighted in line with customer valuation)
Based on future value – base incentive on emissions saved through the lifetime of an investment (e.g. Carbon savings of an EV over its full lifetime)	• More in-line with net zero timeline • Higher incentive to be ambitious • Maintains direct link from customer benefit to reward or penalty

A well designed mechanism will allow flexibility in delivery thought the RIIO-ED2 period while continuing to ensure balanced focus across all areas

3.2 Cap and collar

Option	Strengths	Weaknesses
Overall cap only – no individual caps	• Allows greatest flexibility in delivery	• Greatest risk of "windfall gains" at expense of focus on other areas within incentive
Individual caps that sum to overall cap	• Ensures adequate focus on all areas within incentive	• Limits ability to "trade-off" between areas within incentive
Hybrid – individual caps and overall cap	• Presents a good balance between flexibility and avoiding windfall gains	• Marginal increase in complexity of mechanism

A well designed mechanism will allow flexibility in delivery thought the RIIO-ED2 period while continuing to ensure balanced focus across all areas

National Grid's scorecard

Metric	Values for Year 1				
	Penalty threshold 2	Penalty threshold 1	Target	Reward threshold 1	Reward threshold 2
Percentage of our fleet that is alternative fuel vehicles	5%	6%	7%	8%	9%
Percentage reduction in carbon emissions from our business mileage	0%	1%	2%	3%	4%
Percentage of our operational and office waste that is recycled	40%	44%	48%	52%	56%
Percentage reduction in the waste we create at our offices	0%	1%	2%	3%	4%
Percentage reduction in water use for our main offices	0%	1%	2%	3%	4%
Percentage increase in the environmental value of our non-operational land	0%	1%	2%	3%	4%
Percentage net gain on all construction projects	0%	5%	10%	15%	20%
	-2 pts	-1 pts	0 pts	+1 pts	+2 pts

Score	-14 to -11	-10 to -8	-7 to -5	-4 to -2	-1 to +1	+2 to +4	+5 to +7	+8 to +10	+11 to +14
Penalty / reward	-£4m	-£3m	-£2m	-£1m	£0m	£1m	£2m	£3m	£4m

- 7 equally weighted metrics translate into points based on internally set targets
- Feedback from stakeholders was 'keep it simple'
- Reward and penalty provided each year

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- Accepted the ODI-F
- Recalibrated the value to align with benefit to customers of reduction (e.g. value of carbon saved instead of % electric vehicles)
- Considering using efficient cost of intervention to set the incentive rate where there is no measure of monetised social benefit
- Reduced weighting to 2/3 for metrics with low confidence measurement

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The mechanism could be gradually expanded to cover all EAP areas

Previously described '**EPI**' incentive

- Business carbon footprint
- SF6
- FFC

Established measures and clear valuation of social benefit as used in NGET scorecard and CBA – **include from the start of ED2**

- Embodied carbon
- Supply chain

Lack of established measures – introduce part-way through the control

Previously described '**EQUAM**' incentive

- Losses
- Resources and waste
- Noise

Existing measures although with less firm approach to valuation of social benefit – **include from the start of ED2** based on SROI

- Biodiversity
- NOx / air quality

Lack of established measures – introduce part-way through the control

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Success criteria could be used to assess different options for an incentive

Carry over the positive features of the NGET mechanism Ofgem highlight in the DD:

- Symmetrical penalty and reward
- Time-bound targets
- Dead band to ensure only material difference to target is rewarded / penalised
- Step-change in performance over ED1 and over the EAP
- Greater weight on high-confidence measures

Address the concerns Ofgem raise around environmental incentives in the SSMC:

- Avoid incentivising one action over another
- Cover performance we can accurately measure
- Flexible enough to reflect different regional and local approaches to net zero
- Avoids windfall gains and losses

These three can be incorporated into any of the mechanisms we have identified

These criteria would be delivered to different levels in the mechanisms we have identified, so are used to assess differences in the slides below

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How we could take an ODI-F forward

- In the SSMD in December we will need to confirm whether or not to introduce an ODI-F. If we are we will also need to:
  - Confirm the scope of the incentive, areas to include in its scope (including in BPDT templates) and also the overall approach to assessment
  - Confirm whether or not DNOs can include bespoke areas for inclusion in BPs
- Other areas would need further consideration (to work towards confirming in DDs/FDs):
  - Weightings of areas in scope
  - Financial exposure
  - Provisional targets

- In July 2021, DNOs would start submitting data against these areas in the Draft Business Plans. We would review bespoke areas on the BPDTs for commonality between DNOs to determine whether this should be common or not. For these bespoke areas, the onus would be on the DNOs to demonstrate that there is sufficiently robust data to set targets and be included.

- In December 2021, DNOs will submit final business plans containing data on these areas

Updates on outstanding actions

Environmental reopener

For the SSMD…

- We propose to decide whether or not to implement an environmental reopener in the SSMD, as well as the proposed scope and the extent to which the proposed common parameters should apply.
- This is in line with the key considerations highlighted by consultation responses. Stakeholders were largely supportive of the proposal but noted the scope needed to be well defined and the delineation between it and the Net Zero reopener and that there needed to be a clear trigger.

Considerations…

- In responses, stakeholders raised SF6 as an obvious contender under an environmental reopener. What other known unknowns could fall under this?

Losses ODI R

Thank you

RIIO-ED2 DEWG

ED2 Losses Strategy – Reporting with AER

October 2020

Key Components of Losses Strategy

Method of measuring / accounting for losses

As highlighted by the work done in the TLWG, all DNOs should account for losses using the same or equivalent methods. This section sets out how each DNO will achieve this. This method will be used for:

- *Losses reporting*
- *To underpin the CBAs undertaken to justify actions to minimise losses*

Activities to minimise losses

May be grouped e.g. by Technical and Non-Technical losses

Activity 1
Activity 2 etc. …

Activity 3
Activity 4 etc. …

- Underpinned by CBA
- Measured in **"GWh of losses avoided"**
- Normalised by network length and customer numbers
- Sum of activities gives ambition

Previous LDR Criteria

- Understanding of losses
- Sharing of best practice / stakeholder engagement
- Losses innovation

May be grouped e.g. by Technical and Non-Technical losses

Activity 1
Activity 2 etc. …

Activity 3
Activity 4 etc. …

Objectives should be:

- **S**pecific
- **M**easurable
- **A**ttainable
- **R**ealistic
- **T**ime-related

Losses strategy

Proposed key sections of the strategy

Quantifiable parts

Individual content

Methods Considered for Scoring for Losses within AER ODI-R

Method of measuring / accounting for losses	N/A
Activities to minimise losses	• DNOs are ranked in both ambition and performance, and given a numeric score weighted towards either ambition or performance • An 'ambition factor' sets the DNO's available score, and the performance determines the %age of this score awarded • A RAG status is given for performance, and a ranking is given based on ambition factor
Previous LDR Criteria • Understanding of losses • Sharing of best practice / stakeholder engagement • Losses innovation	• RAG status for each criteria, contributes to an overall score • Weighted RAG status for each criteria, contributes to overall an score • RAG status for all three criteria as a whole, contributes to an overall score • A qualitative assessment of these criteria is made, and this contributes to an overall RAG status

Scoring for Losses within AER ODI-R – Option 2 (rejected)

			Evaluation	Score	Weighting	Subtotal
Method of measuring / accounting for losses	As highlighted by the work done in the TLWG, all DNOs should account for losses using the same or equivalent methods. This section sets out how each DNO will achieve this. This method will be used for: • *Losses reporting* • *To underpin the CBAs undertaken to justify actions to minimise losses*		For info only	N/A	N/A	N/A
Activities to minimise losses	May be grouped e.g. by Technical and Non-Technical losses *Activity 1* *Activity 2 etc. …* *Activity 3* *Activity 4 etc. …*	• Underpinned by CBA • Measured in **"GWh of losses avoided"** • Normalised by network length and customer numbers • Compared to losses reporting	Ambition is measured in planned amount of GWh of losses to be avoided. Performance is measured in %	DNOs are ranked in both ambition and performance from highest (14) to lowest (1). They are then given a numeric score or 25% of their ambition score, and 75% or their performance score. Top 4 DNOs in 'G' category, next 6 DNOs in 'A' category, last 4 DNOs in 'R' category.		
Understanding of losses	May be grouped e.g. by Technical and Non-Technical losses *Activity 1* *Activity 2 etc. …* *Activity 3* *Activity 4 etc. …*	Objectives should be: • **S**pecific • **M**easurable • **A**ttainable • **R**ealistic • **T**ime-related	Criteria similar to LDR *Each criteria could be evaluated separately , or single RAG score could be given for all three criteria*	**R/A/G score** *Assign numeric values e.g. 1,2,3*	**L/M/H fixed weighting** *Assign numeric values e.g. 2, 4, 6*	**Score x weighting** *e.g. A (2) x M (4) = 8 (out of a maximum 12 given 'M' weighting)*
Sharing of best practice / stakeholder engagement	May be grouped e.g. by Technical and Non-Technical losses *Activity 1* *Activity 2 etc. …* *Activity 3* *Activity 4 etc. …*	Objectives should be: • **S**pecific • **M**easurable • **A**ttainable • **R**ealistic • **T**ime-related				
Losses innovation	May be grouped e.g. by Technical and Non-Technical losses *Activity 1* *Activity 2 etc. …* *Activity 3* *Activity 4 etc. …*	Objectives should be: • **S**pecific • **M**easurable • **A**ttainable • **R**ealistic • **T**ime-related				
				Total score, allowing ranking of DNOs and overall RAG status to be assigned.		

Scoring for Losses within AER ODI-R – Option 1 (preferred)

SP ENERGY NETWORKS

			Evaluation	Score
Method of measuring / accounting for losses	As highlighted by the work done in the TLWG, all DNOs should account for losses using the same or equivalent methods. This section sets out how each DNO will achieve this. This method will be used for: • *Losses reporting* • *To underpin the CBAs undertaken to justify actions to minimise losses*		For info only	N/A
Activities to minimise losses	May be grouped e.g. by Technical and Non-Technical losses *Activity 1* *Activity 2 etc. …* *Activity 3* *Activity 4 etc. …*	• Underpinned by CBA • Measured in **"GWh of losses avoided"** • Normalised by network length and customer numbers • Sum of activities gives ambition	***Quantitative*** Ambition is measured in planned amount ('target') of GWh of losses to be avoided Performance is measured in both GWh actuals and also in % of target	DNO rank based on 'ambition factor': $GWh_{Performance} \times \left(1 - \frac{most\ ambition\ (GWh) - ambition\ (GWh)}{most\ ambition\ (GWh)}\right)$ + RAG score given based on %age performance against target
Previous LDR Criteria • Understanding of losses • Sharing of best practice / stakeholder engagement • Losses innovation	May be grouped e.g. by Technical and Non-Technical losses *Activity 1* *Activity 2 etc. …* *Activity 3* *Activity 4 etc. …*	Objectives should be: • **S**pecific • **M**easurable • **A**ttainable • **R**ealistic • **T**ime-related	***Qualitative*** Criteria similar to LDR	**Qualitative assessment influences overall RAG score** Comparatively excellent performance in two or more of these areas would allow DNOs +1 RAG status position based upon the evaluation of qualitative performance, whereas comparatively poor performance in these sections would reduce outcome by 1 RAG status position.
				DNOs achieve a total RAG score based on performance against target + rank weighted heavily towards ambition of target

Losses Scoring Options

Option	Key differences	Pros	Cons
Option 2 (rejected)	• Numeric score out of e.g. 48 – allows both ranking and/or RAG status • Ambition and performance 'baked' into single individual score for loss-minimisation activities (approximately top 4 DNOs in 'G' category, next 6 DNOs in 'A' category, last 4 DNOs in 'R' category)	• Easy to evaluate each criteria individually (if there is 'bunching' it allows fair differentiation) • Scoring of ambition is slightly more straightforward • Single numeric outcome (which can be converted to e.g. RAG or rank) is simple	• Requires DNOs to set out losses strategies in a prescriptive manner • Need to assign H M L/weighting to each category, which requires common agreement of what to prioritise (though this could be done in line with current LDR weightings) • Very low ambition and reasonable performance could be rewarded with high score (could incentivise low ambition) • Even if DNOs all perform similarly, up ~4 DNOs have to be given a 'R' status (if RAG status is nominally attributed by rank)
Option 1 (preferred)	• Ranking based on an 'ambition factor', which is numerically heavily weighted towards ambition (but influenced by performance to remove extreme values) • RAG score based on performance, can be adjusted ±1 RAG status by qualitative assessment of remaining criteria	• DNOs have more flexibility in setting out innovation and collaborative activities, and activities that improve understanding or losses, that best suit individual needs • Both RAG status and rank status allows the subtleties of each DNO position to be better displayed	• Scoring of ambition is slightly more complex • Qualitative sections require a more holistic assessment

Scoring for Losses within AER ODI-R – Option 1 – summary

Rank is based on annual losses score:

$$Losses\ score = GWh_{Performance} \times \left(1 - \frac{most\ ambition\ (GWh) - ambition\ (GWh)}{most\ ambition\ (GWh)}\right)$$
$$= GWh_{Performance} \times 'ambition\ factor'$$

RAG is based on annual performance against target:

Initial RAG

$$RAG = \frac{GWh_{Performance}}{GWh_{Target}}$$

Green – At or above *85%* of ambition

Amber – Between *50%* and *85%* of ambition

Red – Below *50%* of ambition

Qualitative assessment of:

- Actions to improve understanding of losses
- Stakeholder engagement / sharing of best practice / collaboration
- Losses innovation

Final RAG

$$RAG = \frac{GWh_{Performance}}{GWh_{Target}} \pm 1\ RAG\ status$$

Incentivises ambition and recognises DNOs for delivering on their plan

Scoring for Losses within AER ODI-R – Option 1 – example output

DNO	Target losses avoided (ambition) GWh	Actual losses avoided (performance) GWh	Performance % of target	Ambition factor	Losses score Technically in GWh
DNO1	14.00	8.40	60%	1.0	8.4
DNO2	13.00	11.05	85%	0.9	10.3
DNO3	8.00	3.84	48%	0.6	2.2
DNO4	2.00	2.20	110%	0.1	0.3
DNO5	5.00	3.55	71%	0.4	1.3

DNO	Rank	RAG		
		Performance	*Qualitative assessment, e.g. …*	*Final RAG*
DNO1	2.00	60%	Excellent stakeholder engagement, but average performance against other two criteria	
DNO2	1.00	85%	Innovative activities are notable	
DNO3	3.00	48%	Excellent activities to improve understanding, good performance against other two criteria	
DNO4	5.00	110%	Comparatively excellent across all criteria	
DNO5	4.00	71%	Lack of innovation and average performance against other criteria	

BCF Methodology

AOB