

RIIO-ED2 Decarbonisation and the Environment Working Group: session 8



RIIO-ED team
27 August 2020

Aims of session:

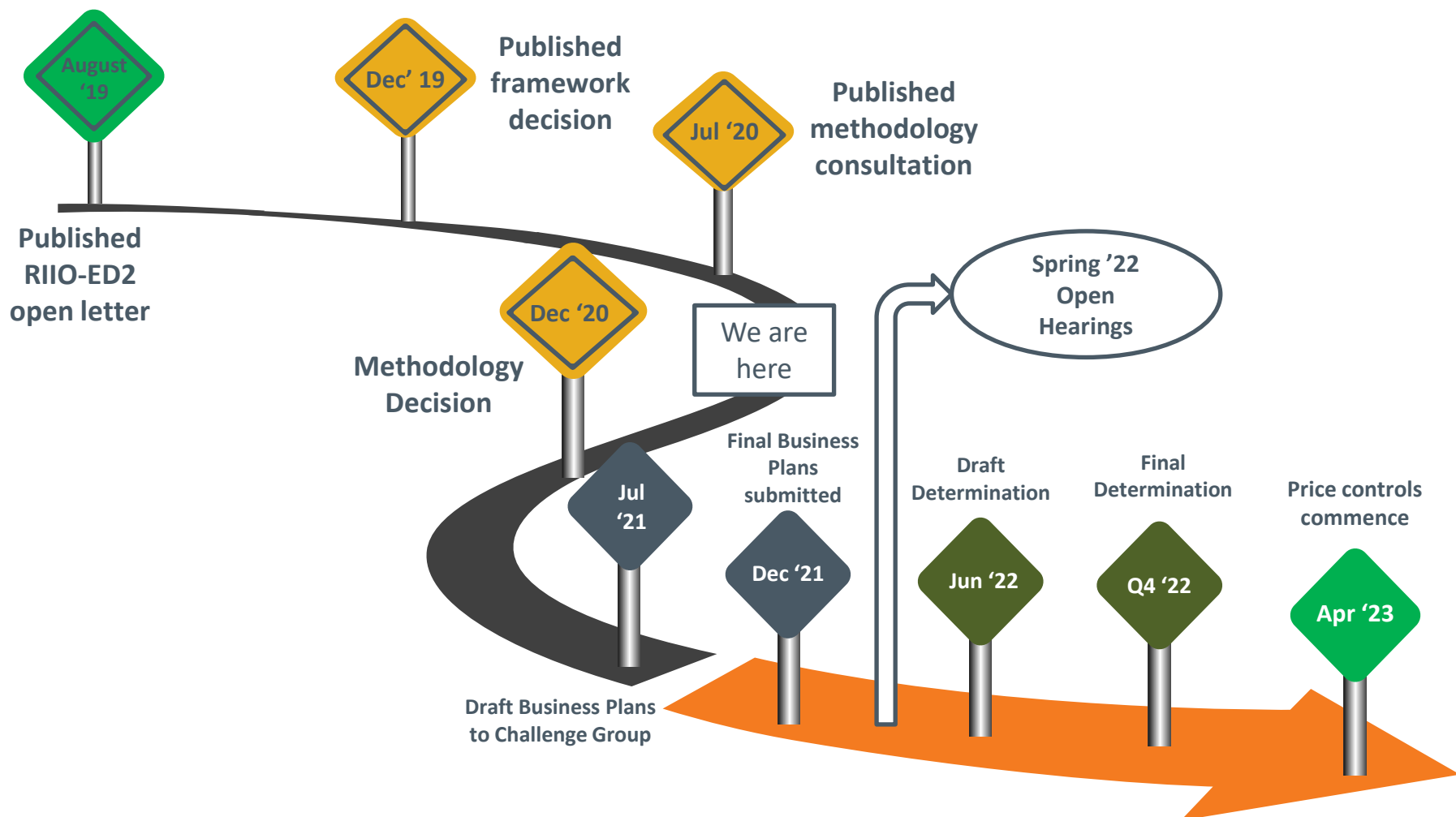
- Regroup post-SSMC and clarify any questions
- Share Ofgem's views on the priority areas ahead of SSMD and how to address these
- Collaborative planning on the approach to the priority issues to ensure the WG can function effectively for all in the lead up to the SSMD

Timings	Agenda item
13:00 – 13:45	1. Running of the WGs ahead of SSMD 2. Recap SSMC proposals
13:45 – 15:15	3. Priority areas for the SSMD 4. Approach to ensure priority areas addressed ahead of SSMD
15:15 – 15:30	Break
15:30 – 16:30	5. SF6 position paper (SSE) 6. AOB and next steps

How the WGs will run:

- At least four sessions over September and October, to feed into development of SSMD position by Mid November.
- Provisional agenda items set out for first half of agenda, second half of meetings will be kept free to return to items. Key aims of next session agreed at the end of WG.
- WG discussions should be constructive and provide evidence and analysis to inform the development of SSMD.
- If you wish to propose an alternative proposal through a WG agenda item, this should be communicated to Ofgem; address the rationale/challenges in the SSMC and should be discussed with Ofgem prior to presentation at the WG.
- Material to be shared in advance to enable sufficient preparation for discussion by all WG members.

Provisional Date	Proposed agenda items
Thursday 27 th August 13:00 – 16:30 Teleconference	1) Approach to WGs 2) Recap SSMC proposals 3) Priority areas for the SSMD 4) Initial discussion on the EAP scope and suitability of the baseline standards
Thursday 17 th September 10:00 – 15:00 Teleconference	1) Update on measurement of areas in scope of EAP and common metrics for AER
Thursday 8 th October 10:00 – 15:00 Teleconference	1) Environmental reopener 2) Visual Impact Allowance and approach to setting funding pot
Thursday 29 th October 10:00 – 15:00 Teleconference	TBC



SSMC Overview

Environmental framework (EAPs and AERs):

- DNOs to outline the activities they will undertake to work towards the realisation of an environmentally sustainable network in RIIO-ED2 Business Plans in the form of an Environmental Action Plan (EAP).
- DNOs' EAPs should outline their commitments for specified areas, in the form of activities and associated performance indicators and targets, to deliver an environmentally sustainable network in RIIO-ED2 and to achieve Net Zero by 2050.
- EAPs should be informed by stakeholder engagement and CBAs, with associated environmental factors costed in. Within the EAPs, we will require DNOs to draw together the direct carbon impacts claimed in any relevant Engineering Justification Paper (EJP) or CBA submissions.
- Failure to submit a sufficiently complete EAP could result in a penalty under the BPI. Where companies can demonstrate that going beyond Ofgem's minimum standards will deliver additional value for consumers and has the potential to raise the bar across the industry, we propose they could be eligible for a reward through the CVP.
- Funding will be provided through baseline allowances and, where specific schemes require more significant expenditure, we may use PCDs to ensure DNOs are accountable for delivery.
- We will require companies to publish an AER outlining progress against their EAP commitments, and further ensure DNOs are held accountable for delivery. This would take the form of a reputational within-period incentive.

Visual impact allowance:

- We consider that the undergrounding scheme has worked well in RIIO-ED1 and are proposing to retain it for RIIO-ED2, using the same methodology for calculating and allocating the funding pot.

Reopener:

- We propose to introduce a re-opener mechanism to respond to environmental legislation that would require a material change in the approach to companies' EAPs. Ofgem or the network companies would be able to trigger the reopener.
- In the case of national legislation, we would expect companies to work together to demonstrate the material change in the approach needed. For regional legislation, all companies impacted should work together to demonstrate this.

Discussion: any clarification questions or high level reflections?

SSMC to SSMD: Priorities and proposed approach

- **Environmental Action Plan**
 - Suitability of baseline standards
 - Consistent and comparable measurement of EAP areas (including common BCF methodology)
 - How to maximise the reputational incentive of the EAP and AER?
- What is the appropriate scope and design of an **environmental reopener**?
- How to determine the funding pot for the **visual impact allowance**?
- **Business Plan Data Templates (BPDTs)** – need to reflect the proposed approach in the BPDT, including any common methodologies
- **Activity specific issues** (overlap with EAP scope)
 - BCF common methodology and how to treat scope 3
 - Consistent approach to losses appraisal (eg in the CBA)
 - Overall approach to SF6 – joining up the BCF methodology, EAP and reopener

Question: Anything we have missed?

Environmental Action Plan

- Suitability of baseline standards
- Consistent and comparable measurement of EAP areas (including common BCF methodology)
- How to ensure the AER functions effectively as an ODI R

Initial questions to answer for each area in scope

1. Overview of DNOs' current activities in this area; what progress has been made in RIIO-ED1 to date and how is this currently being measured and reported?
2. What metrics are being used in the other sectors? Are there common principles and assumptions that we could apply from the other sectors?
3. We expect the minimum standards proposed to be achievable within baseline allowances. Do you consider any of the minimum levels of ambition would represent significant, as opposed to incremental, expenditure?
4. If significant, what would be the cost implications?

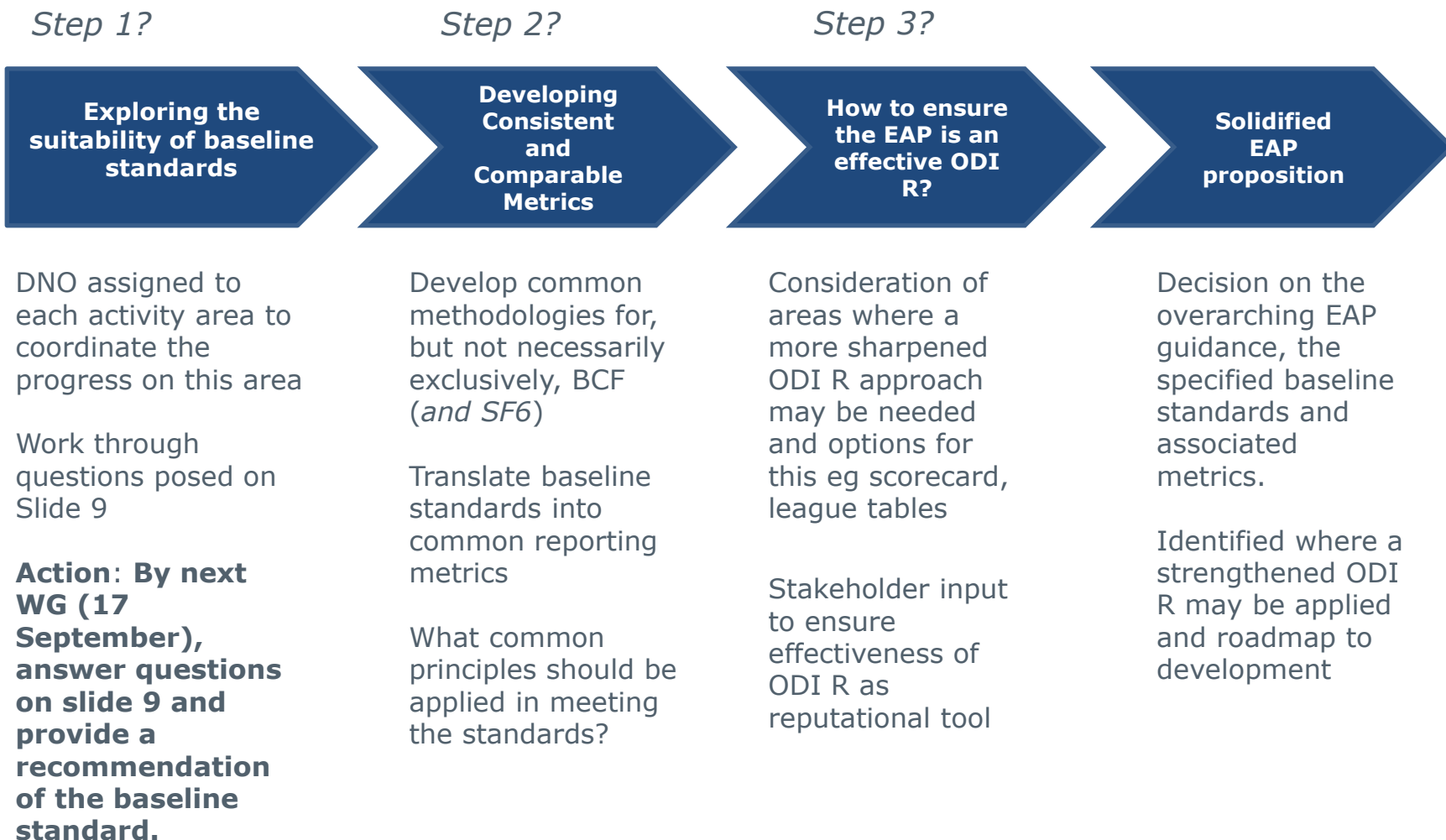
As noted on the overview slide(s) 6-7, for some areas eg Losses, BCF and SF6, there are area specific issues to address too. We propose this should be developed in conjunction with the EAP.

Interactions with other areas of ED2 and other working groups: SRR (climate resilience) CAWG (CBA, EJP and UMs) and BPDT. Approach to net zero – strategic investment, NZ reopener, LCTs. BPI.

Timeline: Clear progression at each working group. Agreed baseline standards for majority of areas by Mid October.

We are proposing to assign coordinators to areas in scope of the EAP. Coordinators are not necessarily responsible for completing all actions for the area they have been assigned, but are responsible for engaging with relevant stakeholders, progressing actions and coordinating responses for presentation to Ofgem and the working group.

Environmental area	Proposed coordinator (DNO)
Business Carbon Footprint (BCF)	WPD
Losses	SPEN
Embodied carbon	ENWL
Sulphur Hexafluoride (SF6)	WPD and SSEN
Supply chain management	UKPN
Resource use and waste	UKPN
Biodiversity and/or natural capital	NPg
Fluid-filled cables	SSEN
Noise pollution	NPg
NOx and air quality	UKPN



Issue area: scope and design of an environmental reopener.

Proposed approach and/or questions to answer:

- Horizon scanning of policy landscape in areas in the scope of EAP and whether policy changes are likely, including the ongoing F-Gas review (*group to feed views in to Ofgem*)
- Strawman option for reopener to be developed covering the scope, parameters and timings (*Ofgem to develop and share for review*)
- If a clear view emerges [re. F-gas review) before DDs or FDs, could Ofgem set ex ante allowances up front?

Interactions with other areas of ED2: Other uncertainty mechanisms, particularly Net Zero Reopener.

Timeline: Strawman to be developed by Mid-October

Issue area: determine the funding pot for the visual impact allowance

Proposed approach and/or questions to answer:

- Options to be brought forward for approach to deriving funding pot and the forecasting methods involved with this
- Define a common approach to stakeholder input, the appropriate mechanisms for this and how it can be developed. (DNO led)

Interactions with other areas of ED2: BPDT

Timeline: Addressed in October WGs, to inform SSMD by mid-Nov

Issue area: reflecting the environmental approach in the BPDT

Proposed approach and/or questions to answer:

- Analysis of current BPDT and RIGs and whether the approach can be reflected in existing tables with minor changes or whether new sheets are needed in the template (Ongoing by Ofgem– other than visual amenity, likely significant changes needed)
- Development of EAP sheet in the BPDT, using other sectors as starting point

Interactions with other areas of ED2: CAWG and BPDT. This will be progress through Ofgem policy and cost teams at the BPDT, but we will present updates at the DEWG.

Timeline: Present at the September and October BPDT WG. First draft complete in October

Appendix: SSMC EAP minimum requirements

Business carbon footprint (BCF)

- Adopt science-based target for company to reduce its scope 1 and 2 BCF by 20XX, without relying on international GHG offsetting
- Commit to efficient and economic actions to address controllable BCF in RIIO-ED2
- Identify metrics, and associated targets, for RIIO-ED2 to track the impact of implementing actions and overall progress towards science-based target and Net Zero, against a consistent baseline
- Commit to reporting on BCF reduction and progress towards science-based target and Net Zero using the common BCF methodology. Reporting should include progress in reducing scope 3 emissions.

Sulphur Hexafluoride (SF₆)

- Commit to efficient and economic actions to reduce leakage rates and improve management of SF₆ assets
- Adopt target(s) for SF₆ leakage and/or SF₆ asset management
- Commit to reporting on total SF₆ bank and leakage reduction rates using a common DNO methodology

Losses

- Develop and commit to implementing a strategy to efficiently manage both technical and non-technical losses on the DNO's network over the long term. This should include specific actions and performance measures to track the impact of actions in RIIO-ED2.
- Commit to reporting on the progress of implementing the losses strategy and associated performance measures.
- Contribute to evidence base on proportion of losses that network companies can influence/control

Embodied carbon

- Commit to monitoring and reporting on embedded carbon in new projects
- Commit to collaborating with DNO's supply chain on addressing challenges to reduce embodied carbon in network
- Commit to establishing baseline and a target to reduce embodied carbon on new projects during RIIO-ED2

Supply chain

- Adopt high standards of environmental management in supplier code, including requirements for public disclosure of metrics and cascading code to their suppliers that are material to company's inputs
- Adopt target of more than 80% of suppliers (by value) meeting code in RIIO-ED2
- **Commit to reporting** on actual percentage of suppliers (by value) meeting code

Resource use and waste

- Update procurement processes to embed Circular Economy principles
- Adopt a target for:
 - Zero waste to landfill by 20xx
 - Recycled and reused materials as a percentage of total materials by 20xx
- **Commit to reporting** on actual waste to landfill, recycling and reuse as a percentage of total

Biodiversity/natural capital

- Adopt appropriate tool to assess net changes in natural capital from different options for new connections and network projects
- Adopt appropriate tool to monitor the provision of ecosystem services from network sites & report annually

Fluid-filled cables

- **Adopt a target for reductions in the volume of fluid (oil) used to top up cables**

Noise pollution

- **Commit to reporting on actions taken to reduce noise pollution**

NOx and air quality

- **Commit to reporting on actions taken to reduce NOx**

- The total estimated cost of initiatives the companies proposed in their EAPs was £1.5 billion.
- Ofgem proposed to allow £160m baseline funding across the companies to facilitate the delivery of EAP commitments, and a further £420m attached to specific PCDs.
- These deliverables include major asset replacements to reduce SF₆ and gas compressor emissions, land remediation, and the conversion of companies own operational fleet to electric vehicles.
- In addition, there are UMs within the price control to fund additional environmental initiatives.
- For the impact areas where performance can be measured reliably and can be monitored using well-understood or widely adopted methodologies, eg business carbon reporting, Ofgem's position was to set reputational ODIs for all of the companies.
- For impact areas where Ofgem have lower confidence about the availability of a reliable and relevant measure, ie because an industry standard is not available yet, Ofgem's position is that all the network companies regularly report their progress on delivering their EAP commitments through the AER.

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.