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Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

29 January 2021

**Consultation for RIIO-2 Environmental Reporting**

Thank you for the opportunity to respond to this consultation. Northern Gas Networks (NGN) has been actively involved in Environment working group and welcomes the opportunity to provide feedback on the proposed RIIO-2 Environmental Reporting Guidance document. NGNs response is in relation to our Final Determination.

We have provided detailed feedback on the reporting guidance in the response template issued alongside this letter as well as comments on the guidance reporting documents in the attached annex.

The additional requirements outlined in the Environment Reporting Guidance will result in unforeseeable additional costs to licensees associated with extra data capture, analysis and reporting, in addition additional third-party technical costs, for example for Scope 3 carbon emissions screening. Ofgem have not provided any stakeholder evidence or research that the additional reporting requirements that go beyond the EAP requirements are valued by stakeholders or provide additional value to stakeholders.

We note that in addition to the comments returned as part of this consultation, there are a number of elements that remain outstanding at this point. Aside from the technical elements, all licensees are required to publish an Annual Environmental Report (AER) which meets the requirements of the Environmental Reporting Guidance (ERG). This is a license requirement. The guidance does not address the following;

- How and when will AER compliance be assessed and by whom?
- How and when will licensees receive feedback regarding whether their AER is compliant with the ERG or not?

**we are  
the network**

Northern Gas Networks Limited is registered in England and Wales, no. 5167070.  
Registered office: 1100 Century Way, Thorpe Park Business Park, Colton, Leeds LS15 8TU



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Call the National Gas Emergency Service  
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Please contact me should you have any queries about this response.

Yours sincerely

*By email*

Joanna Ferguson  
Head of Market Service & Regulatory Compliance

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## RIO-2 Environmental Reporting Guidance Consultation Response

### Consultation Questions - Do you have any comments on:

#### 1. the general requirements for the publication of the AER that is proposed in the draft Guidance?

##### *Paragraph 1.3*

All licensees are required to publish an Annual Environmental Report (AER) which meets the requirements of the Environmental Reporting Guidance (ERG).

How and when will AER compliance be assessed and by whom?

How and when will licensees receive feedback regarding whether their AER is compliant with the ERG or not?

*Paragraph 2.2: "Relevant - ensure the data collected and reported reflects the environmental impacts of the company".*

This contradicts the definition of 'completeness' and is difficult to comply with under the prescriptive requirements of the guidance. The guidance reporting framework offers little or no flexibility to identify and report on company, regional or sector specific environmental impacts as may be recorded in licensee's individual environmental aspects and impacts registers (in own Environmental Management Systems).

For example, NGN identify negative impacts on local air quality associated with traffic congestion from our streetworks as a significant environmental impact of our business, but the reporting guidance does not provide the opportunity to report on this environmental impact or mitigation made. This identifies the likelihood that there will be a discord between each licensee's significant environmental impacts as identified in their own Environmental Management System and the content of the AER. This could be confusing to stakeholders as it may appear that licensees are not addressing all of their environmental impacts when in fact they might be, but not allowed to report on them.

Suggest change to: '*Relevant - ensure the data collected and reported reflects the environmental impacts of the company in the impact categories specified within the guidance*' to bring it into accordance with the existing definition of 'completeness'

*Paragraph 2.2: 'Consistent – use of similar methodologies'*

Does this mean similar for an individual licensee from year to year, or similar between all licensees, or both?

##### *Paragraph 2.5*

Does the page limit include appendices where required? For example the requirement for Scope 3 carbon emissions screening outcome and methodology as an appendix to the first AER (paragraphs 3.31 and 3.32).

##### *Paragraph 2.8*

Are licensees required to submit their AERs to Ofgem or is it sufficient to publish them on their website in order to be compliant with the guidance?

#### 2. the structure of the AER that is proposed in the draft Guidance?

The structure only allows for 2-3 pages of comment on progress against licensee's own Environmental Action Plan (EAP) commitments (paragraphs 3.6 and 3.7). Given that these commitments were driven by licensee's stakeholder priorities it is disappointing that they are affording comparatively limited coverage in the report (c.5-10% of the page allowance). It is recommended that this page allowance is increased, eg to five pages. NGN have sought the view of

the Chair of our Customer Engagement Group (CEG) on this matter and they are supportive of our recommendation to provide additional allowance within the AER structure to allow more detailed reporting of licensee EAP commitments.

It is disappointing the proposed AER structure does not specifically include the opportunity for licensee's CEGs to provide an independent statement regarding licensee's environmental attitudes and performance and progress against their own EAP commitments. NGN's CEG were directly involved in discussing and shaping our bespoke EAP commitments and as such a statement from our CEG regarding our progress towards achieving these commitments and the value they deliver to stakeholders would be beneficial to the AER content and stakeholders in general. It is recommended that the opportunity to include annual performance assessment statement by the licensee's CEG, either as part of the core text or as an appendix, is included in the ERG. NGN have sought the view of the Chair of our Customer Engagement Group on this matter and they are supportive of our recommendation. Specifically, this includes that the future remit for the CEGs should include review of each relevant AER and provision of a view to Ofgem on whether it is consistent with the stakeholder needs and preferences expressed in the business plan planning phase and through annual engagement activities.

### **3. the content of the AER that is proposed in the draft Guidance?**

If the licensee is required to publish an AER which meets the requirements of the ERG, which is noted to contain several 'must' items, then the ERG is in fact a set of requirements and should be named as such.

Minimum content requirement for EAPs was provided by Ofgem in the RIIO-2 business plan guidance. All EAPs submitted with business plans were accepted by Ofgem without challenge and deemed compliant with the minimum EAP requirements. The requirements of the ERG go far beyond the minimum EAP requirements and have been introduced post release of final determination following a discussion period between draft and final determination. The retrospectively introduced additional requirements of the ERG will result in unforeseeable additional costs to licensees associated with extra data capture, analysis and reporting, in addition additional third party technical costs, for example for Scope 3 carbon emissions screening. Ofgem have not provided any stakeholder evidence or research that the additional ERG requirements that go beyond the EAP requirements are valued by stakeholders or provide additional value to stakeholders.

### **4. the environmental impact measures to be included in the Dashboard that are proposed in the draft Guidance?**

#### *Waste and recycling*

The two selected dashboard indicators can be difficult to obtain and report succinctly in a dashboard, potentially making it confusing to stakeholders. Recommend replace 'recycling rates' and 'final destination of waste' with 'percentage of waste to landfill'. This will match the terminology stakeholders are used to seeing and further data granularity is provided later in the report.

*'Sustainable procurement - percentage of suppliers (by value) meeting the licensee's supplier code'*  
The objective of the AER is to provide comparability of performance data across licensees. There are no mandatory RIIO-2 requirements for the content of individual licensee supplier codes, or requirements for how supplier compliance with the code should be measured and monitored by licensees. As such the content of supplier codes and how compliance is measured and monitored will vary between licensees in accordance with their own business priorities and render this measure as unsuitable as a meaningful performance dashboard indicator. Recommend remove this as a dashboard performance indicator.

*'Local environment - net change in biodiversity units from network development projects that impact the local environment'.*

This can only be done for completed projects so indicator needs to reflect this. This should only be reported where applicable and not a standing requirement. It is anticipated that gas distribution networks (GDNs) will have relatively small numbers of applicable projects to report against. Keeping this as a mandatory KPI regardless of applicability could have a negative stakeholder impact on licensees if they had to repeatedly report 'zero' because they had no relevant projects to report against. Recommend change this requirement to only where relevant projects have been completed in the reporting year.

**5. the type of information about the licensee's implementation of their EAP commitments that is proposed in the draft Guidance?**

See answer to question 2 above. Given the wide range of bespoke EAP commitments it is recommended that licensees are provided more freedom from structure in this section of the ERG to provide performance information pertinent to their own commitments.

**6. any of the environmental topics to be included in the AER that are proposed in the draft Guidance?**

Detailed, specific comments against each environmental topic have been provided in our accompanying consultation response spreadsheet with key items summarised below.

*Innovating for decarbonisation*

This section duplicates other RIIO-2 innovation and thereby introduces additional administrative burden and duplication. Other RIIO-2 reports will provide stakeholders with greater understanding of decarbonisation innovation requirements, in particular regarding the value and significance of innovation activities. This section will offer limited value to stakeholders and it is recommended that it is removed from the ERG and replaced with cross-references (links) to other RIIO-2 annual licensee decarbonisation innovation documents.

*Climate change resilience*

There is a degree of reporting duplication here with the UK Climate Change Adaptation Reporting scheme which networks already participate in (<https://www.gov.uk/government/publications/climate-change-adaptation-reporting-third-round>). To minimise duplication it is recommended that guidance should allow for licensee AERs to cross-reference to existing network Climate Change Adaptation Reports where relevant.

**7. any of the specific metrics to be included in the AER that are proposed in the draft Guidance?**

Detailed, specific comments against each metric have been provided in our accompanying consultation response spreadsheet with key items summarised below.

*Innovating for decarbonisation*

- On what grounds are the 'top three contributing innovation activities' to be selected by the licensee - cost, value to stakeholders, carbon savings etc? Please clarify.
- Can innovation activities be reported in more than one AER? For example multiyear, large scale projects such as HyDeploy or H21 - can they be reported in multiple AERs where the project has been live? Please clarify.

*Business carbon footprint – scope 1 and scope 2*

- Verification of science based carbon reduction targets was not a requirement of the EAP.
- Science based carbon reduction targets were set in 2018 and 2019 to enable submission in EAP in business plan. It is now past the time window in which targets can be verified by the SBTi.
- SBTi verification will require inclusion of natural gas shrinkage targets to 2050 which is of low value to stakeholders as under the UK's net zero commitment we do not know the

future of the UK's gas network but we can be certain that we will not be operating a natural gas transmission and distribution network as seen and used today.

- NGN's science based targets for Scope 1 and 2 were developed for a well below 2 degree pathway before the UK commitment to net zero. Following the UK's announcement we were advised by the Carbon Trust that there was no comparable available science based target methodology to the UK's net zero commitment. In recognition of the UK's commitment and the RIIO-2 business plan guidance, NGN developed more ambitious carbon reduction targets than our science based targets, and an associated delivery plan, and presented these in our RIIO-2 EAP as our carbon reduction targets. Our more ambitious targets were accepted by Ofgem. It would offer no value to stakeholders, and indeed be confusing, to get the superseded, less ambitious science based targets verified by the SBTi.
- It is considered that verification of science based carbon reduction targets by the SBTi should be viewed as desirable but not essential and the ERG amended to reflect this.

#### *Business carbon footprint – scope 3 emissions*

- The requirements of Section 3.28, in particular the objective to ever increase the proportion of contractors / suppliers providing actual carbon data, must be balanced against the inevitable increased cost of providing this data to the energy customers and whether customers will value this. This requirement was not included in the RIIO-2 business plan EAP guidance.
- To offer best value to our customers and invest in our region, NGN's preferred operating model is to contract directly with local, agile and efficient small and medium sized enterprises (SMEs) (for example our successful DSP model), rather than engaging with Tier 1 contractors. Unlike Tier 1 contractors, SMEs typically do not have the in-house technical environmental/sustainability capabilities, or often administrative resource, to provide carbon data. In research undertaken by NGN in November 2020, only 33% of candidate SME companies surveyed responded that they measure and share their carbon data with third parties.
- NGN undertook an embodied carbon research project with an MSc student during 2020 which identified that our supply chain was unable to provide embodied carbon declarations for typical engineering products purchased, such as pipe fittings, valves and repair chemicals, or indeed product composition data to enable NGN to determine the embodied carbon value from published values (eg ICE). This absence of source information will significantly impact our ability to provide actual Scope 3 carbon data for capital goods.
- The requirement to move from financial based Scope 3 reporting to actual supply chain carbon data collection and reporting whilst desirable will place additional burden on supply chain and likely result in increased costs to customers. No stakeholder evidence has been provided by Ofgem to support this requirement.
- Recommend paragraph 3.28, sentence 2 amended by adding following to end of existing sentence: 'where supported by stakeholder value research and can be achieved without significant additional cost or administrative resource requirements'.

#### *Embodied carbon*

- The requirement to provide final design and as-built embodied carbon estimates is an additional requirement which was not included in the RIIO-2 business plan EAP guidance, and thus was not included for in the business plan, thereby imposing an additional cost burden upon networks. Ofgem have not provided stakeholder or technical evidence regarding the benefits of producing final design embodied carbon estimates in addition to as-built estimates.
- Embodied carbon estimates based from final designs are inherently inaccurate as they are not based on real world data and offer limited value for performance reporting purposes. This activity is entirely new to gas distribution networks (GDNs) and should as such be seen as a desirable but not essential requirement. The focus of RIIO-2 activity should be on capture of as-built data for in scope projects to enable networks to develop a database of embodied carbon estimates for completed projects which can be used in the future for forecasting and target setting purposes beyond RIIO-2.

- Recommend changing wording of paragraph 3.47 sentence 1 to 'The licensee must report on estimated embodied carbon of an in scope project at the as-built stage. It is also desirable, but not essential, to report on estimated embodied carbon of an in scope project as the final design stage for comparison purposes.'

*Sustainable Procurement*

- Within sector, all licensees have similar supply chains in terms of types of suppliers and materials used, although scales will vary. The greatest impact on the provision of meaningful and comparable sustainable procurement reporting is the business processes and priorities which each licensee applies to it. As referenced in Question 3 response above, there are no mandatory RIIO-2 requirements for the content of individual licensee supplier codes, or requirements for how supplier compliance with the code should be measured and monitored by licensees. As such the content of supplier codes and how compliance is measured and monitored will vary between licensees in accordance with their own business priorities thereby significantly limiting the ability to collect truly comparable sustainable procurement performance data and limiting the value of this performance data.

Paragraph 3.58 – bullet point 3 - percentage of suppliers that implement their own sustainability management system:

- For materiality purposes this should focus on critical/significant suppliers, not all suppliers.
- SMEs are less likely to have a documented sustainability management system and thus they could be disadvantaged in tender events if this is required to become a tender criteria, potentially resulting in cost increases to energy customers.
- What degree of assurance do Ofgem expect the licensee to exert regarding verifying supplier declarations that they implement their own sustainability management systems? Suggest wording change to reflect that licensees can only go so far in verifying supplier claims to 'operating' a management system.
- Recommend change wording of bullet point 3 to 'percentage of suppliers (by value) that have their own sustainability management system'.

**8. the proposal that licensees report on the life cycle impact of supply chain categories where data is available?**

This seems a reasonable desirable reporting objective for networks to work towards. This is not achievable at the outset of RIIO-2 due to data availability.

**Do you have any suggestions for including any additional environmental topics or other metric/measures on environmental impact of the networks?**

Given that all GDNs have been granted financial allowances for land remediation in RIIO-2 it is recommended that Table 15 is expanded, or an additional land remediation table provided, to include reporting of land remediation activities by categories as used in RIIO-1 to demonstrate outputs for investment to stakeholders.