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Dear Anna,

Response to RIIO-2 Environmental Report Guidance Document

We welcome the opportunity to provide our views on the draft RIIO-2 Environmental Report Guidance Document for the RIIO-GD2 price control.

This document builds on our participation across the Licence Drafting workgroups with Ofgem and our response to the RIIO-2 licence drafting consultations.

Our response to the consultation questions are attached to this letter. We have attached our specific comments on the attached template.

1. Associated document review template AER

I can confirm that our response is not confidential and may be published by Ofgem.

Should you have any queries on our responses please do not hesitate to contact me.

Yours sincerely



Sarah Williams
Director of Regulation

WWU RIIO-2 Environmental Report Guidance Document response to consultation questions

Consultation questions

1. Do you have any comments on the general requirements for the publication of the AER that is proposed in the draft Guidance?

We agree with the principles which have led Ofgem to define a requirement for GDNs to report against our environmental commitments. This step is supported by stakeholder engagement. Within our RIIO-2 Business plan we committed to range of stretching targets in areas mandated by Ofgem. The RIIO-2 Environmental Report Guidance (2019) includes a range of reporti

ng areas, standards and governance requirements that fall outside of the Ofgem mandated requirements on which the business plan commitments were founded. Consideration of the significant impact, on our business, of these additional requirements associated with the AER has not been acknowledged. The volume of data, governance and processes required to deliver the AER to the mandated standard has not been captured within our business plan and will significantly impact upon our ability to drive environmental improvement within the boundary of our EAP allowance.

The RIIO-2 Environmental Report Guidance Document, dated 17th December 2020, (The Draft Guidance) is directly linked to our license obligation and therefore we seek clarification on the mandatory nature of the reporting requirements set out in The Draft Guidance. Given the variation on the prescriptive more undecided elements within The Draft Guidance we would seek to understand if a collaborative GDN interpretation of elements is to be accepted by Ofgem.

The general requirements set out in chapter 2 of The Draft Guidance broadly meet our requirements and the requirements of our stakeholders.

We recognise that comparability across the sector can be a benefit to stakeholders in assessing our continual improvement. However, we have concerns about this approach where individual business models and processes and the Environmental Best Practice Guidance referenced as a reporting standard indicate that comparison is not appropriate; i.e. scope 3 reporting.

2. Do you have any comments on the structure of the AER that is proposed in the draft Guidance?

We feel the structure of the AER is heavily biased away from the EAP commitments we made to stakeholders in our business plans. Although we recognise the benefit in presenting some of the data requested in The Draft Guidance we feel that the current format does not reflect what our stakeholders requested.

3. Do you have any comments on the content of the AER that is proposed in the draft Guidance?

We feel that the content of the AER has significantly increased from our Business Plan proposal to report against our commitments. Although we see benefits of individual elements of the additional guidance document when taken collectively it represents a significant additional burden to the allowance. We are disappointed that these new requirements were not present within the minimum environmental requirements Ofgem published RIIO-GD2 Business plan guidance (September 2019) and would like to see the stakeholder engagement that has led to the inclusion of these elements to allow us to build these views into our environmental strategy going forward.

4. Do you have any comments on the environmental impact measures to be included in the Dashboard that are proposed in the draft Guidance?

A dashboard is an appropriate way to quickly present environmental data. We feel that the dashboard should focus on the mandatory requirements of the EAP guidance and our EAP commitments which were sanctioned by stakeholders.

Other more specific comments on the dashboard format include:

- Clarity on what is meant by innovation would be helpful here. If we are looking at true innovation, 'UK first time', this section would miss out on any decarbonisation projects completed using the Net Zero uncertainty mechanism and the use of it or lose it allowance.

We are awaiting the guidance documentation from Ofgem on NIA and other new funding, as such would like confirmation that references to innovation within the AER will not be a duplicate of reporting requirements. We do not feel that duplicating reporting across Ofgem mandated reports is of benefit to stakeholders or consumers.

Innovation to support UK decarbonisation will be very important going forward and may be of interest to stakeholders reading the AER. We suggest that high level discussion of up to 3 projects associated with wider innovation works be noted whilst referencing stakeholders to Annual NIA reports.

Based upon work we have completed using the Natural England, Biodiversity Net Gain (BNG) calculator it should be noted that changes in biodiversity unit over a project are a technical representation of change and we consider that they will not represent data that will be easily understood by stakeholders and therefore have concerns over the benefit of providing this data within the dashboard. In addition, biodiversity units represent only one of the ten best practice elements associated with BNG.

5. Do you have any comments on the type of information about the licensee's implementation of their EAP commitments that is proposed in the draft Guidance?

Our EAP commitments represents the focus of our RIIO-GD2 environmental promise to stakeholders; it was driven by our impact on the environment, the Ofgem RIIO GD2 Business Plan Guidance (September 2019) document and stakeholder mandate.

By limiting EAP commitment reporting within the AER to 2-3 pages of a 45 page document, we feel that, the focus of the AER is no longer on the areas requested previously by Ofgem and expected by our stakeholder. The significantly limits our ability to effectively communicate our EAP commitments with our stakeholders within the AER.

6. Do you have any comments on any of the environmental topics to be included in the AER that are proposed in the draft Guidance?

We note that there are many new environmental areas being covered by the EAP. It should be noted that as we work towards delivering our commitment over GD2 we will having increasing understand of if the focus areas are of material importance to our environmental impact and stakeholder mandate.

7. Do you have any comments on any of the specific metrics to be included in the AER that are proposed in the draft Guidance?

Comments and concerns about specifics within The Draft Guidance are as follows:

- **Science Based Targets.** The term Science Based Target (SBT) is copyrighted by Science Based Target Initiate (SBTi). A company cannot state to have a SBT unless it has been verified by the SBTi.

The scientific basis of the SBT is:

“to reduces GHG emissions in line with the latest climate change science predictions. This is necessary to meet the goals set out by the Paris Agreement, to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit warming to 1.5°C”.

A target can be can meet this definition without being verified by SBTi if called a Science Aligned Target. The actual target for carbon reduction whether termed an SBT or Science Aligned Target would be the same.

For a GDN to get a Scope 1 & 2 science aligned target validated by SBTi it would be required to include shrinkage in scope 1. If the GDNs scope 3 is more than 40% greater than the scope 1&2 emissions then it would be required to validate and set targets for scope 3 whilst validating the Scope 1 & 2. SBTi have confirmed that they would require “use of sold product” (carbon associated with the through flow of the gas within a year) within GDN scope 3 reporting; please see the WWU Business Plan EAP Appendix for a copy of the correspondence.

Our concerns are as follows:

- Ofgem has specifically excluded shrinkage and use of sold product for our future reporting. This will, therefore, require GDNs to report two separate numbers against the same targets to satisfy Ofgem and SBTi requirements. However, with the shrinkage and use of sold product removed GDNs would not be able to refer to the target as an SBT. This renders the SBTi verification process unnecessary; we would have used allowance to obtain permission to use a term which cannot be used when reporting progress against it in the AER.
- Full scope 3 reporting is new to the GDNs. Data will initially be heavily dependence on inaccurate financial conversions whilst we improve our understanding, processes and reporting. Being forced, through SBTi verification, to sign up to carbon reductions for Scope 3 before we understand our impacts, have confidence in our data or take on stakeholder views will be inefficient and ultimately be misleading. We note that Ofgem have indicated that they would like scope 3 targets before the end of the price control; this appears to be aligned with our concerns noted above but at odds with SBTi.

We would welcome Ofgem insight into the stakeholder mandate that has requested SBT over Science Aligned Targets.

- **Natural Capital Accounting** – We are pleased that Ofgem have recognised that the NCV approach to long term assets is not appropriate for all GDNs.
- **Biodiversity** – We have committed to addressing biodiversity loss within our business plan and have been looking into the interconnecting role biodiversity plays with ecosystem services. It should be noted that the most advantageous biodiversity changes may not have positive impact on ecosystem services. We also note that the AER guidance focuses on biodiversity metrics and therefore misses the other nine key elements of biodiversity net gain best practice¹.
- **Climate Change Resilience** – As discussed within our business plan, we will continue build adaption to climate change into our business as usual; providing value for money to our customers now and into the future. We do not plan to undertake any physical asset protection interventions within the period. Therefore, this requirement is not directly applicable and does not present consumers with an understanding of the comparative risks being managed by individual companies.

We have committed to Adaptation Reporting Power (ARP) reporting, to central Government, as set out in the Climate Change Act 2008 which provides the Secretary of State to with a report on how we are addressing current and future climate impacts. The report should detail:

- the current and future projected impacts of climate change on their organisation;

¹ Biodiversity Net Gain: Good Practice for development, CIEEM, CIRIA, IEMA, 2016.

- proposals for adapting to climate change;
- an assessment of progress towards implementing the policies and proposals set out in previous reports

The ARP report will be published on the central government website after submission on 31st December 2021. Although this report will be relevant to the climate change resilience this section will be vastly unchanged from year to year.

In addition, from 2022 all GDNs will be required to disclose under (Taskforce on Climate related Financial disclosure) TCFD. As such we feel that the duplication of the same topic of reporting in different formats does not represent a clear, material benefit to consumers.

We feel that adaptation should be reported by exception to avoid duplication.

8. Do you have any comments on the proposal that licensees report on the life cycle impact of supply chain categories where data is available?

We are committed to building the circular economy into our business. This is a new focus area for us and therefore have concerns over prescriptive reporting requirements without understanding the potential impact upon our business and supply chain. We feel that this is an area where currently undefined progress will be made over the price control period.

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

No.