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Dear Dora

#### CONSULTATION ON THE DRAFT RIIO-ED1 ENVIRONMENT REPORT GUIDANCE DOCUMENT

Here is our response to your consultation on the proposed guidance for the ED1 Environment Report. We agree with the stated objectives although we consider changes will be required to the guidance in order to provide interested stakeholders with a meaningful transparent and public account of each distribution network operator (DNO)'s commitment to address environmental matters.

There are some clear areas of overlap with the parallel consultation on the regulatory instructions and guidance (RIGs) process for related areas. We note that there remain a number of changes required to the suite of environmental reporting tables associated with losses and smart grids. We consider that these areas need more careful thought before we may be confident that stakeholders will be provided with useful information and Ofgem is provided with sufficiently robust data for it to make justifiable judgements. We make clear in this response where these areas of dual interest exist. In general, we do not think that this developing picture needs necessarily to hold up finalisation of the guidance on the Environment Report. We propose in this response how the guidance for the report may be adapted to reflect the fact that the detail for the underlying information is not yet complete.

#### General comments

We consider that Ofgem is right to set out minimum requirements and also then to suggest discretionary content that may develop through time. This will allow the report to develop through time in line with stakeholder feedback while ensuring that those who wish to compare the different DNOs may more easily do so. Of course, it is not just the structure and the titles that need to concur to facilitate this but also the content. I will come on to describe the issues that remain unresolved in defining this similar content.

The other principle that should be adopted in the guidance is for it to remain valid (in so far as it is reasonable) through the duration of the price control period as opposed to becoming

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quickly out of date. This response contains suggested changes to the guidance to make this more likely.

The proposed approach to reduce duplication by allowing cross-referencing should be welcomed by all concerned. It should keep the documents concise to help the reader as well as reduce the administrative overhead. Also, it enables the core report to be kept to the scope that will be useful to the majority of stakeholders while ensuring that those stakeholders that have a particular interest may be signposted to the detail they are seeking (e.g. RIGs tables or narrative).

In general given the resource cost of producing Cost Benefit Analysis (CBA) reports we would encourage a strategic approach, with CBAs produced and updated when there is a change in policy or other circumstance rather than becoming part of annual routine. We believe that this is the intention behind this environment report guidance and fully support this approach. It would be helpful if this was explicitly stated in the guidance, so that DNOs are clear as to when CBAs and other evidence needs to be produced and are not carrying out any unnecessary work.

As we set out in our response to the consultation on the draft RIGs, we believe that some of the environment and innovation information currently being requested in the form of RIGs tables should be reported in this environment report instead. This is because these tables will be completed by DNOs using estimated or forecast information and hence should be subject to separate assurance requirements. Please see our response to the RIGs consultation for more detail.

## **Introduction (section 1)**

We propose no changes in the content of this section.

## **Managing our environmental impact - excl. losses (sections 2.1-2.3.2, 2.4)**

We propose no changes in the content of this section.

### **Distribution losses (section 2.3.3)**

We recognise and support making available information on our actions to minimise electrical losses. It is appropriate that this report links information from our Losses Strategy with the data and information we provide annually through the RIGs process. There is further work required to define the specific information to be collected in table M5. We suggest that the mandatory content for the environment report is not locked down until we have some content in the RIGs that is more appropriate. Otherwise, the objective of requiring information in the Environment Report that is effectively a summary of table M5 and any supporting cost benefit analysis (CBA) will not be met.

In short, we consider that the work required in the development of table M5 and its associated guidance is that the use of CBAs needs much more dialogue between Ofgem and DNOs in order to generate consistency in the approach to be adopted. Without this shared understanding, the use of CBAs is likely to be carried out differently in each company, particularly in the choice of counterfactuals. As such, the numbers will be of limited value to stakeholders interested in a particular company's activity and of next to no use for a stakeholder who wishes to compare and contrast between companies. In particular, there is a need to understand how to report

from those projects that have losses benefits but where losses impact was not the driver for the investment.

Our preferred way forward is to conclude the discussion on table M5 and associated guidance before then going on to conclude any necessary revisions to the guidance for section 2.3.3 of the Environment Report. However, if Ofgem wishes to conclude the report guidance now we suggest reducing the table 1 guidance to a qualitative description of the column headings so that the exact table design may follow when supporting table M5 is clarified.

### Low carbon transition (section 3)

We support the inclusion in the discretionary content to provide stakeholders with our view on the deployment of low-carbon technologies and distributed generation. Reference is made to worksheet M11 where there is ongoing discussion about the availability and completeness of data. We rely on customers or installers complying with the DNO reporting requirements but the data we hold will never be as reliable as that for which there is a direct financial incentive on these parties to provide the information. As such, we consider that a more appropriate source for data on the deployment of low-carbon heating, transport and generation is through DECC or Ofgem where the requirement to register to obtain financial incentives should make the data robust.

This is more of a point to note as opposed to necessitating a change to the guidance. The Environment Report requirement is discretionary and the reference to table M11 is appropriate. This is more a question of how the guidance for table M11 is finalised in order to generate meaningful and consistent data across all DNOs.

As stated previously for additional clarity it would be helpful to state when CBAs and other associated evidence should be updated. Therefore we suggest the following wording in section 2.3.3 (second to last paragraph beginning 'to inform this analysis'...)

*'CBAs and other associated evidence should be updated when there is a change in circumstances (such as a policy change)'*

### Progress of the Innovation Strategy (section 3.1)

The guidance currently requires DNOs to report progress against the Innovation Strategy submitted as part of the RIIO-ED1 business plan. We expect that stakeholders will be more interested in what has changed in the past year as compared to what was envisaged when the strategy was written in 2013. The innovation activity could have changed significantly over a period of up to 10 years. The value to stakeholders of reconciling back to the business plan innovation strategy will decrease significantly through time. As noted in para 1.12 of the guidance document, reporting of ED1 commitments is required on an annual basis in accordance with SLC50 - so there is already a mechanism by which stakeholders may be kept informed on progress against firm commitments (i.e. through the annual business plan commitment report).

Therefore, we propose that the guidance is changed to the following words:

*'The DNO is required to outline the progress it has made against its Innovation Strategy, explaining any changes since the previous version(s) ~~submitted as part of the RIIO-ED1 business plan.~~'*

By making this change, this section of the report will be more meaningful to stakeholders and the guidance is more likely to remain appropriate for all eight years of the price control period.

### **Roll out of smart grids & innovation into business as usual (section 3.2)**

We support the view that the Environment Report will provide an overview of the CBAs produced to inform the choices we make in deploying innovative solutions in the ED1 period. More work is required to define adequately the guidance and design for completion of table M10 - innovative solutions and the use of CBAs that support it. The guidance for the Environment Report needs to take account of this detailed definition that is still being developed. In that way we may be confident that meaningful data is produced that enables stakeholders to be suitably informed and Ofgem ultimately to be able to make sound judgements on the performance of DNOs.

We do not consider that CBAs are necessary for each innovation solution that is not chosen for roll out. This is because engineering or commercial judgments will be made in the first instance of a solution's applicability to our company. This will be the first stage of filtering potential new solutions. The subsequent stage, for those that pass the initial screening, will involve creation of a CBA.

As such we consider that the wording in section 3.2a should be amended as follows:

*'A hyperlink to where a detailed CBA can be found assessing the costs and benefits of rolling out new innovative solutions (including where considered necessary by the DNO those not chosen for roll out)'*

By inserting these new words we consider that the guidance gives this flexibility for determining when a CBA is of value to support a decision on whether or not a new solution is implemented.

I hope that you find these comments useful. Please make contact if you wish to discuss them in more detail.

Yours sincerely,



Jim Cardwell  
Head of Regulation & Strategy