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Dear Ms Fletcher

Consumer Research for DPCR5 – Quantitative findings

Friends of the Lake District welcomes the opportunity to comment on the research report and would make the following points.

By and large, respondents gave much stronger signals of support for environmental action than for other types of system performance improvement. This research – like previous studies – is dominated by consideration of changes to the frequency and duration of interruptions but it seems that most of the public, who are subject to very few interruptions, are broadly happy with the service they receive. Perhaps this signals a need for Ofgem, if it is to be responsive to public demands, to be more active in regulating the environmental performance of the DNOs. It might also show that the use of aggregate willingness to pay is an ineffective way of establishing how society as a whole should address our obligations to, say, those consumers on the worst performing circuits.

We are puzzled as to why the research did not seek to establish what value customers of LPN placed on undergrounding overhead lines in Areas of Outstanding Natural Beauty (AONBs) and National Parks. We hope that Ofgem does not hold a belief that London residents are not interested in high amenity landscapes (nor be expected to contribute to the cost of undergrounding). These landscape assets are protected for the nation, Londoners included, under national legislation. We do not believe that the fact that most of London's electricity networks are already underground is relevant here.

From the commentary on page 93-94, it appears that Accent searches for comparators and revealed preference data for willingness to a pay for environmental protection and improvement. In very many spheres one can identify the public revealing economic values for environmental quality – the time and resources spent travelling to and holidaying in designated landscapes is a classic example - with many examples of existing research (going back to David Pearce et al's *Blueprint for a Green Economy*¹ and before).

¹ David Pearce, Edward B. Barbier and Anil Markandya (editors) *Blueprint for a Green Economy* (1989) Earthscan Publications Ltd.

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Perhaps our greatest concern surrounds the sum derived – a valuation of £4.36 for undergrounding 5% of lines in AONBs and National Parks – and the use to which it might be put in DPCR5. As we have explained in previous submissions to the DPCR5 consultation, there is strong support for the continuation of the current undergrounding allowance scheme, and that continuity of the allowance should be announced as soon as possible. The inference at the end of Accent's report that this sum represents a lower willingness to pay than DPCR4 is troubling, not least because it highlights precisely the frailties of discharging environmental duties – with long term benefits – on the basis of the willingness to pay of current consumers.

However, we would hope that the analysis itself supports at least the maintenance of allowances for undergrounding at their current level, and potentially for increasing them:

- Firstly, there clearly is strong public support for action on undergrounding and a corresponding willingness to pay.
- Accent regard the methodology for this research as more robust and accurate than that used in previous studies, in that it invites respondents to make trade-offs rather than register open-ended preferences (Accent report, page 3). People are still evidently willing to support undergrounding in a context where trade-offs apply. As Accent also suggest (page 63), the lower 'packaging effect' on environmental improvements compared to standards for interruptions suggests that consumers see these environmental improvements as more important.
- We can see that treatment of the 'packaging issue' adds an additional dimension to the analysis and is one factor resulting in the lower weighted stated preference figure of £4.36 (for 5% undergrounding, and £3.91 for 3%, £2.29 for 1.5%)² than that identified for DPCR4. However, we are not sure whether this figure is actually 'lower' than the willingness to pay implied by OFGEM in the way that the DPCR4 undergrounding allowances were constructed. The DPCR5 weighted stated preference figures still seems to exceed the actual amount per customer bill, per annum, currently factored into the allowances for undergrounding at DPCR4. Looking at the DPCR4 undergrounding scheme, which allows £64m over five years (£12.8m a year), spread across 24.7 million households (2004 figures), this works out at about 50 pence per household per year. The weighted stated preference figures achieved even for 1.5% undergrounding for DPCR5 – £2.29 per respondent per annum - greatly exceed this.
- There is one source of ambiguity here – whether the weighted stated preference figures given by Accent in Tables 1 and 39 (the £4.36 for 5% undergrounding) are figures per annum, or for the whole of the five year DPCR5 period. If the latter, the clearly the amounts concerned per household bill per annum are more in line with those presumed by DPCR4. However, Accent are clear that (p.iii) 'the values are presented as pounds on their *annual* electricity bill' (emphasis added). Our reading of the attitudinal questions asked by Accent (Appendix D) is that these are all directed towards people's annual bills – the

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² OFGEM presentation at designated bodies workshop held in Birmingham on 26th June 2008.



contingent valuation questions expressly so – and not towards identifying a sum that they would then wish to see spread over five years.

- Consequently, this new DPCR5 data – which Accent regard as more robust than previous data – supports a case that the allowance could be increased, to deliver greater amounts of undergrounding in AONBs and National Parks, and still fit within a conservative estimate of what people are willing to pay. Even if you took the contingent valuation figure of £9.11 per annum (page 98), which Accent regard as a ‘lower boundary’ figure, and assumed that willingness to pay for undergrounding constituted one sixth of this figure (the ratio of £4.36 to £27.23), this would still give you approximately £1.50 per annum, three times the level for which provision was made in DPCR4. Respondents to the qualitative research expressed concern that undergrounding of overhead lines in designated landscape will take ‘forever to achieve’ (Accent 2007 *Expectations of DNOs & Willingness to pay for Improvements in Service. Stage One Presentation – Qualitative Research*). Increasing the allowance, and the percentage of lines to be undergrounded over each DPCR period, would help to address this.
- The case for increasing undergrounding in upland areas is amplified by the positive willingness to pay for reductions in the numbers of customers affected by storm damage. There will be instances in both AONBs and National Parks where undergrounding would support both visual amenity and system reliability. While the stated preference and contingent valuation research did not expressly test this, there would appear to be public and business support for undergrounding that served these dual purposes (see pages 24 and 42), as well as undergrounding primarily for visual amenity purposes. Where dual benefits can be derived, there would appear to be a case for increasing the cost per km which companies are able to spend on undergrounding.

To end we would like to make the point that the need to improve the environmental performance of the electricity distribution sector is not simply a matter of the extent to which consumers are willing to pay. It derives from a series of duties placed upon Ofgem and the DNOs, which, in turn, are based on the public’s priorities as ‘citizens’ (acting collectively, in the public interest) rather than the aggregate preferences of consumers (acting individually for their personal interests). This important distinction is well made in the recent Ofcom discussion document, *Citizens, Consumers and Convergence* and has been recognised by Ofgem in the very fact of establishing the undergrounding allowance. While analysis of consumers’ willingness to pay may provide one source of data to inform how these duties might be met, to base a response wholly upon it would be inappropriate. It would not, for example, adequately inform how best to meet long-term responsibilities, and the interests of future generations.

With best wishes.

Yours sincerely

Penny Ozanne

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