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Your Ref:
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Dear Grant

RIIO-T1: Initial Proposals for National Grid Electricity Transmission plc and National Grid Gas plc

Suffolk County Council's particular interest in National Grid's business plan is to ensure that it sets out a framework which will see the physical impact of electricity transmission infrastructure on Suffolk minimised. We therefore have a dual focus on securing the undergrounding of new transmission lines and promoting mitigation, in particular undergrounding, of existing transmission lines.

In preparing this response we have also incorporated comments from both the Suffolk Coast and Heaths AONB and Dedham Vale AONB teams.

The key points we wish to raise are;

1. Willingness to Pay for the mitigation of new infrastructure needs to be examined fully. This is not a matter for the planning system, but rather for Ofgem through the business planning process.
2. Ofgem needs to clarify its role in the planning system, in particular how it expects National Grid to exercise its statutory duties in such a manner so as not to undermine the ability of the planning system to function properly, or to undermine consultation.

3. We welcome the proposed allowance for the mitigation of existing infrastructure in National Parks and AONBs. We wish to ensure that the forthcoming policy framework governing its expenditure is designed to balance matters of economic efficiency with securing maximum environmental benefit.

New transmission lines

Ofgem proposes that the planning system should determine the extent of undergrounding in new transmission schemes, with National Grid's revenues subsequently adjusted accordingly.

In practice this must be how it works. However, there are some formative issues that need to be addressed to ensure that the schemes entering¹ the planning system;

1. are borne out of a framework that recognises and has regard to the relevance on Willingness to Pay and;
2. are cognisant of a 21st century understanding of 'economic efficiency'.

These points are discussed in more detail below.

We also draw attention to the fact that the Business Plan does not appear to follow the guidance set out in the Visual Amenity Factsheet 109². In particular there is no clarity about how, in the development of individual projects, National Grid will seek to balance competing priorities and weigh stakeholder feedback. National Grid's "Our Approach"³ has recently been updated and now removes all references to the use of Multi-Criteria Analysis as an options appraisal tool and the commitment to align with best practice as set out in the Treasury Green Book. Furthermore, a revision of the subtopics considered through the Options Appraisal has seen the removal of any reference to consideration of 'people and communities'. We would suggest that such commitments should be firmly embedded in the Business Plan.

Willingness to Pay

It is not clear why Ofgem considers that Willingness to Pay (WTP) is only relevant to determining an allowance for mitigating the impact of existing electricity transmission infrastructure in National Parks and Areas of Outstanding Natural Beauty (AONB), rather than having a broader role in the development of National Grid's business plan.

Although National Grid's recent study undertook primarily to understand WTP in relation to existing infrastructure, it also elicited some feelings towards the mitigation of future infrastructure. For example, the largest proportion of respondents felt that National Grid should prioritise the mitigation of existing infrastructure in protected areas...*and* future infrastructure. This option was favoured by nearly⁴ twice as many people as an alternative choice which prioritised *only* existing infrastructure⁴.

¹ There is generally very limited scope or willingness on the part of applicants for significant changes to schemes after they enter the major infrastructure consenting regime.

² <http://www.ofgem.gov.uk/Media/FactSheets/Documents1/109%20visual%20amenity%20factsheet.pdf>

³ <http://www.nationalgrid.com/uk/Electricity/MajorProjects/MajorProjectDocuments>

⁴ <http://www.nationalgrid.com/NR/rdonlyres/2B16BF36-B68B-410F-8EDF-8ACCE193BC9D/55616/AccentWTPdatatables.pdf> Q41

It is also interesting to note the relative importance (inferred from WTP values) people place on National Parks and AONBs compared to the wider countryside. While consumers are willing to pay 2.4 times the cost of undergrounding existing infrastructure in designated areas⁵, they are also willing to pay 1.75 times the cost of undergrounding existing infrastructure in other rural areas⁶. At first sight this is surprising, but when one considers the frequency with which individuals visit the respective areas, for the majority of people the undesignated countryside is where most visits occur and therefore this conclusion is perhaps actually to be expected. There is no reason not to expect similar sentiments would be expressed for new lines – indeed WTP is likely to be higher to avoid something than to remove it – but this is yet to be analysed.

Currently the Business Plan includes a nominal 10% for undergrounding of new lines, which is simply a doubling of the historic rate, without any clear rationale. In arguing that the planning system should be the arbiter of the extent of undergrounding for any new transmission lines, Ofgem is implying that it is for the Planning Inspectorate to pass judgement on the implications of WTP work. This is not appropriate for such a matter, which is clearly of greater than local significance, and properly falls within the remit of Ofgem. In any case, because there is no mechanism to localise electricity transmission charging, WTP must be reflected in scheme development guidelines at a national level, not on a case by case basis.

The business plan is therefore the appropriate vehicle for discussion and application of WTP work and this should include reference to new infrastructure. Our concern remains that the business plan, though not setting the absolute amount of undergrounding, reinforces the ethos that undergrounding is likely to be used sparingly. This corporate vision inevitably filters in to the development of individual schemes, setting the parameters for scheme development.

If further WTP work revealed an appetite of consumers for greater undergrounding, National Grid's approach to the planning system would be entirely different. Irrespective of "Our Approach", there is an implicit assumption on the part of National Grid that consumers generally want to avoid paying more for undergrounding, therefore the spatial extent of undergrounding in any scheme is wholly determined by local environmental considerations and no attempt is made to quantify local socio-economic impacts, nor whether there is other, non-locally specific, evidence (i.e. WTP data) that, generally, greater extents of transmission lines should be undergrounded.

There is no reason why the 10% figure should not be validated by further WTP work which provides a more robust and unequivocal basis for the development of new schemes. It would also avoid the likely periodic revisiting of the issue at planning inquiries.

⁵ WTP = £15/year x 8 years x 25m households = £3bn. Actual cost = 50 miles x £25m/mile = £1.25bn. (WTP taken from Table 5 (scaling factor applied), Accent Report)

⁶ WTP = £11/year x 8 years x 25m households = £2.2bn. Actual cost = 50 miles x £25m/mile = £1.25bn (WTP taken from Table 5 (scaling factor applied), Accent Report)

The absence of comprehensive WTP work which underpins the entire business plan is significant. Furthermore, it is unclear on what basis Ofgem, in its role as a statutory consultee under the Planning Act 2008, would provide any advice to the Planning Inspectorate on the extent of undergrounding and associated cost implications, it would deem reasonable to pass on to consumers – i.e. what level of undergrounding could be judged to be ‘economic and efficient’.

The planning-regulation interface

The second issue with a reliance on the planning system to determine the extent of undergrounding is that National Grid interprets its statutory duties in such a way as to steer it towards preferring solutions based primarily upon their cost as opposed to their sustainability. In these circumstances, the operation of the planning system is overshadowed by a parallel legal framework, with different objectives.

The ostensibly competing drivers of the two legislative regimes; economic efficiency (Electricity Act 1989) and sustainability (Planning Act 2008) are not well reconciled in the National Policy Statement EN-1. The inevitably awkward drafting of the document leads to significant uncertainty as to how an applicant should successfully strike this balancing of priorities, or indeed how the Planning Inspectorate may judge this balance. EN-1 paragraph 3.7.10 is a case in point, appearing to confuse the need for a scheme with its impacts and cost. The need is a technical assessment, independent of cost and potential impacts.

We believe that as a statutory consultee for Nationally Significant Infrastructure Projects⁷, Ofgem has an important role in clarifying the interface between the planning and the regulatory systems and in ensuring that the ability of the planning system to operate effectively is not compromised.

We see a particular need for Ofgem;

- **to ensure that there is a common understanding of the interpretation of National Grid’s statutory duties and how they should be exercised through the planning system.**

EN-1 requires the Planning Inspectorate to make a judgement on whether a project is “economic and efficient” (paragraph 3.7.10), appearing to ask it to pass judgement on whether National Grid has discharged its statutory duties, which is, of course, properly the role of Ofgem.

⁷ To be precise, The Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 identifies the ‘Gas and Electricity Markets Authority’ as the relevant consultee.

We are pleased to note that in a recent publication, *Sustainable Development Focus*, Ofgem clarified “we are clear that any assessment of economic efficiency should incorporate the environmental costs associated with a proposal”⁸. Having regard to this statement, we do not necessarily see any inconsistency between the type of scheme that the Planning Inspectorate would consent (‘sustainable’), to which Ofgem would agree to fund (‘economic and efficient’).

However, this needs to be spelled out as this is not clear from the National Policy Statement. Furthermore, this does not appear to be the understanding of National Grid, which regularly argues that the extent of any undergrounding that Ofgem would be prepared to reimburse it for is a significant driver in the development of its schemes. This clearly undermines the proper operation of the planning system and in particular the meaningfulness of any developer-led consultation.

- **to provide advice to the Planning Inspectorate on the (timing of the) need for any scheme.**

The National Policy Statements set out the overarching need for energy infrastructure, including new transmission lines, and support the need to provide capacity in advance of anticipated demand.

We are concerned that there are insufficient safeguards against the premature *consenting* (not construction) of any scheme. This is particularly pertinent given the evolution of electricity transmission technologies, in particular the cost of undergrounding, and an increasing awareness and understanding of the (currently) non-monetised impacts of overhead lines (for example through use of WTP). For these reasons, it is important that schemes are only put forward for development consent when they are needed and consents are not ‘banked’ in advance of potentially positive technology and policy developments.

In this context, our current concern with the business plan is that the proposals to include “some” pre-construction funding in the baseline allowance, as set out in Ofgem’s *Cost assessment and uncertainty Supporting Document* (paragraphs 4.159 *et seq.*), could have the unintended consequence of supporting the pursuit of projects prematurely.

It is noted that National Grid have set out a Network Development Policy (NDP) which provides for the review of projects classified as ‘wider works’ (such as Bramford to Twinstead) and that the NDP would cover the choice and timing of both pre-construction and construction phases.

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<http://www.ofgem.gov.uk/Sustainability/SDR/Documents1/Sustainable%20Development%20Focus%202011-12.pdf> Page 5.

However, it is not clear what mechanisms are in place to ensure a periodic and full review of the needs case, based on 'common sense' as opposed to various generation and demand scenarios (outlined in the NDP), once preconstruction works commence. As an example, the developers behind the projects driving the need for the Bramford to Twinstead reinforcement (EDF Energy and East Anglia Offshore Wind) publicly admit that their development timetables do not align with those in their respective connection agreements by some years, but we do not see any recognition of this by National Grid, because a formal review of those Agreements has not been requested. This is an issue that needs to be addressed either through mechanisms in the business plan or elsewhere.

Summary

Greater analysis of WTP for undergrounding new electricity transmission lines needs to be undertaken so National Grid has a more informed starting point for the development of its projects. It is fundamental to instigate a culture change away from 'what is the most overhead line we can get away with', as this does not appear to align with the interests of consumers.

Greater clarity is needed from Ofgem on both its intended role in the planning system and how it expects National Grid to exercise its statutory duties in such a way as to have proper regard to the statutory purpose of the planning system to deliver sustainable development and to ensure that consultation, particularly of strategic options, remains meaningful.

Existing lines

We are supportive of the proposals for an allowance to mitigate the impacts of existing lines in National Parks and AONBs and believe that the work undertaken by Accent provides a robust basis on which to take this forward. It is unclear why Ofgem feels that more work needs to be undertaken, when the format of this study conforms with industry best practice and as such has been accepted by Ofwat for similar purposes and indeed Ofgem to inform the Distribution Price Control in the past.

The suggestion of a £1.1bn allowance by National Grid appears to under-represent actual WTP. The figure proposed is purportedly based on considerations of consumers' favoured types of mitigation and affordability. Affordability has already been captured through the WTP values, therefore should not be used as a further filter. It is very clear from the data that undergrounding longer distances is the most favoured form of mitigation, suggesting the allowance should rather be based on these figures. It is also worth noting that the maximum amount people could say they were willing to pay was capped; therefore any discussions over the distribution of the data should bear this in mind.

We agree that a policy framework is now needed to make decisions on how this allowance may be spent. We strongly recommend that Ofgem consults on its initial proposals once it has received National Grid's suggestions on how this may operate. It is not critical that the allowance is in place at the start of RIIO-T1, though it is important that a satisfactory and widely supported approach is agreed.

There are a number of points with regard to the development of the policy we would wish to make at this stage;

1. It is critical to take a longer term perspective than the 8 year price control period⁹. There is no reason, as has been the case for the Distribution Price Control, to expect that WTP does not extend beyond a single price control period. That being the situation, we should be more concerned with the order in which undergrounding of existing lines in AONBs and National Parks should be undertaken, as opposed to whether it is done or not. In this scenario we should exploit opportunities as and when they arise to secure efficiency in the expenditure of the allowance. For example, where new lines in designated areas are being undergrounded, but existing ones are proposed to remain, the allowance should be made available in such instances. An example is the Dedham Vale AONB, which will see new lines being undergrounded alongside existing overhead lines.
2. We have concerns about the 'use it or lose it' scenario. Experience of dealing with much smaller undergrounding schemes on the distribution networks has shown that negotiations can take some years. It would be reasonable to expect that schemes involving the transmission network would take longer and therefore it is critical that the allowance can be rolled over to the next RIIO period if a scheme has already started - rather than eating into the next allowance.
3. It is agreed that it would be generally efficient to tie in programmes of undergrounding when works on overhead lines are needed in any case. However, the cost of any scheduled works should not instead be covered by the undergrounding allowance. Furthermore, Ofgem must be mindful of the purpose of the allowance and Ofgem's statutory duties towards designated areas. The proper and optimal functioning of the allowance in delivering its objectives should not be wholly dictated by National Grid's maintenance timetables. Not all lines in AONBs and National Parks are equally intrusive; weight must be given to the degree of benefit that would accrue from undergrounding. Each scheme should be tested against another to ensure that those with the greatest landscape benefits (notwithstanding the comments at point 1 above) are prioritised. Tests would include, for example, public consultation, landscape and visual impact assessments.
4. There needs to be clear governance arrangements in the operation of the scheme. It is questionable whether National Grid alone should have sign off on the selection of projects. We would recommend that a national steering group, consisting of representatives from each of the Protected Landscapes with existing National Grid infrastructure is established.
5. Consideration should be given as to how an overhead line contributes to the cumulative impact of infrastructure in the locality and how its removal may thus have added value. For example, Suffolk Coast and Heaths AONB is the only AONB or National Park within which a new nuclear power station is proposed. The overhead lines associated with the current generating station are a significant detractor and their removal could help offset further deterioration of this important landscape. There should, for this reason, be flexibility in the operation of the allowance to permit monies to also be secured from other sources, for example developers of other infrastructure projects within the vicinity of any proposed undergrounding.

⁹ The WTP work actually asked for people to express their willingness to pay over a 10 year period.

6. Some discretion on boundary arrangements is required, as the setting of designated areas needs to be considered; it is imperative that schemes look at the impact on the Protected Landscape, not simply in it. This may require funds to be spent outside of the Protected Landscape, and there should be the flexibility to do this.
7. Non-environmental benefits need to be captured in scheme assessments, for example cultural or economic. Criteria such as the level of public access and levels of visitation should be considered
8. Consideration should be given to extending the geographic coverage of the allowance to areas which have the characteristics of nationally designated areas but currently lack the formal designation. For example, National Grid proposes to underground new lines (adjacent to existing lines) through the Stour Valley in Suffolk, due to its environmental sensitivity and cultural significance, though, despite the aspiration, it is not yet part of the adjacent Dedham Vale AONB.
9. Consideration should be given as to how the distribution and transmission allowances could complement each other spatially to maximise benefits. Additionally, it is understood that undergrounding of certain higher voltage distribution lines strung on metal towers is likely to be unaffordable under the RIIO – ED1 allowance and, of course, because it is distribution infrastructure, it could not be covered by the RIIO-T1 allowance. This anomaly needs to be addressed.

We trust these comment are helpful, and as ever are happy to discuss these issues in person.

Yours sincerely

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