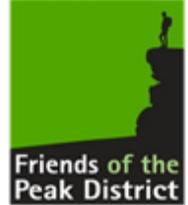




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Network Price Controls
RIIO Team
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By email - RIIO2@ofgem.gov.uk

3 September 2020

Dear RIIO Team

RIIO2 Draft determinations - Electricity Transmission - consultation

We welcome the opportunity to respond to this consultation. We have focused on answering ETQ7. *What are your views on our consultation position for setting the expenditure cap for visual amenity mitigation projects in RIIO-2?*

In summary our answer, expanded below, is that we believe that OfGEM has set the cap too low. We urge OfGEM to set the allowance at a level which would cover the costs of all the projects in the pipeline of work for all the Transmission Operators (TOs) during RIIO-2 2021-2026. This would be at least £725 million, if not £925 million.

Our background

We have a long history of involvement in issues of powerlines (both transmission and distribution), visual amenity and landscape protection. We work closely with national CNP and CPRE and others to advocate for more sustainable landscape outcomes in relation to the existing electricity distribution and transmission network and new lines, where proposed. In this instance we have collaborated with a large group of

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partners to commission research by Professor Richard Cowell of Cardiff University (attached) which informs our answer to ETQ7.

We have been involved in the stakeholder consultation on development of NG-ET's Visual Impact Provision (VIP) as applied in the Peak District: i.e. the Dunford East section of the Salybridge to Woodhead line for undergrounding and the Landscape Enhancement Initiative (LEI) in Longdendale. We responded to OfGEM's open letter in 2017, which launched the consultation on RIIO-2, to the Framework Consultation in March 2018, to the specific methodologies consultation in March 2019, and to the call for evidence on the Electricity Transmission and System Operator Business Plans for RIIO-2 in February 2020.

Answer to ETQ7

We very much welcome the retention of the visual amenity allowance in RIIO-2 but are disappointed at the low level of the total expenditure cap set at £465m for all TOs¹.

The draft determination states that this is based on (1) the results of the 2019 WTP study, (2) the pipeline of potential new projects in the TOs RIIO-2 business plans, (3) the additional costs that energy consumers will face to facilitate the Net Zero transition in the energy sector and (4) the potentially long-lived shock arising from the Covid-19 pandemic which could make energy bills unaffordable.

OfGEM states that this expenditure cap is within that set by the WTP and will allow the TOs to deliver significant visual amenity benefits in T2 at least impact on energy bills. We disagree with OfGEM's assumptions and believe it to have been extremely conservative in its estimate as follows.²

(1) WTP study

The WTP study (NERA and Explain 2019) recommended that the TOs rely on the following per capita, per consumer WTP figures: £6.87 for additional undergrounding of overhead transmission lines in National Parks AONBs and National Scenic Areas, and £4.14 for additional visual improvement work in the same designated areas. The research took a considered, best practice approach that included a number of 'very

¹ RIIO2 Draft determinations Electricity Annex para 2.131-2.137

² See Cowell, R.J. RIIO-2: Price control expenditure cap for visual amenity improvements in designated landscapes. Unpublished report for CPRE *et al.*, August 2020. Pp.6.

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conservative' (p. viii) assumptions to guard against respondents giving over-stated answers. In summary these were ensuring respondents were reminded of the budget implications to them of adding more costs to their electricity bill (see para 5.1.5 'Testing for the effects of budget constraints'); conducting an additional contingent valuation of packages of benefits, to scale the Choice Experiment data derived from aggregate WTP for each benefit in turn; and telling respondents that electricity bills were likely to rise over the period (see NERA and Explain 2019, Appendix F).

Further conservatism is added by using the WTP, rather than WTA (willingness to accept), as it understates the welfare impacts of intrusive transmission infrastructure in designated landscapes. Stated preference studies have consistently found that WTA exceeds WTP sometimes by a considerable amount. The strongly protective policy presumptions for National Parks and AONBs implies that the public is entitled to expect their protection, and that WTA is a more appropriate methodological approach to assessing public values in these circumstances than WTP. Thus WTA would have better captured the rights and expectations pertaining to the problem than WTP and given higher values.

OfGEM has not explained in its draft determination how it used WTP values to arrive at the three options for its expenditure caps. If we assume it is the same as RIIO-ED2³ then it entails taking the WTP figures (£6.87), multiplying them by five (years) and then the number of electricity bill payers, to get £925 million. On this basis, the implied WTP for Ofgem's second option (£725 million) is £5.37 and for their preferred expenditure cap (£465 million), the WTP figure is £3.44.

It therefore appears that Ofgem's preferred expenditure cap of £465 million corresponds to a per capita WTP of £3.44, which is only half that generated by median WTP, which was itself derived from a very conservative methodological approach.

(2) Pipeline projects

In our response to the call for evidence in Feb 2020 we argued that OfGEM should set the cap for RIIO-2 for NG-ET at no less than 8% of total expenditure, which would cover the lower limit total of 3 undergrounding projects - £580 million (the upper

³ Ofgem (2020b) RIIO-ED2 Sector Methodology Consultation Annex 1 – Delivering Value for Money Services for Consumers, July, Ofgem

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limit was £750 million)⁴. Completing these three projects within the 5 years of RIIO-2 appears a reasonable assumption, given all that NG-ET achieved in RIIO-1. Setting the cap for NG-ET alone at a level substantially below that required for the costs of its pipeline projects would stifle ambition and not allow it to deliver significant visual amenity benefits the public are seeking.

For example, from our knowledge of the Dunford East scheme we would suggest that the choice of schemes and their length should be re-considered in relation to a RIIO-2 VIP. These issues would include whether a narrow focus on the highest assessed intrusiveness is the best option, when it potentially then causes additional intrusion (within a sensitive area) with the introduction of new infrastructure (in the form of a sealing end compound).

The outcome at Dunford East raises the substantive issue of whether doing fewer but more comprehensive schemes would lead to greater overall (net) landscape amelioration. The allowance should be set to cover all the potential projects in the pipeline for all the TOs in RIIO-2. This should include re-consideration of the highest-ranking scheme (in terms of visual impact), namely Longdendale ('Peak District West').

(3) Net Zero costs

We do not agree that there will be additional costs on energy consumers to facilitate the Net Zero transition in the energy sector or at least at a level to stymie investment in much needed amelioration of landscape impacts. Although the UK's energy systems will need to undergo radical change as we move to net zero, not all changes will increase unit costs to bill payers. The long-term reduction of demand through effective energy management, including improving the energy efficiency of homes and buildings, and the falling costs of offshore wind and solar would reduce energy bills. De-centralised and locally owned energy systems would provide much of the low carbon generation required nationally and would be paid for by those who benefit from the resulting revenue streams (e.g. grid connections). However, with more local electricity generation the impacts of distribution would increase the number of overhead wires and therefore the need for undergrounding of electricity wires if we are not to have landscapes marred by such infrastructure. The savings in energy bills

⁴ Draft Business Plan Annex 11.12, NG-ET
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from Net Zero changes should be used to ameliorate the environmental impacts that would accompany them.

(4) Covid-19 pandemic

The VIP allowance appears to be the only expenditure in which the impacts of the Covid-19 pandemic have been taken into account. This does not sit well within OfGEM's proposed measured approach to the Covid-19 pandemic⁵, which has included a regulatory easement framework over a limited period on outputs from the TOs and ongoing engagement with the companies to gain a fuller understanding of its impacts on RIIO-1 and consequential impacts on RIIO-2 through a series of workshops and bilateral meetings. OfGEM is even open to putting in place either a single or number of uncertainty mechanisms to make the necessary adjustments once the RIIO-2 price control period has commenced on 1 April 2021. As OfGEM says it is not possible to forecast accurately the final impact of COVID-19. Hence using this argument for a low expenditure cap on the VIP is not justified. Furthermore, the value of designated landscapes to everyone in the UK was made transparent during the Covid-19 pandemic. Rather than curtailing improvements to designated landscapes, OfGEM should be contributing to the green recovery and enhancing landscape value for health, recreation, tourism and amenity.

Project delay charge

ETQ4. *Do you agree with our proposed LPD mechanisms and do you agree with the criterion that we are proposing to use for our LPD mechanisms?*

We are also concerned that OfGEM are proposing to incentivise the timely delivery of major transmission projects including the idea of a '*project delay charge ... to ensure that consumers are compensated if projects are delayed*'⁶.

Little detail about this is supplied but if applied to the complex processes surrounding applications for undergrounding of overhead wires (either existing or proposed) this could jeopardise progress. The time taken by aspects of the planning process such as vital pre-application consultations and environmental assessments should not be

⁵ RIIO2 Draft determinations Core Document paras 12.1-12.5

⁶ RIIO-2 Draft Determinations – Electricity Transmission, July 2020, Ofgem

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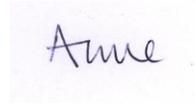
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included in the calculations of 'delay', as doing so risks incentivising shorter and less inclusive consultation and thus lead to poorly prepared schemes.

Yours sincerely,

A handwritten signature in blue ink that reads "Anne".

Anne Robinson
Campaigner

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