

Cemil Altin,
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Dear Cemil,

Electricity Distribution Price Control Review : Initial Consultation 68/03

Thank you for consulting us on the above document. Friends of the Lake District (FLD) are a registered charity, established in 1934, with the aims of protecting and conserving the landscape of the Lake District and Cumbria. We have around 7000 Members, represent the CPRE in Cumbria, and are Members of the Council for National Parks. Issues of electricity distribution have featured throughout our history, and we have contributed to many schemes to underground overhead wires throughout Cumbria. Our interest in the subject is so great that we commissioned UK CEED to update the research work published by the then Countryside Commission in the early 1990s. This work was published in March 2003, and OFGEM received copies of the short and full report. Our Vice Chairman attended the OFGEM workshop in London on the DPCR in February.

We have the following comments to make on the document.

General remarks

We would like to thank OFGEM for producing an admirably clear report but it would be helpful if the next consultation document contains a glossary of abbreviations.

Despite our comments on previous consultations, FLD still feel that there is more scope for OFGEM to recognise and refer to its duties and those of the DNOs to National Parks and AONBs, as set out in the Environment Act 1995 and the CROW Act 2000 and to enable them to make substantive, continuous improvement in the amenity performance of their network in these areas. Our response below highlights many places where these duties can be fitted in to proposals, and clear targets and outputs set to help meet them. **FLD would therefore like to see OFGEM giving DNOs targets to underground in designated landscape areas, based on their amenity duties, and incentivised by the DPCR. We would also like OFGEM to give more explicit allowances to DNOs who require expenditure to meet their**

amenity duties, coupled with a requirement that all DNOs report progress with undergrounding against their designated area duties.

We welcome OFGEM's attempts to improve their environmental data provision so that in future DPCR at least, incentives for further improvements can be made. Chapter 1: Introduction

- **Para 1.4** FLD welcome acknowledgement that *'the design of the regulatory framework can ... have a significant impact on the incentives that network companies are provided with in relation to quality of service and social and environmental issues'*. FLD seek assurances from Ofgem that amenity-related duties are considered effectively within this objective as they are not mentioned in any detail in this document.
- **Para 1.9**, bullet at bottom of page 3 – We welcome reference to the point (also in para 2.3) that the main objectives for the Review include to *'reflect OFGEM's responsibilities with regard to environmental and social issues, as well as statutory duties and licensed requirements of DNOs'*. However, we are disappointed that there is no specific reference to But the ramifications of Schedule 9, Section 62 of the Environment Act 1995 and Section 85 of the CROW Act 2000 and their ramifications. This creates the impression that on these issues OFGEM's role will remain largely reactive i.e. responding to claims made by companies that certain measures are necessary to discharge these obligations (*if* companies make specific claims). We have referred to this issue in our previous consultation responses, and would hope that in future OFGEM can make specific references to the duties referred to above, and highlight how they expect DNOs to meet them, including specific targets.
- **Para 1.12** : We note the reference to the working group on assessing customers' willingness to pay. We reiterate our interest in this subject and our willingness to become involved with any working group dealing with the issue as this picks up several recommendations in our published report referred to in our opening paragraph.

Chapter 2: Background

- **Para 2.9** We note that electricity distribution costs account for around 3 billion pounds annually and flag up the minute proportion that goes into undergrounding so that it is put into perspective. (A million pounds per year per DNO on 'discretionary' undergrounding would be the order of magnitude). We would therefore flag up the need for 'realistic' options to be included in the consumer survey which put current operations into perspective.
- **Para 2.22** and Tables 2.5 – 2.7 show that DNOs are managing to outperform the cost and return performance assumptions. We would suggest that OFGEM consider dedicating the underspend to expenditure on environmental and amenity projects.

Chapter 3: Form, structure and scope of the price controls

- **Para 3.4**, says that OFGEM *'has a statutory duty to ensure that licence holders are able to finance their statutory and licence obligations'*. We would be interested to know whether OFGEM has investigated whether the DNOs are adequately financing their various amenity duties as part of this DPCR, and if this has been investigated when the results will be published.
- **Para 3.8** – We note that there is no specific reference to a feature of the price control review being spending to meet amenity and environmental duties, but we hope this can be incorporated within the other features listed. We would offer support to the provision of incentives to reduce electricity losses on the system.
- **Para 3.17**, page 28 : non trading rechargeables. These are said to include requests to move overhead lines and underground cables to accommodate the needs of public authorities or

developers. We seek clarification that this does not include activities to underground overhead lines to meet environmental objectives, which we assume is subject to the DPCR. FLD consider it essential that OFGEM allow DNOs to direct more expenditure to undergrounding and meeting their environmental duties.

Chapter 4: Quality of Service and other Outputs

- **Para 4.11-4.12** FLD welcome the statement that *‘Consumers may be concerned with the social and environmental performance of companies and it may be appropriate to extend the existing output measures in such areas ... Other environmental issues may include amenity issues...’* We would like to see some specific outputs mentioned which relate to and accommodate amenity concerns and environmental issues. Output measures could include the delivery of the statutory purposes towards National Parks and AONBs; percentage of lines which are overhead/underground in rural areas and measures taken to underground more wires during the price control period, and then broken down into designated areas and Countryside Character Areas; amenity works and expenditure undertaken each year; and so on. Our full report produced by UK CEED gives more information on appropriate targets.
- **Para 4.16** We note the statement that *‘The appropriate targets and incentive rates should be based on a realistic assessment of the scope for improvement in performance’* and *‘consumers willingness to pay’*. We hope that OFGEM will investigate with the DNOs the lengths of undergrounding currently undertaken per year, and investigate what is realistic in future but also challenging. For example, if about 5km per annum of ‘discretionary’ amenity undergrounding of the existing network takes place each year per DNO in valued landscape areas; doubling that ought to be realistic.
- **Para 4.24** and the Willingness to Pay surveys. FLD recognise the emphasis which OFGEM is placing on the consumer research. Again, we reiterate our offer of help and advice in this arena. We would be very interested in seeing a copy of the questions and providing feedback upon them. We are particularly concerned for example, that :-
 - the questions are appropriate and set in the right context, especially in relation to urban and rural areas and what is appropriate
 - that all aspects of amenity and landscape impacts
 - that the importance of National Parks and AONBs is clear and is covered in the questions
 - that the WTP scenarios set are realistic (e.g. even one pound per customer bill per year might well double rates of discretionary undergrounding);
 - that the WTP survey is not used to undermine the duties on either the companies or OFGEM, since the existence of those duties stems from moral and statutory obligations towards fine landscapes, and not the balance of consumer preferences.
- **Para 4.33-39**, treatment of exceptional weather events. We welcome the statement that selective undergrounding could be considered an option to deal with exceptional weather events. FLD hope that measures to cope with exceptional events, such as undergrounding, which also deliver amenity improvements and can help fulfil DNOs statutory duties to National Parks and AONBs can be appropriately incentivised under any improved arrangements introduced. Areas worst hit by the exceptional weather events and subsequently experiencing loss of power are the rural areas, where the impacts of overhead wires are more noticeable. Where actions other than undergrounding wires are considered, e.g. aggressive tree cutting near overhead wires, there is a need to consider the environmental impacts of such works and provide incentives to avoid harm.

FLD hope that when asking for detailed cost estimates, due account is taken of different costs depending on the landscape and terrain in which work is undertaken. Costs of works should be

compared between rural areas, not rural and urban areas. Works in designated landscape areas may well cost more than in other areas, as they often have more upland terrain, difficult rock conditions, etc. These costs need to be factored into any standard costs produced. OFGEM need also to take account of the risk of any works causing damage to the purposes of National Parks and AONBs, and also of the benefits of some works, e.g. undergrounding. We also consider that OFGEM need to take account of costs and work which is needed long term, and not encourage DNOs to always think in short term blocks of five years. Short term thinking will lead to a lack of strategic and long term thinking and correspondingly a lack of long term investment.

Chapter 5: Distributed Generation (DG)

- **Para 5.6** (and cross ref to paras 5.12, 5.37 and 5.40). FLD are very concerned about the potential for system reinforcements as a result of DG that result in more overhead lines in high amenity and designated areas. However, FLD may support incentive arrangements that incentivise the use of DG as an alternative to network reinforcement where there are no adverse landscape impacts. We hope that the potential environmental – as well as economic – case for a least cost planning approach can be incorporated.
- **Para 5.11**, illustrates the more general risk that the expansion of DG could require network reinforcement, especially if this happened in rural areas. FLD would hope that proposals for significant strategic enhancement in a given area can come forward in packages amenable to consideration against planning and environmental constraints; where DNOs can work with planning authorities and others to secure environmental objectives and perhaps, potentially, steer DG investment towards areas of existing network capacity.
- **Para 5.41 - 43**, FLD may wish to investigate further the concept of ‘Registered Power Zones’ – ‘as a means of signalling to potential generators DNO’s intentions or capabilities to attraction connections to a particular location’ – as a means of realising the point raised above in relation to para 5.11.

Chapter 6: Assessing Costs

- **Para 6.2**, We welcome the reiteration that one key objective of price control is to ‘*provide companies with a future level of revenue and incentive arrangements to allow them to meet their statutory duties*’ and again point to the need to provide future revenue and incentives to allow DNOs to meet their statutory duties towards designated landscape areas.
- **Para 6.7**, We welcome the recognition that the geography and topography of an area is a factor affecting the level of operating costs. However, it must surely also affects capital expenditure, which OFGEM do not appear to have acknowledged. FLD seek some recognition from OFGEM that the additional costs incurred by geography, topography and in meeting statutory landscape duties need to be recompensed for both operating costs, and capital costs.
- **Para 6.59**, refers to the possibility of DNOs submitting a number of different forecasts based on different scenarios. We hope that scenarios will be developed that apply to amenity and landscape issues, and that there will be at least one pro-amenity scenario that also covers the statutory duties of the DNOs and OFGEM towards designated landscape areas.

Chapter 8: Timetable and Consultation Process

- **Page 91** – We note that February 2004 is now penciled in as the time to take the second consumer survey. We would seek confirmation of this and again signal our interest in the exercise and our willingness to help.

Appendix 1: Initial Regulatory Impact Assessment

We recognise and support OFGEM's commitment to 'undertaking a RIA, including environmental impact assessments, for all new significant policies or changes in policy' (page 96). FLD hope that this will address the implications of SPCR for furthering compliance with duties under Schedule 9, Section 62 of the Environment Act 1995, and Section 85 of the CROW Act 2000. We hope that companies and OFGEM will work together to provide sufficient quantified information on substantive measures to make this possible. We note that OFGEM state that environmental areas such as amenity issues and the reporting of environmental performance could be impacted on by the price control – it seems right, therefore, that these impacts can be properly assessed.

We hope that you will take our comments into account. Our Director of Policy Ian Brodie and our Vice Chairman Dr Brian Jones will be meeting with Martin Crouch in early August, and we would be happy to expand on any of our comments in this response, or discuss other issues previously raised at that meeting if it would be helpful.

Yours sincerely,

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