

Nienke Hendriks,
Senior Price Control Review Manger,
OFGEM,
9 Millbank,
London
SW1P 3GE

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Dear Nienke,

EDPCR Second consultation 171/03

Thank you for sending us the above Second Consultation. Friends of the Lake District (FLD) are a registered charity and incorporated company, 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. As you know, we have made several representations as part of the DPCR process.

In general, we welcome many of the comments in the Second Consultation relating to the environment, e.g. the recognition of the statutory duties of OFGEM and the DNOs to National Parks and AONBs, and the suggestion of providing a monitoring framework for environmental output reporting by DNOs in future. However, we are disappointed in how little additional information the document gives about the likely treatment of landscape/amenity issues in the next price review. We are still awaiting OFGEM setting out in detail how it intends to meet its s62 and s85 duties under the DPCR process, and how it requires DNOs to meet these statutory duties. Many of our November 2003 comments are still relevant and we would encourage you to re-visit them.

Section 3 : Incentive Framework

We welcome the comments in section 3.73 that DNOs need to have appropriate incentives to pursue efficiency savings, but must also undertake investment in a timely and efficient manner. We have long argued that short term efficiency savings must not be pursued in isolation with no regard to the need for long term investment, and investment which takes account of other costs such as impacts on the environment.

FLD support OFGEM's suggestion that there needs to be some flexibility in relation to investment, where companies propose cost effective investments that deliver on environmental and/or quality of supply objectives. We support the potential improvements identified for the treatment of capex in Table 3.1. where companies can in certain circumstances be remunerated for efficient capex overspend.

Section 4 : Quality of supply and other outputs

Para 4.14 We would suggest another bullet be added to the list to include environmental outputs.

Para 4.17 bullet 1 notes that it should be possible to set targets for rewards and penalties that reflect consumers' willingness to pay. The WTP questionnaire did not prioritise the areas of WTP. Will this form part of the Phase 2 consumer survey, and if not, how will OFGEM prioritise the areas which depend on WTP?

Para 4.23 Network resilience

Network resilience is identified as a key issue. However, we would argue that this multi-dimensional concept is not a key issue for underground wires. One argument commonly used against undergrounding wires is that they often take longer to repair. However, in the open landscape there is very little threat of damage to underground wires caused by severe weather events. The many costs to overhead lines associated with storm damage, tree maintenance, replacing poles, faults, etc. could be reduced and efficiency and quality improved if a more long term approach was taken and comparisons were made with underground lines. The merits of undergrounding wires, not just from an environmental amenity aspect, need to be given much greater emphasis. FLD would therefore favour incentives to encourage DNO's to invest more underground wires in the open countryside.

Para 4.29, bullet 2 - this sees line construction as part of the input based approach needing regulation and invites respondents in favour of this to explain further how these improvements represent value for money. This paragraph also needs to factor in whether the lines subject to severe weather and faults are overhead or underground, associated response times, maintenance, etc. FLD requests further information and if necessary data collection/research into this area and stresses that although underground wires relate to an input based approach, in the long term the outputs of this work will impact on quality and efficiency. There may be no need for regulation to underground wires if appropriate targets and incentives are in place. It would therefore seem to us sensible to incentivise undergrounding wires as there will be an automatic reduction in wires susceptible to storms and high winds and severe weather events.

Para 4.38+ Environmental outputs

This refers to a "significant minority" of consumers who would be willing to pay to have wires put underground. We do not consider that the term "significant minority" is an accurate reflection of the high percentage of consumers who responded positively in this respect and, would prefer the exact figure to be quoted to avoid misinterpretation. 40% is a significant figure, the use of the term "minority" implies it is less.

This paragraph notes that it is the consumer survey and Forward Business Plan Questionnaire (FBPQ) that are the crucial exercises in determining 'sufficient support' for an undergrounding standard. This makes it vital that the survey should assess willingness to pay for a range of realistic undergrounding scenarios, from simply doubling the current rate (about £1million per year per DNO on discretionary amenity improvements) to the rather extreme option that OFGEM seems to be working towards (would customers be willing to pay for all overhead lines in designated areas to be undergrounded, perhaps over a very short period?). DNOs need to be asked to estimate the costs of undergrounding various percentages of overhead lines, not the total overhead network as this is unrealistic. Similarly, consumers need to be asked about contributing a range of figures.

Para 4.39 : We strongly welcome the suggestion that OFGEM will consider a role by beginning to monitor and provide a framework for reporting environmental outputs on a consistent basis across DNOs. However, we note that there is no timescale on this action, and would request that it occurs as soon as practically possible. We consider that moves towards environmental reporting are an essential start-point to more effective action in these areas as:

- (1) not all DNOs produce environmental reports any more; some abandoned the practice when they split from their supply operations;
- (2) data on compliance with meeting Schedule 9, section 62 and section 85 duties is not collected by any other regulator and could not be said therefore to duplicate existing requirements;
- (3) for these duties to be meaningful would at least require companies to be able to demonstrate that their projected investment fulfils their duties towards National Parks and AONBs, and in such a way as to show continuous improvement over time. Information on the lengths of overhead and underground circuits in such areas is therefore vital. Consistent information would also be essential in assessing capital investment programmes as part of the DPCR should OFGEM pursue standards in this area.

We suggest that the following targets/outputs for landscape and amenity will be included by OFGEM on the list of indicators that DNOs will be required to report on.

- Undergrounding 5 – 10% of overhead lines in designated landscape areas over the next DPCR and by Countryside Character Areas.
- Undergrounding 100km of existing network in obtrusive locations over the course of the next DPCR
- Amount of money spent on amenity/environmental works during the DPCR period.
- Development of a prioritisation system for undergrounding overhead lines based on landscape intrusiveness and impacts on landscape character.
- Net reduction in length of lines in designated areas, and Countryside Character Areas.
- Specific ways in which DNOs have met their statutory environmental duties to National Parks and AONBs, and compliance with robust Schedule 9 statements, e.g. consultations, lines placed underground, steps taken to reduce intrusiveness.
- Percentage of rural lines overhead v underground.
- Quality of supply of urban dwellers v rural dwellers.
- Number of faults on overhead lines v underground

The research FLD commissioned by UK CEED clearly noted that as there was no regulatory driver for reporting on environmental/landscape issues, few companies did so. We are disappointed that OFGEM do not intend to apply financial rewards or penalties to these measures, and consider that this is a missed opportunity. Please see our comments below relating to the Electricity Distribution Price Control, Data and Cost Commentary Appendix document. This shows that all DNOs have underspent and that little money has been spent on undergrounding. As companies do not appear willing to spend money on amenity undergrounding voluntarily, we would suggest that there is a need for more financial rewards/incentives or penalties to encourage them to do so.

Chapter 5 : Distributed Generation

FLD may support efforts to promote distributed generation where this contributes to reducing efficiency losses on the system and supports greener energy in rural areas

where appropriately located. However, proposals for accommodating distributed generation must be developed in ways that are consistent with environmental policy requirements for landscape protection, especially given the high conservation value of upland landscapes possessing large renewable energy resources. We would expect Distributed Generation to be accommodated by the companies, and regulated by OFGEM, in ways that are compatible with duties under section 62 and section 85. Innovative solutions that promote (economic and environmental) least cost planning ought to be incentivised. FLD may be anxious about any possibility of relaxing industry standards (Para 5.69).

Our comments also relate to Appendix 1, the Regulatory Impact Assessment of OFGEM's proposed measures for providing incentives for DNOs in relation to distributed generation. While the proposed approach does assess whether the proposed measures will achieve the intended environmental objectives in terms of achieving renewable energy and CHP targets, which might be welcomed, it is silent on the environmental side-effects of the distribution network investment itself e.g. on landscape and amenity.

Chapter 6

FLD welcomes the moves to make the process of DPCR more transparent, and the recognition (para 6.60) that the assessment of efficiency should not consider the level of DNO's costs in isolation from the key outputs they are expected to deliver. In reviewing all cost categories and developing benchmarking techniques FLD stresses the importance of giving due consideration to the total and long term costs involved with undergrounding (including landscape impacts/benefits).

We welcome para 6.62 and the recognition that there are different levels of quality for DNOs relative to the characteristics of their service area. However, FLD would ask that OFGEM also recognise the link between undergrounding lines, quality of supply and efficiency and the impact this has on DNO's costs.

Electricity Distribution Price Control, Data and Cost Commentary Appendix

There is little mention of undergrounding or, indeed, environmental pressures in general affecting investment expenditure. SPN stated that 'Increased pressure to underground particular engineering options as opposed to overhead line solutions' explains some of their expenditure on reinforcement (page 33). Western Power Distribution report an 'appreciable overspend on underground cables at 33kV, 11kV and LV' (page 64) but no reason is given. SP Manweb report that 'expenditure on diversions is lower the DPCR3 allowance as the level of wayleave terminations and undergrounding for safety reasons have been lower than anticipated' (page 70). The only company which really discusses undergrounding in any depth is East Midlands Electricity Distribution. They claimed that the first year of the current DPCR (2000) 'included significant undergrounding of overhead lines which was a feature of their Vision 2020 for network restructuring, which EMED concluded was inconsistent with the significantly lower DPCR3 capital allowance allowed by OFGEM' (page 15). They go on to regard the short term approach to investment pressed on them by OFGEM's capital allowances as 'sub-optimal'.

Many DNOs have claimed that as undergrounding costs more than placing lines overhead and as they are subject to tight budgets, they cannot afford to place lines underground. However, we note an 11.8% underspend on allowances during DPCR3, and an overt willingness by EME to challenge DPCR for its inadequate treatment of requirements for security of supply and environmental expenditure. It is apparent to us

therefore that more money could have been spent on undergrounding during the DPCR3 period and that companies need to be encouraged to do so. As they seem to have been unwilling to do so during the last DPCR period, it highlights to us the need for more rewards/incentives or penalties relating to undergrounding for amenity reasons.

Electricity Distribution Price Control, Workshop Summary

We note the lack of representation of the environmental sector at this workshop, and suggest that for future workshops, OFGEM make more direct approaches to encourage a wide range of environmental organizations to attend, with a session included on environmental issues.

We hope you will take our comments into account and look forward to seeing them represented in the next OFGEM document.

Yours sincerely

Jan Darrall (Dr)
Policy Officer

E mail : Jan-Darrall@fld.org.uk