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22nd July 2004

Dear Cemil,

EDPCR : Initial Proposals, June 2004

Many thanks for consulting us on the above document. We have the following comments to make.

In summary, FLD are very disappointed in the Initial Proposals document in that OFGEM are not proposing any action to overcome the intrusive impacts of overhead wires on the landscape or to meet the statutory duties of OFGEM and DNOs to National Parks and Areas of Outstanding Natural Beauty. We will expand on this below. We would therefore suggest that OFGEM have missed a clear opportunity to enable small, but in our view significant amounts of new money to be put into undergrounding wires in designated landscapes, and in doing so are ignoring their statutory duties to these areas, and paying no regard to the principles of sustainable development. We urge OFGEM to reconsider this issue.

Paras 3.40 – 3.41 : The environmental cost of losses

This section fails to refer to the detrimental impact of many overhead wires on the landscape. The landscape disbenefits of overhead wires and lost electricity should be factored in here and balanced with the gains of having a network. More focus on reducing losses may prevent the need for further line reinforcement and associated landscape harm. We would expect that an approach with more distributed generation of the continuous variety such as CHP, would help .

Para 3.44 Incentive rate for losses.

FLD welcome the proposed increase in the incentive rate for losses on the distribution system (para 3.44). The proposal to use the mid-point of the range of figures seems an eminently practical approach to this important issue. FLD look forward to seeing the final targets for losses in the September document.

Para 4.5 Consumer survey

FLD note that the results of the consumer survey are 'inevitably indicative and not

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definitive', but we are very unhappy with the way in which they have been used to justify taking no further action to improve levels of undergrounding. We will return to this below.

Paras 4.71 – 4.78 : Undergrounding in Areas of Outstanding Natural Beauty

The positive responses from companies about allowances for amenity undergrounding (para 4.72), and from both phases of the consumer survey research, all suggest that real benefits would be provided to the public by developing actions in this area. This is a point with which OFGEM concurs (para 4.74) and which we welcome. Yet from this basis, OFGEM are to drop their consideration of more undergrounding entirely. This seems paradoxical and very disappointing. It shows a lack of commitment by OFGEM to its statutory duties to these designated landscapes and a lack of understanding of the role and importance of National Parks and AONBs.

We find it somewhat astonishing that OFGEM has taken more than a year of investigations simply to come to the view that it is not the appropriate body to take action in this area (para 4.74). We do not find the reasons behind this decision convincing. Indeed, the combination of mutually conflicting reasons suggests a 'belts and braces' opposition to taking action on undergrounding, no matter what the survey of companies or consumers revealed.

There are several problems with OFGEM's first argument, which is that it does not take actions which deliver 'public good' benefits. The first problem is that it is not up to OFGEM itself to decide that visual amenity is a public good - this is already amply set in the duties placed on it, and the DNOs, under the Environment Act 1995, and CROW Act, 2000. Price control simply has a significant bearing on how far these duties are realised, and provides OFGEM and DNOs with tools to show how they are meeting these duties.

The second flaw is that while OFGEM expresses concern that consumers in particular areas would be paying to deliver benefits that go to other consumers, consumers themselves – in response to OFGEM's own surveys – are all happy to support undergrounding regardless of where they live. This is clear from both phases of Accent's survey. Indeed, electricity consumers are also consumers of unspoiled landscapes – these are not two separate groups. It is interesting to note that the map of current DNOs, when overlaid with maps of National Parks, AONBs, and Heritage Coasts, shows that each DNO will have protected landscapes within its area of cover. As such, all consumers in every DNO area would be paying for undergrounding in some protected landscape.

National Parks and AONBs were designated under the 1949 National Parks and Access to the Countryside Act and are for the Nation. The Hobhouse Committee of 1947 clearly mapped both areas from a national perspective. As such, the local DNO when undergrounding wires is showing a commitment to sustaining a valuable resource for the Nation, and abiding with sustainable development principles of protecting valuable resources for future generations. The local consumers are not solely paying to provide benefits that will go to other people. Taking the Lake District National Park as an example, 14 million visitors come to the area each year, because of its fine landscape quality. In turn, these visitors generate around £500million of expenditure for the local economy. Enhancing the landscape will lead to further spending, which in turn will benefit the local people. We note the companies were not asked their views on willingness to pay for undergrounding. This is unfortunate as experience from National Parks and AONBs shows that many companies derive significant income from the spending of visitors who come to these landscapes, and that they would benefit from landscape enhancements by further visitor spending.

The third flaw in the argument in the first bullet of para 4.74 is that by proposing to investigate the issue through quasi-market methods, OFGEM has committed itself to basing the public good on an aggregation of consumer preferences; it cannot logically start introducing different conceptions of the public good without undermining the logic of its entire survey effort.

Fourthly, both OFGEM and the DNOs have a statutory duty to take account of the purposes of both National Parks and AONBs, as well as to protect the interests of the consumers which includes protecting fine landscapes. It is totally within the role of the DNOs and OFGEM to suggest that the DNOs spend money on undergrounding, that way they would be fulfilling their statutory duties to National Parks and AONBs. It is incorrect to suggest that local government can tell an electricity company to invest in undergrounding wires, they have no duty or remit to do so and DNOs would pay little regard to such a request.

The second bullet in para 4.74 is misleading. The consumer WTP phase 1 survey showed that 89% of consumers felt overhead wires should be placed underground in National Parks and AONBs. The phase 2 survey showed that they would be willing to pay 0.7% on top of their current bill to enable further undergrounding to take place. Although this is a small percentage, it would result in significant resources for undergrounding compared to the current situation. We find it misleading to compare this amount to the total cost of undergrounding all wires in these landscapes – the latter is clearly not feasible at present, nor has it ever been argued for by FLD. It was always abundantly clear that such an exercise would be extremely expensive, but also that more modest phased programmes of tackling lines with the severest visual amenity impacts would create real benefits. FLD explicitly advised OFGEM in one of its previous letters against setting up such an unrealistic comparison. It is directly analogous to arguing that because consumers might not be willing to pay for an enormous transformation in the quality of their electricity supply (in terms of interruptions, etc) that no steps at all should be taken to incentivise incremental improvements to the present situation. OFGEM evidently does not believe this is so for quality of supply, so it is unclear why it believes this to be justified for amenity undergrounding. The public were never asked whether the upfront costs of undergrounding all overhead lines in designated landscape areas was so high that no steps should be taken at all, thus it is not clear from where exactly OFGEM draws its authority to make such a judgement.

The public's expressed annual willingness to pay 0.7% of their bill would, if realised, be sufficient to present a step change in the amount of amenity undergrounding of the existing network. Even a 0.5% increase on bills would result in significant expenditure that could be put in a national pot of money ring fenced for undergrounding, or spent within each DNO area on priority schemes. As you know, we have been working with UU to design a prioritisation form which would allow easy prioritisation of lines to be undergrounded.

The third bullet questions whether spending significant amounts of money on undergrounding (bullet two notes the amount the consumer's would be willing to pay would be small, i.e. not significant) would be consistent with the DTI guidance. It is our view that this would be totally consistent, as both the DTI and OFGEM recognise that they have to fulfil statutory duties to National Parks and AONBs. We have it in writing from the DTI that although the Social and Environmental Guidance does not specifically mention s62 of the Environment Act 1995 or section 85 of the CROW Act 2000, OFGEM and DNOs are nevertheless obliged to meet these duties. The proposal to make no specific allowance for undergrounding for visual amenity reasons leaves these duties rather hollow.

We would therefore suggest that OFGEM have missed a clear opportunity to enable small, but in our view significant amounts of new money to be put into undergrounding wires in designated landscapes, and in doing so are ignoring their statutory duties to these areas, and paying no regard to the principles of sustainable development. We urge OFGEM to reconsider this issue.

OFGEM's concerns about taking steps which would have 'significant financial implications for consumers or the regulated companies' (Footnote 33, page 48) scarcely applies to proposals on Environmental Reporting. We have made it clear in our previous submissions that more rigorous reporting on amenity issues is the first step in giving meaning to DNO's duties under the 1989 Act, the 1995 Act and the 2000 Act.

As we have stated before, many DNOs have claimed that as undergrounding costs more than placing lines overhead and as they are subject to budgetary constraints they cannot afford to

place lines underground. But, as there was an 11.8% underspend on allowances during DPCR3, it is reasonable to assume that more money could have been spent on undergrounding during DPCR3; and also that greater encouragement needs to be given to companies to achieve a higher level of undergrounding, in terms of rewards/incentives and penalties relating to undergrounding for amenity reasons. We would hope to see positive steps taken through the performance indicators to be published in the September update paper.

Paras 4.76 – 4.78 : Environmental Reporting

We reiterate our desire to be involved in the development of environmental reporting indicators, and highlight the importance of an indicator covering landscape amenity issues. Our list of potential reporting indicators includes :-

- Percentage of underground overhead lines in designated landscape areas and by Countryside Character Areas, and changes in these percentages over the next DPCR.
- Amount of money spent on amenity/environmental works during the DPCR period.
- Net reduction in length of lines in designated areas, and Countryside Character Areas.
- Development of a prioritisation system for undergrounding overhead lines based on landscape intrusiveness and impacts on landscape character.
- Specific ways in which DNOs and relevant authorities 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
- Contents of and compliance with Schedule 9 Statements.

Paras 4.79 – 4.84 : Discretionary Reward

We hope that environmental NGOs will also be consulted on the two part annual survey referred to in para 4.82, and indicate our willingness to be involved in this.

We would like to see reference in para 4.84 to evaluations and rewards also covering environmental/landscape good practice.

Para 4.85

We have concerns with OFGEM's remarks that there is little willingness among customers to help fund improvements to the quality of service for rural/worst-served consumers (para 4.85). It is our contention that the methodology and analysis of Accent's second phase survey is unjustifiably skewed against these consumers. The specifics of our concerns are explained below.

Accent Marketing and Research (2004) *Consumer Expectations of DNOs and WTP for Improvements In Service*, prepared for OFGEM.

Our comments on the survey fall under three headings :-

Transparency and methodology

Significant changes have been made to the coverage of visual amenity issues since the first stage of the consumer survey research, with important implications for the data that was subsequently gathered. Yet the report gives no indication of how or why certain questions were constructed or certain options were prioritised. This makes it very difficult to trace through OFGEM's thought process, and leaves the reader facing small quantities of data without being able to understand why particular lines of inquiry were pursued. The DPCR Initial Proposals acknowledge that the consumer survey report was delayed due to the additional analysis of the

results (June 2004, para 2.1), but nowhere do we learn what was receiving extra analysis, why and to inform which proposals. This leads to a suspicion that OFGEM made sure there was plenty of data to support action in those areas of quality of supply where it wanted to tighten standards, but has never really been interested in collecting relevant data for undergrounding.

This is particularly relevant to the amenity/undergrounding analysis, where the report gives much less attention to explaining the survey and its analysis than to other aspects of quality of supply. This element of the survey appears to have been significantly pared down, either between stage 1 and stage 2, or between the gathering of data and the writing up.

While there is a short explanation of the methodology on page 3, more details could have been given on how the 'packages' of service qualities were put together and compared for the issue of visual amenity/undergrounding, and how a willingness to pay was derived from them. A worked example would have assisted, as provided on page 11. Interpreting the findings is very difficult, especially in terms of understanding how costs have been factored in.

Undergrounding

In the end, the survey has only crudely estimated WTP for certain units of improvement and, through this, monetary measures can be used to assess the 'exchange rate' between them. It cannot however, be used to infer that £2.50 worth a year of undergrounding is worth less (or more than) £2.50 worth of improvements in information accuracy (for example). It simply is not clear how, for example, Accent deduced that improvements in resilience are generally valued significantly less than quicker restoration times following major events, unless this arises directly from responses to the pairwise questions, the results of which are not reported.

Tables like the one on page 30 are therefore very misleading. They place the value for a 40 minute reduction to the average power cut at the top (£43.60) but also include the value per minute reduction of an average cut, when the latter is a kind of rate of exchange and the former a particular result of no obvious significance (why not have a 35 minute reduction, or 55?). The table is clearly intended to suggest some kind of ranking, yet by combining rates of exchange (£/% of something) with particular results, this is very misleading. There is no obvious reason why willingness to pay for undergrounding should not be given both in terms of £/% and for a 20% reduction in overhead lines in designated landscape areas – which at £48 would make it the top option!

The reader is thus left guessing as to why certain preferences have been deemed sufficient to warrant action by OFGEM and others have not. FLD have made it clear in earlier submissions that £2.50 per year, per consumer, would make a significant difference to the level of discretionary amenity undergrounding on the existing DNO networks, and OFGEM have never presented any analysis or opinion surveys to show that it ought to be regarded as trivial in amenity terms. It is not at all clear why the data as presented in table 29 provides that basis.

There is nothing in the methodology, questions or results from Accent's phase 2 survey to suggest that respondents are being invited to 'consume' the benefits of more reliable electricity supply in a more individualised way than the benefits arising from less visual intrusion because of undergrounding. It is thus illegitimate for OFGEM in its current DPCR proposals to infer the distributive concerns of consumers (by suggesting that the people who pay and the people who perceive benefit are different). There may be unresolved issues in devising the institutional arrangements that might link increased capital allowances to amenity projects, but this is an entirely different matter from whether in fact people are willing to pay.

Page 2 states that consumers were asked their WTP about a programme of selective undergrounding, which would unfold over a number of years. It is thus illogical for OFGEM totally to abandon action in this area because DNO estimates the total upfront costs of undergrounding all lines in designated areas would be too expensive for consumers to bear. We are nevertheless not happy that all the undergrounding options in G B 1 Game2 implied that undergrounding in

National Parks and AONBs would continue until all are undergrounded. Why not make the option 'until all the lines with the most severe visual impacts have been undergrounded'?

There are unresolved questions about the relative reliability of the data. The information given in Table 31 does not suggest that the figures for undergrounding are unduly unreliable. But given that available research on environmental valuation suggests that results are more plausible the more familiar respondents are with the topic, there must be some doubts about the reliability of nuanced valuations for telephone services most of them do not use, and quality standards of which the majority of people are unaware.

Rural equity

In various ways the second phase of the survey research militates against the serious treatment of rural customers, especially those facing the most unreliable service. Some of the options/questions explicitly assessed whether people would be willing to see certain quality of supply improvements in their area (4.1, 4.2, 4.3 and 6.2) and some did not (6.3). Thus for one set of questions, all consumers are left to judge how they might view a package of benefits that would be of particular benefit to a few; for others, they are invited to view themselves as one of two discreet geographical communities (urban and rural). This unexplained and inconsistent decision has significant impacts on the results.

Thus we have the value per unplanned rural cut registering at a third of the value of the urban equivalent (p.25, also p.27), mainly because of the smaller number of rural consumers. But (i) there is no explanation of why this question was divided between rural and urban, and (ii) it seems that urban respondents were debarred from expressing WTP for rural cuts and vice versa. Both steps effectively prevented respondents for registering a preference for equitable treatment between rural and urban.

Underlying all of this analysis is a more fundamental ethical concern with the whole approach. The argument that rural consumers experiencing poor service on the worst circuits (which appears to be confirmed again by this survey – p.17) ought to have that service improved towards a level approaching the average is essentially a matter of equality. But OFGEM's approach converts the issue into a matter of allocative efficiency. It is no surprise that in a cost-benefit approach, relatively trivial benefits to a large number of consumers (such as better telephone information when people rarely use/have no major problems with the current service) outweigh serious problems faced by a small minority.

FLD are concerned that the same logic explains why in its DPCR report, OFGEM again finds itself generally unable to make allowances for DNO proposals to improve network resilience (June 2004, summary p.2, main report p.44). The previous report noted that half of DNOs intended to make major improvements for network resilience, most of them involving undergrounding. OFGEM claims that it has received insufficient justification, but the kinds of justifications it makes to adjust price controls are based on a very narrow conception of efficiency, not on any measure of equity.

We hope that you will find our comments useful. We remain willing to meet with OFGEM to discuss the above issues, if you would find that helpful.

Yours sincerely,



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