

13 February 2009

Our ref:

Your ref:



Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Northminster House
Peterborough
PE1 1UA

T 01733 455305
F 01733 568834

email: DPCR5.reply@ofgem.gov.uk

Dear Sir/Madam

Consultation on Electricity Distribution Price Control Review policy paper (DPCR5)

Natural England welcomes the opportunity to put forward its views on the DPCR5 Policy Paper. Please find attached our response to this consultation.

We would welcome the opportunity to discuss our views in more detail, please contact Simon.Stonehouse@naturalengland.org.uk (tel: 0117 9598510) in the first instance.

Yours faithfully

A handwritten signature in black ink, appearing to read "Rob Cooke". The signature is fluid and cursive, written over a light grey rectangular background.

Rob Cooke
Director Policy

Ofgem consultation - Electricity Distribution Price Control Review policy paper (DPCR5)

Natural England's submission

Summary

1. Natural England is a statutory body created in 2006 under the Natural Environment and Rural Communities Act. Our purpose, as outlined in the Act, is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.
2. We recognise the need to move quickly and sustainably towards a low carbon economy in order to tackle the causes of climate change, and the key role of electricity networks in enabling change.
3. We welcome the recognition that the Distribution Price Control Review 5 (DPCR5) is an important enabling mechanism in decarbonising the UK energy system and the move towards a sustainable, low carbon economy.
4. Distribution Network Operators (DNOs) should continue to be rewarded for performance against environmental incentives, and the scale of those rewards should be sufficient to encourage real improvements in performance through the DPCR5 period. The full costs and benefits for the natural environment need to be factored into decision-making, incentives and support.
5. The swiftest and most sustainable and cost effective measures to reduce harmful emissions (and reduce future network costs) tend to be those which reduce energy use and demand and deliver greater energy efficiency. We support the need set out in DPCR5 for DNOs to reduce harmful emissions across their operations, particularly those from the largest source - electricity losses. We also expect DNOs to make a strong contribution to supporting local and domestic energy efficiency and demand management.
6. Deployment of low carbon and renewable energy generation must not be hindered or delayed by problems with connections and networks. If stronger incentives are unlikely to be sufficient in this regard, DNOs may need to have requirements placed on them to make the necessary progress. We agree with the analysis that a wide range of environmental policies and initiatives identified in the policy paper will, over time, significantly change the demands and investment needs placed on electricity networks.
7. Encouraging and connecting distributed generation is a key task for DNOs. Much more needs to be done in this respect, for example, by making the connection process simpler and making Feed-in Tariffs easier and more attractive.
8. The connection of new offshore generation with onshore networks is critical and needs to be strategically planned and located to minimise impacts on the natural environment and be climate change proofed to cope with issues such as flood risk and coastal realignment. DPCR5 policy goals also need to be consistent with the emerging National Policy Statements concerning energy generation and its distribution networks.
9. We support the proposals to continue the undergrounding scheme. New connection routes need to be strategically planned and to avoid our most valued landscapes and natural features.

Response to selected questions from Chapter 2: Environment

Q1 Do you agree with our view of future uncertainties and the need for DNOs to change their way of working and thinking to encompass innovation and flexibility?

- Future uncertainties are an important consideration. Full and committed DNO engagement with innovation, R&D and new technologies, along with mechanisms for sharing information and clear Government policy will help to reduce uncertainty and risk.

Q2 What are your views on our proposals for DNOs to provide more information to help low carbon initiatives and have we adequately identified and defined the information requirements?

- DNOs are in a strong position to promote take-up of low carbon initiatives, within their own operations and those of their customers.
- We would emphasise the importance of ensuring that such promotion takes impacts on the natural environment into account, so that clear information is available on the full benefits and costs of different forms of energy generation, supply and consumption.

Q4 Do you agree that the distributed generation (DG) incentive should be retained?

- Yes, DPCR5 should build on existing incentives aimed at connecting DG and existing initiatives to encourage DNO innovation and responsiveness. Commitment to ongoing investment in R&D and demonstration work or good practice schemes to support roll out of new technology and network solutions is key.
- A variety of issues need further attention including smart grids, heat and power schemes and electricity storage. This will also help to address some of the uncertainties about future technological and customer needs.

Q9 What are your views on our proposals for refining the undergrounding scheme? In particular, should we apply caps per km of cable by voltage level or should we remove all voltage caps and just have a single overall cap?

- Natural England recognises that the undergrounding scheme has been successful, popular with communities and delivered significant benefits for landscape character and quality in nationally important areas.
- We support the proposal that the undergrounding scheme is continued in DPCR5 with funding in line with the willingness to pay customer research referred to in the consultation paper.
- We recommend that cost caps are reviewed with a view to making them more flexible and able to deal with the more difficult aspects of some projects, for example, where natural features and topography may increase costs for particular sections.
- We also recommend that good practice is shared between DNOs, both on a project level and as a means of ensuring that those operators that lag behind the best can catch-up.

Natural England
February 2009