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Dear Sir/Madam

Regulating energy networks for the future: RPI-X@20 Recommendations

Thank you for the opportunity to comment on the above public consultation.

Natural England's response is attached. Please contact simon.stonehouse@naturalengland.org.uk if you wish to discuss our comments.

Yours faithfully

A handwritten signature in black ink, appearing to read "Rob Cooke". The signature is fluid and cursive, with a large initial "R" and "C".

Rob Cooke
Director Environmental Advice and Analysis

Regulating energy networks for the future: RPI-X@20 Recommendations

Response by Natural England

Introduction and summary

1. Natural England is a non-departmental public body. We work to ensure that England's unique natural environment, including its flora and fauna, landscapes, geology and soils, is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.
2. Natural England welcomes the package of documents put forward for consultation, which set out OFGEM's recommendations and approach to sustainable network regulation. The level of ambition and the scale of proposed change are high, which is both justified and necessary given the scale of the challenge for energy networks in facilitating the drive towards a sustainable low carbon energy system.
3. As the Government adviser on the conservation and enhancement of the natural environment, we consider that the framework and recommendations presented provide a sound basis for:
 - Development of a regulatory regime that recognises and accounts for the importance of the natural environment as an essential building block for a sustainable low carbon future; and
 - Enabling real progress on shaping energy networks that can deliver the deep cuts in greenhouse gas emissions that are required.
4. We support the objective for sustainable network regulation and core concepts applied to the design of the new regime. The explanation and definition of those concepts is very useful and we especially welcome the recognition that a sustainable energy sector means the delivery not just of low carbon energy, but also wider environmental objectives. We also welcome the concept of enhanced stakeholder engagement and note that these concepts are reflected in the recommendations and proposals for implementation.
5. We look forward to providing OFGEM and network companies with evidence and advice on the natural environment interests relevant to the successful development and implementation of the new framework for sustainable network regulation.

RPI-x@20 Recommendations

6. We support the recommendations set out in the consultation documents and make a number of observations below on matters relevant to our remit.

Stakeholder engagement during the price control

7. We support the aim to develop engagement of OFGEM and network companies with stakeholders. As noted in the document, whilst environmental stakeholders are not direct consumers, it is important that they are involved at appropriate stages in the price control process. This will help ensure that there is a sound, evidence-based understanding of relevant environmental considerations and a transparent and consistent approach to identifying desirable and deliverable outputs.

Setting outputs

8. Whilst the natural environment has not been completely ignored in the past and improvements in DPR5 were welcome, we welcome the more fundamental change proposed whereby the output categories, such as that for the environment, would be at the centre of the price control review and drive the setting of the price control itself.
9. We support the outputs-led approach taken and note that the proposed framework for setting outputs includes 'environmental impact' as a key category for network company delivery. In the

context of an approach with sustainability at its heart, we would stress the primary importance of seeking opportunities to deliver outcomes where economic, social and environmental goals are integrated and deliver benefits across a broad spectrum.

10. Translating output categories into primary outputs is, of course, key. Figure 16 in the supporting paper indicates that the primary outputs for 'Environmental impact' should "Demonstrate the direct and indirect impact of the network on environmental targets." It will be important to ensure that, in line with the principles underpinning the proposed framework, primary environmental outputs go beyond the impact on greenhouse gas reduction targets.
11. We note that in Table 3, where examples of primary outputs are presented, most relate to GHG reduction, though visual impacts are also mentioned. We would suggest that, in respect of the natural environment, a useful primary output could be the consistency with (or contribution towards) objectives for the conservation and enhancement of the natural environment. An output along these lines would provide a good basis for the development of specific primary outputs that were measureable and meaningful and demonstrated a wider contribution to a sustainable energy system. There are a number of sources of geographically-specific information of this type, such as National Character Area objectives and SSSI Conservation Objectives, which could be considered for use in this regard.
12. We appreciate the desire for metrics to be developed that would robustly reflect the performance of the network companies on primary outputs and believe that there is scope to do so in terms of outputs for the natural environment. Initial discussions we have held with Ofgem have begun to explore ways in which environmental outputs and metrics might be approached in the new framework. A number of potential options worthy of further consideration have been discussed and we look forward to continuing that conversation with OFGEM, and where appropriate, with network companies.

Network company business plans

13. We welcome the recognition that consideration by network companies of long term costs and benefits of their activities should include environmental costs.

Natural England, September 2010