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## Economy, Skills and Environment

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Your Ref: 104/11  
Our Ref:

Date: 9 September 2011

Dear Ms Nixon

### **RIIO-T1: Transmission companies' business plans - publication and next steps**

Thank you for seeking our views on this first iteration of RIIO-T1 business plans.

Accommodating the changing geographical distribution of electricity generation has potentially significant implications for the development of the electricity transmission network in East Anglia, therefore Suffolk County Council (SCC) continues to maintain an active interest in this issue. We have had discussions with Grant McEachran's team, are a member of the Ofgem Price Control Review Forum and ALSO the Offshore Transmission Coordination Group. Our comments below relate specifically to the National Grid Electricity Transmission (NGET) Business Plan.

In May we wrote to NGET setting out our expectations of their Business Plan. I attach that letter for reference as Appendix 1. Our primary concern is that RIIO-T1 facilitates the development of an electricity transmission network based on the principles of sustainable development, the delivery of which is a statutory duty of both Ofgem and the planning system.

### **Willingness to Pay**

In our earlier letter we asked NGET to consult on their methodology for the Willingness to Pay (WTP) study and for it to encompass non-designated sites. We were duly consulted and responded accordingly (Appendix 2). While some of those comments were taken on board, we would suggest that the WTP has limited value, principally because, as NGET acknowledges, the study did not elicit “*the precise amounts customers were willing to pay for undergrounding*”<sup>1</sup>, a concern we had envisaged earlier.

It is also far from clear how the finding that around half of customers would be willing to pay something towards undergrounding new electricity lines has been translated in to the Business Plan. NGET, in modelling uncertainty for the degree of undergrounding, “*assumed a lognormal distribution with a mean of 17% and a standard deviation of 11%*”<sup>2</sup>. The WTP research found that the median amount that someone is willing to pay is £4.54, which is substantially higher than 10% undergrounding (on the basis that £7.70 would pay for undergrounding all new lines).

Our concern with the proposed flex mechanism is how readily Ofgem will be willing to readjust revenues repeatedly within the price control period, due to the (presumed) potential implications for consumers. There is also a potential disincentive to reduce the cost of undergrounding, if NGET is able to simply ask for more money.

NGET have committed to undertaking further work in the autumn on the undergrounding of existing lines<sup>3</sup> – we suggest that this should also apply to new lines and that work should follow Defra best practice and be subject to peer review if it is to be truly valuable (this reiterates previous comments made to NGET - see Appendix 2).

## **Whole life cost**

We welcome the recognition that “*The least cost option however, does not always best meet the requirements of our stakeholders*”<sup>4</sup> and therefore strongly support the whole life value concept and the commitment to undertake a pilot study in the autumn<sup>5</sup>. However, while this framework rightly identifies factors other than capital cost as being important in choice of technology, it is not clear how those factors will be weighted or indeed valued<sup>6</sup>.

In the example of visual amenity, how will that be balanced against safety, versatility and cost for example? We suggest that if a monetary value is attributed to all the associated costs and benefits of a given option they can then be evaluated in a more holistic way. It is for this reason that we drew NGET’s attention to the Government’s Natural Environment White Paper and HM Treasury’s Green Book<sup>7</sup> which set out how the environment should, and can, be valued. We would hope such thinking is embedded in NGET’s new approach to undergrounding to be published in the autumn<sup>8</sup> and also in Ofgem’s forthcoming consultation on the broader environmental measure<sup>9</sup>.

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<sup>1</sup> Attitudes to Energy Transmission: Summary of Key Findings, P5

<sup>2</sup> Managing Risk & Uncertainty, para 229.

<sup>3</sup> RIIO- T1 Overview, para 115

<sup>4</sup> How we will deliver, para 14

<sup>5</sup> RIIO- T1 Overview, para 81

<sup>6</sup> Innovation, Efficiency & Value for Money, para 342

<sup>7</sup> See Stakeholder Engagement Process, para 129

<sup>8</sup> RIIO- T1 Overview, para 112

<sup>9</sup> RIIO- T1 Overview, para 69

Regulatory and policy direction and, in particular, the level of undergrounding are significant sources of uncertainty within the Business Plan. If NGET were to adopt a process which included *objective* valuation of the environment, it is likely that the analysis would reveal that not only should the level of undergrounding be higher, but also that the most efficient, economic, and sustainable means of network development is achieved by much better coordination of offshore development and greater integration with onshore network planning. This would reduce an element of policy and planning risk. NGET themselves<sup>10</sup> (and indeed the industry as a whole) recognise the benefits of coordination, and therefore it remains regrettable that the offshore regulatory regime which would deliver it is yet to be implemented.

## Network development

The Business Plan has “*identified on-shore network reinforcements on the assumption that a co-ordinated integrated network solution will be developed*”<sup>11</sup> and we support this. However NGET states elsewhere that connection of offshore wind will require “*a combination of radial, radial plus and integrated network solutions*”<sup>12</sup>. As we indicated in our earlier response to NGET, in the interests of transparency and independent scrutiny, we would expect the strategic network development plan<sup>13</sup> to be included in the Business Plan in graphic form. NGET do suggest a “network development policy” and propose a “least regrets” approach to network reinforcement, which follows on from the earlier ENSG work<sup>14</sup>.

The ENSG work has had a significant bearing on the development of the transmission network, indeed Ofgem previously released over £1bn of funding to the transmission companies outside the current Transmission Price Control Review for ‘anticipatory works’<sup>15</sup>. NGET continue to develop the network based on this work – assuming “*that the projects currently identified as Anticipatory (ENSG) investment will become part of the wider works contained within this submission*”<sup>16</sup>. We continue to believe that the effective ‘roadmap’ status of this document means that it falls under the terms of the SEA Directive<sup>17</sup> due to potentially significant, cumulative and in-combination environmental impacts of its implementation. The Business Plan should be subject to the same assessment for these reasons.

## Stakeholder engagement

We would suggest that more effort is put in to engaging with local authorities - the stakeholder engagement process remains dominated by industry. Despite our active engagement in electricity transmission issues we were not aware of any of the Business Plan workshops. The earlier local authorities are involved, the more productive the pre-application process will be, which will in turn reduce planning related risks.

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<sup>10</sup> The Future of Energy, para 23/ Assumptions & Glossary, paras 11-12/Managing Risk & Uncertainty, para. 261, 264

<sup>11</sup> Managing Risk & Uncertainty, para 261.

<sup>12</sup> Assumptions & Glossary, para 12

<sup>13</sup> Ofgem - Strategy for the next transmission price control - RIIO-T1 Outputs and incentives. Para 7.5

<sup>14</sup> Managing Risk & Uncertainty, paras 128-133

<sup>15</sup> <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmenergy/194/194.pdf> para 52.

<sup>16</sup> Assumptions & Glossary, para 10

<sup>17</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:197:0030:0037:EN:PDF>

In particular no consultation has been undertaken on the ENSG work, and while NGET consult on scenarios to be tested in ODIS, there is no consultation on routes included. While ODIS is not prescriptive, it guides the industry - as such NGET's 'best view' should be informed by more detailed environmental analysis in the same way that ENSG should be.

## **Innovation**

We welcome the emphasis on innovation, in particular on underground technologies and on those that would facilitate the coordinated development of the offshore network. We do remain concerned that the level of investment in research and development, capped at 1% of revenue, seems low given the significant (and acknowledged) challenges faced by the industry. As NGET note this is at the minimum end of guidance levels provided by BIS<sup>18</sup>.

## **Compensation**

We note that NGET is considering community compensation for the loss of visual amenity and would support this initiative<sup>19</sup>. It is clear that a limited number of communities will be shouldering the visual impact of an expanded and reinforced transmission network which is to the benefit of the country as a whole. Therefore it seems appropriate that NGET investigate and implement some form of community benefit scheme to recognise this. This should not be restricted to designated areas.

## **Summary**

The Business Plan has many positive aspects which should be welcomed. The recognition of the importance of effective stakeholder engagement, the need to innovate and greater emphasis on sustainability is commendable. Our concerns rest with the implementation of these intentions, in particular how the whole life costing model will be used and the role of willingness to pay.

We would welcome further discussions with Ofgem on these matters.

Yours sincerely

**Michael Wilks**

Spatial Planning Projects Manager

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<sup>18</sup> Innovation, efficiency & value for money, para. 110

<sup>19</sup> How we will deliver, para 257



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Your Ref:  
Our Ref: LR/SCB  
Date: 10<sup>th</sup> May 2011

Dear Mr Frankland

### Talking Networks - National Grid Price Control Review Consultations: RIIO-T1

Thank you for the opportunity to input into the development of National Grid's first business plan under the new price control system for electricity transmission, RIIO-T1.

Suffolk County Council welcomes the increased emphasis within RIIO on stakeholder engagement and would like to take the opportunity to highlight our expectations of the business plan, with reference to the relevant guidance from Ofgem which supports these points;

- National Grid needs to develop (and consult on) a strategic development plan (para 7.5, Outputs & Incentives Annex).
- National Grid needs to develop (and consult on) their methodology for willingness to pay (para 4.61 Outputs & Incentives Annex). The methodology should meet best practice as outlined by Defra<sup>20</sup>.
- National Grid needs to demonstrate that it has considered *and consulted on* all reasonable alternatives for major projects, for example Bramford to Twinstead (para 3.38 Business Plans, Innovation & Efficiency Incentives Annex).
- National Grid needs to explain why the mechanism of willingness to pay cannot equally be applied to landscapes other than those in National Parks and AONBs (para 3.28, bullet 3, Business Plans, Innovation & Efficiency Incentives Annex).
- National Grid needs to demonstrate that alternative means of delivering new assets, for example Bramford to Twinstead have been considered, for example through the involvement of third parties (para 3.54, bullet 3/para 3.57 bullet 2, Business Plans, Innovation & Efficiency Incentives Annex).

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<sup>20</sup> See <http://archive.defra.gov.uk/environment/policy/natural-enviro/using/valuation/steps/step4/evidence.htm> Annex 1 and 2

- National Grid needs to demonstrate that their approach to wider reinforcements represents efficiency over the *long* term (para 3.40, bullet 2, Business Plans, Innovation & Efficiency Incentives Annex)
- National Grid needs to demonstrate that it has exploited opportunities to employ innovative solutions to network development and taken advantage of the ability to propose projects which deliver outputs that consumers value over the longer term (paras 7.1., 7.2. 7.13, Decision Document).
- National Grid needs to demonstrate that proper consideration has been given to interaction between their reinforcement proposals and the development of the offshore network (para 3.23/3.27, bullet 9, Business Plans, Innovation & Efficiency Incentives Annex)

I trust the above points are helpful and look forward to seeing them reflected in the development of your business plan.

Yours sincerely



**Lucy Robinson**  
Director  
Economy, Skills and Environment

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## References

- Decision Document: <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/T1decision.pdf>
- Outputs & Incentives Annex: <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/T1decisionoutput.pdf>
- Business Plans, Innovation & Efficiency Incentives Annex: <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/T1decisionbusplan.pdf>



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Your Ref:  
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Date: 10<sup>th</sup> May 2011

Dear Mr Frankland

### National Grid Willingness to Pay Survey

Ruth Chambers kindly passed on your draft version of the above document. We would like to make the following observations, which have been informed by Defra guidance on WTP studies<sup>21</sup>.

The focus of the survey should be wholly on WTP for electricity transmission infrastructure. References to gas and reliability should be removed as they detract from the key issue, make the survey unnecessarily long and disrupt the continuity. This will affect the response rate.

The survey questionnaire should be informed by testing with focus groups, interviews and pilot surveys.

#### A. Screening Questions

Needs a preamble on point of survey.

Delete references to gas

#### B. Energy Bills

Q7 is a poor question – people will have no idea and are likely to switch off immediately.

Q8 – not sure of the point of it; the answer will be positive, but there is no context. The information presented is relevant and could be instead used at the beginning of Part C.

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<sup>21</sup> <http://archive.defra.gov.uk/environment/policy/natural-environ/using/valuation/steps/step4/evidence.htm>

Q 9-13 should be removed

### **C. Underground vs Above Ground**

Introduction screen - There is no differentiation between transmission and distribution pylons; a greater indication of size and scale is required.

Q14 – it would be helpful if numbers are used here, then the distance decay effect can be examined

#### *ii. Explanation of undergrounding*

These statements should be removed. The question is ‘what are people willing to pay?’ If it is explained in the preamble that the survey stems from the opportunity to pay for reducing overhead lines people can make their own judgements on the relative benefits, as they perceive them. In any case it is unreasonable to present only a partial list, what about the effect on tourism, house prices, impact on farmers? There are too many factors to list comprehensively (and there is contention over some), so in order to get an unbiased view, these points should be deleted.

Q15a-c & 16. Defra guidance actually states “*do not provide quantitative cues in the questionnaire (e.g. cost of an investment, likely increase in bills)*”<sup>22</sup>. This is understandable as the survey as written does not actually provide an opportunity to state, without prejudice, what you would be willing to pay. It is suggested this question is asked before any information is presented. If people pay £424 per year, that should be their only yardstick in the first instance.

The table setting out the options for paying for existing lines would benefit from simplification. Also there needs to be a clarification – over what time period do the increases in bills apply? There is only a finite amount of overhead lines, but the table suggests an annual charge. At what point in time are all the existing overhead lines anticipated to be undergrounded?

How do the responses of ‘who should pay’ (Q19) relate to these questions? If the respondent states anything other than “the costs should be paid equally by all bill payers” (presumably the basis of calculations in Q15 & Q16), then the figures in those tables are not really relevant – which again reiterates the importance of the uninformed starter question “what would you pay?”

A significant omission in Q16 is that it does not ascertain what an individual is willing to pay to avoid overhead lines in NP and AONB. It is not reasonable to draw comparisons from the existing lines figures as I would imagine the amount people would pay to avoid something will be different than what they would pay to get rid of it. It is important to establish a hierarchy here too in terms of WTP to avoid overhead lines in different landscapes.

A further critical issue is that, as Defra acknowledges, WTP is hugely affected by respective location of the user and the good, that is the respondent and a NP/AONB. If the survey included additional basic questions such as (it is noted postcode is asked for):

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<sup>22</sup> Page 7 <http://archive.defra.gov.uk/environment/policy/natural-envirom/using/valuation/documents/annex2.pdf>



- Do you visit any AONB/NP?
- How often?
- How do you get there?
- Why do you go there?
- Would pylons affect your habitats?

Then a far more rigorous result could be obtained for the following reasons:

- Use and non-use values can be estimated
- Distance decay can be estimated
- WTP can be validated with a travel cost method
- Secondary impacts on tourist spend may be elucidated

It is important to understand not only what people are willing to pay, but why, what are their motivations? Non-use values are critical and should not be mixed up with use values as the monetary value ascribed to that by the respondent will be fundamentally different. Taking an average without this differentiation would be erroneous.

Q19 - There is no option for all to pay, but 'locals' (however defined) to pay more, as they may derive more direct/daily benefit. The issue of use vs non-use is also relevant here.

#### **D. Reliability**

Should be omitted.

#### **E. Classification Questions**

Not sure of the relevance to people of Government Office Regions? This could be deduced from postcode (a very important Q)

Socio-economic characteristics are a key factor in determination of preferences. Defra also suggest occupation, type of employment and other wealth indicators such as car ownership, and other household characteristics such as number of people in household and their ages etc are also relevant. People's attitudes to the environment more generally are also relevant.

#### **Other comments**

Of course the study ignores WTP to avoid both overhead and underground by coordinating offshore development.

Yours sincerely

**Michael Wilks**  
Spatial Planning Projects Manager