

Essex and Suffolk coalition of amenity groups

Response to Ofgem's:

Initial assessment of RIIO-T1 business plans and proportionate treatment

Ofgem's initial assessment of the TO's RIIO-T1 business plans, including the review of 'willingness to pay' (WTP) research by London Economics, suggests a genuine desire for fundamental reform of the price control process.

We are encouraged by Ofgem's attention to points made by stakeholders in the consultation on the plans. The ongoing consultation is likewise welcome. Below we provide examples of areas where we believe more work is needed, especially in respect of the NGET business plan.

Options for progressing WTP research:

London Economics' review of the WTP research commissioned by the TO's forms a valuable contribution to this important debate. The review presents several options for progressing the WTP approach. Our view is that it is more important to ensure further work follows best practice than to be too concerned about the commissioning organization.

It is entirely logical for NGET to have extended the research beyond the basic requirement for WTP data relating to allowances for undergrounding existing lines in designated areas, to WTP for undergrounding new lines. It is, perhaps, unfortunate that London Economics were not able to review this part of the research.

Nevertheless, moving forward:

- The existing Brunswick study may serve to help inform further research.
- Essential elements of this ongoing work should include focus group research. This is needed to:
 - manage the impact of 'contextual' information on responses
 - limit the impact of 'background noise' (eg 'latest soundbite')
- Value transfer and revealed customer behaviour methods¹ should not be discounted as a way of providing supporting (validating) data.

It should be noted that London Economics rework the data collected by Brunswick to produce the following important result²:

¹ Eg Ofwat; *The Use of Revealed Customer Behaviour in Future Price Limits* April 2011

Costs and Benefits of undergrounding all existing transmission lines in National Parks and AONBs		
	Benefit £ million / year	Cost £ million / year
National Parks	170	84
AONBs	183	182

These conclusions are qualified in the report but given their potential significance and impact - effectively supporting a case for undergrounding all lines in designated areas - further investigation is essential.

It should be noted that the cost of undergrounding new lines is less than that of undergrounding existing lines, whereas their environmental detriment is no less (and indeed there is a case for considering willingness-to-accept-compensation, as against willingness-to-pay, as the appropriate criterion for new lines). So the London Economics/Brunswick work implies that all new lines in designated areas should be undergrounded.

It also follows that it is necessary to extend this work to cover high quality landscapes outside the designated areas eg Special Landscape Areas. If public WTP justifies undergrounding of existing lines in AONBs, and given undergrounding of new lines costs less than that of existing lines (and that WTAC typically exceeds WTP) it has to be possible that undergrounding of new lines is justified in the highest quality landscapes outside the designated areas.

Refinement of the business plan should therefore be based on the premise that a WTP figure will be obtained both for undergrounding existing lines in designated areas and that appropriate figures can also be obtained to inform the flexibility factors for the percentage of undergrounding and undersea cables for new transmission infrastructure.

‘Trigger mechanisms’

It is at present unclear how ‘trigger mechanisms’ might operate to determine the level of undergrounding new lines.

Applications must obviously follow the planning process as set out in the 2008 Planning Act and with the guidance of the National Policy Statements, plus the much criticized ‘economy v. amenity’ requirements of the 1989 Electricity Act.

Using the IPC (NID) as a form of ‘trigger’ mechanism for undergrounding is beset with difficulty. Apart from the limited scope for project amendment provided by the Rochdale Envelope³, the IPC can only accept or reject an application. This leaves the applicant with a high level of planning risk and the inevitable, well publicised confrontation with amenity groups et al.

² London Economics; *Review of Company Survey...* p 44

³ IPC’s Advice Note 9 *Using the ‘Rochdale Envelope’*

While preparing its applications, the applicant can request IPC opinions, such as on its environmental scoping report. But the opinions relate to process rather than design. NGET states: “We have also proposed an uncertainty mechanism to amend [the 10% baseline undergrounding provision] to whatever the final planning decision requires on a case by case basis⁴”. At present, this is impractical; NGET cannot foresee the IPC’s decision on each application.

We recommend that to avoid a protracted, costly consultation exercise, NG will need to refine the process set out in its “New Approach”, align it with the business plan and include sound socio-economic principles that not merely comply with the letter of the Treasury Green Book but which fully embrace it. This approach would include WTP and should be reflected in the uncertainty mechanisms embedded in the business plan.

Mitigation

National Grid states that in future its consultation prior to building new lines will include four potential solutions, ranging from careful routing of lines to undergrounding. Option (c) is “community compensation for loss of visual amenity.”⁵

Clarification of this proposal and its potential impact on the business plan is required.

A logical extension would be compensation for property owners blighted by pylons but who cannot claim unless access is required. This form of mitigation should be included in the ongoing environmental consultation. Household compensation would align energy infrastructure with other forms of national infrastructure, such as major railways development.

On the wider issues of mitigation, TO’s should heed the broad categories applied by the IPC⁶ (avoid, reduce, enhance, compensate).

Unit cost allowances

National Grid plans to establish a matrix of unit cost allowances for undergrounding⁷, the required increase in capital expenditure to be calculated by multiplying the number of km of underground cable by the relevant unit cost allowance. Over time this has the potential to inflate the cost of undergrounding and result in inaccurate cost comparisons. Local project conditions and the impact of the experience curve on cost reduction should be taken into account.

Innovation

We believe there is further scope for innovation in the business plan.

For example, NG could reduce planning risk and speed up planning consultations by accelerating its work on alternative technologies, particularly gas insulated

⁴ NGET Business Plan: Overview para 178

⁵ NGET Business Plan July 2011- *How we will deliver* p75

⁶ IPC Scoping Opinion 110815_TR010002_768209 - A556 29 Sept 2011

⁷ NGET Business Plan -*Managing Risk and Uncertainty* p63

lines (GIL). This would have the added benefit of improving its bottom line via innovation incentives.

A substantial programme of undergrounding, as already envisaged, gives the opportunity, and greatly increases the incentive, to reduce the unit cost of undergrounding. GIL offers the prospect not merely of reducing the longer term cost of undergrounding, but also the environmental impact of technologies currently proposed.

The Treasury Green Book

The Treasury Green Book is an underlying theme running throughout the TO's business plans and Ofgem's response. In discussion, Ofgem has expressed reluctance to accept that the Treasury Green Book (on Evaluation and Appraisal, for central Government and its agencies) applies to Ofgem and hence to the bodies it regulates. This, as we understand it, is on the grounds that Ofgem's statutory obligations are expressed in terms of the consumer interest, not the public interest.

We do not see the conflict. Issues such as the national interest and national security, which might make the public interest diverge from the consumer interest, do not apply to Ofgem's work (or when they do, the analysis and decision will not be for Ofgem). It can hardly be that Parliament intended Ofgem to operate in conflict with the public interest: it is much more likely that Parliament perceived the field in which Ofgem was to operate as one where the public interest and the consumer interest coincided, for all normal purposes; and since assessing the consumer interest is simpler than assessing the public interest, they expressed Ofgem's role in those terms.

We are sceptical that Ofgem considers the consumer interest, as provided for in their statutory obligations, is in conflict with the public interest, as provided for in the Green Book. If this is not the case, we feel the conflict should be made known.

The point of all this is that it is most desirable for the Treasury Green Book to apply to Ofgem and hence to the bodies it regulates. It is a "gold standard" of methodology, comprehensive, regularly reviewed and updated. Why re-invent the wheel?

Incremental investment for undergrounding

NGET proposes to increase its baseline for direct buried underground cabling from 5% to 10%, with an uncertainty mechanism to cover the eventual range of outcomes⁸.

Ofgem have confirmed to us that this incremental investment – whatever the eventual level – would not determine the extent of undergrounding. Any undergrounding proposal would require to be justified in its own right. (And we understand that Ofgem have in mind that WTP evidence would be one of the required forms of justification.) If justified, it would proceed and NGET

⁸ NGET business plan July 2011: *Overview* para 114

reimbursed through transmission charges, even if it involved more than 10% of new transmission lines. If not justified, it would not proceed, even if below the eventual undergrounding baseline figure.

We endorse the approach of the preceding paragraph. But it follows that the notional 'allowance' for undergrounding in this context is at best redundant, at worst misleading. We would urge NGET and by inference Ofgem to scrap it. If we are to take NGET's draft business plan and its more recent "New Approach..." at face value and understand that overhead lines are no longer the automatic default means of transmission, it has no place in the regulatory regime. Instead, it would be more productive to concentrate on the mechanics of evaluating individual schemes.

The Essex and Suffolk Coalition of Amenity Groups - November 2011

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CPRE Essex and Suffolk Branches
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