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Date: Monday, 28 November 2011

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Hannah Nixon
Partner, Smarter Grids and Governance
The Office of Gas and Electricity Markets
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Dear Ms Nixon

Consultation on OFGEM's initial assessment of RIIO-T1 business plans

The Council welcomes the opportunity to provide OFGEM with some views on its initial assessment of the National Grid Electricity Transmission company business plan submitted to OFGEM earlier in the year. The Council would like to continue to engage with the business planning, regulation and policy aspects of the industry's work to ensure that transmission projects address the concerns of its communities and deliver the highest environmental standards.

OFGEM may be interested to see our response of 18 November 2011 to the NGET's consultation on their submitted business plan. This response generally supports the uncertainty mechanism approach proposed with important reservations put forward on how the mechanism might work in practise. It is noted that OFGEM finds the NGET's business plan in the area of uncertainty and risk "broadly acceptable" and the proposal that its scrutiny in this area will therefore be proportionate. The Council would like OFGEM to note the points it made NGET as they raise issues that apply to the industry and in particular to the IPC, OFGEM, DECC as well as to NGET.

Selection from the Council's response to NGET consultation:

Managing risk and uncertainty

Q6. Do you agree that uncertainty mechanisms should be employed to adjust allowed revenues where the associated costs are uncertain and outside of our control? If not, what other mechanisms do you consider could be appropriate?

The Council supports the principle outlined in the National Grid Business plan that risks should remain with the party best able to manage them. In the case of the financial risks of meeting planning requirements, particularly the cost of undergrounding, the Council supports an uncertainty mechanism that will relieve the financial burden of this costs risk from the National Grid. This should represent better value for money to the end users and, importantly to the Council, go some way to removing the cost constraint and presumption of overhead lines that it is perceived that the National Grid must work to. It has the potential to deliver new projects that reflect the changing views on the value and importance of our landscape and environment.

Q7. Do you believe that the range of the uncertainty mechanisms proposed is appropriate?

The Council is responding on matters relating to the uncertainty mechanism of "meeting planning requirements" and referencing the experience it has so far with its engagement in the new transmission line proposals in its area – the Hinkley C Connection Project. It is noted that the "meeting planning requirements" category is the second highest cost uncertainty for the National Grid.

The Council notes and supports the National Grid's management response to this risk (the work it will do within its normal business to mitigate the risk):

1. Commit sufficient resources to ensure planning applications include an effective presentation of need case, the consideration of stakeholder views and an exploration of alternative options.
2. Explore alternative technology options, such as Gas Insulated Line.

With regard to point 1, the Somerset Councils have entered into a Planning Performance Agreement with the National Grid to enable their full engagement with the Hinkley C Connection Project.

The National Grid's proposed uncertainty mechanism is a volume-driver based on the length of underground cable and cost of other mitigations in any particular project.

The Council recognises that undergrounding is more expensive than overhead and that it is unhelpful for the National Grid to have to estimate in advance of local project consultations how much the cost of this work might be for a given project as it will be determined by local factors on the ground. The limitations of the National Grid's estimate of an increase in undergrounding from 5% to 10% is understood and it is supported that the uncertainty mechanism will provide insurance against this value requiring to be exceeded on any individual project. If the National Grid were forced through business finance and regulation to deliver no more than a fixed percentage then the wider public interest may well not be best served.

Whilst the uncertainty mechanism is supported in principle the way it might be applied raises some questions for the Council.

As the Hinkley – Seabank route project enters the next phase of detailed environmental survey and analysis it is becoming clear that there will be a range of views from local stakeholders on where undergrounding may be appropriate. The uncertainty mechanism must provide for incentive for the National Grid to thoroughly consult and evaluate all options and present its considered best solution to the IPC (and to OFGEM). There is the potential for the environmental and wider economic case for overhead lines to become lost in a particular local circumstance if the uncertainty mechanism begins to remove the responsibility and cost for the overhead/underground and visual amenity mitigation measures from the National Grid to the IPC and end user.

The role of the regulator OFGEM and the IPC in this respect is less than clear to the Council at this time. It is understood that OFGEM will review this business plan and uncertainty mechanism within it, and that the detailed application of the mechanism will need to be developed. The Council has responded to consultations previously with comment on the lack of clear national policy in this area and the apparent regulatory driver for the most economic solution which brings about an assumption of overhead transmission. We would like to be kept informed of progress on the development of this uncertainty mechanism and have the opportunity to input into any discussions.

A concern for this Council has been that if the proposed Hinkley – Seabank new route was to be substantially undergrounded the costs involved may mean that a differing strategic option (or route corridor) may have been beneficial.

The Business Plan recognises this issue:

“Where the level of undergrounding required is very significant it is possible that the resulting increase in cost could render the project uneconomic (i.e. the project benefits might no longer outweigh the costs), and that alternative solutions that had previously been rejected might become preferred”.

This supports the Council's consistent view that all options should remain open even as the project develops into detailed environmental survey work along a preferred route corridor. In conclusion, the Council sees the benefit of this uncertainty mechanism applied to the proposals in its area. It also recognises that there are a number of challenges to its delivery to give confidence that the best solution locally and nationally is arrived at.

Ends.

Additional Comments

The Council also notes the analysis of the Willingness to Pay (WTP) elements of the business plans presented in the London Economics report of 30 Sept 2011. There are some questions raised over the assumptions and survey work undertaken by Brunswick (for NGET) on the willingness to pay for undergrounding of existing lines, and recommendations were made to carry out further analysis of the original survey work and to commission further work. The Council notes that comment was made in the report that NGETs “consumer views” based study is not the same as a “WTP analysis”, further implying that there is more work to be done here.

As an example of the kind of further work the Council would like to see its noted that the report presents an interesting table of findings for WTP for undergrounding existing lines in the following locations per year:

£7.22 for National Parks
£7.76 for AONBs
£3.76 for other rural areas.

The Council would like to hear OFGEM's views on these figures and looks forward to the IET report on the comparative costs of underground and overhead lines so that some sense can be made of whether such WTP figures could mean that undergrounding is deliverable “economically” – especially on new transmission projects.

As the Council commences its review work on local environmental conditions for Hinkley C Connection Project it would benefit from being kept informed of OFGEM's views and authorisations to NGET in this area. The Council recognises the challenges for the Hinkley C Connection Project in delivering appropriate, environmentally determined, undergrounding and with regard to the national cost on all consumers and any constraints imposed by the regulator or national policy.

There is an increasing concern that if these matters remain undetermined there will be a question over how the IPC considers the Local Impact Reports of local authorities in cases where the developer's mitigation measures do not align with those considered necessary by the local authority and its communities.

Yours sincerely



Doug Bamsey
Corporate Director