

Essex and Suffolk coalition of amenity groups

February 2012

Response to Ofgem consultation -

RIIO-T1 Implementing competition in onshore electricity transmission

The countryside and campaign groups that comprise the Essex and Suffolk coalition have been heavily involved in the onshore and offshore consultations relating to infrastructure reinforcement in the Eastern region. The coalition has also been active in the wider national debate on the development of the energy network and the evolving regulatory regime under which that development will take place.

We believe the 3rd Party consultation is important in the modernisation of the TO regime within the RIIO framework. We agree with the assessment of benefits as set out in the consultation document but suggest there is potential for additional benefits under a liberalised regime.

At the same time, we foresee some practical difficulties in achieving the stated objectives.

Below we respond to the general concept and then answer those questions in the consultation document where we feel we have a sufficient level of competence.

General observations

Under the terms of the offshore regime we have already witnessed generators, having been offered a connection at an inshore location, adopt comparatively innovative and - from our perspective - forward looking solutions to onshore transmission.

These solutions have a large element of engineering logic but do not necessarily represent the lowest capital cost. Nevertheless, they will yield financial benefits to the generator and ultimately to the consumer. Timeliness has a financial value which impacts on project viability and thus on the UK's environmental aims, commitments and our universal welfare. We have confirmed the commercial rationale behind such decisions taken by these 'new TOs' in discussions with senior representatives of the relevant parties, including the incumbent TO.

Third parties may also have greater confidence in a particular, newer technology and in its application in a particular location. For local stakeholders the potential for choice, with selection made by the independent regulator after appropriate consultation, has many attractions.

However, there remain difficult questions about how, and at what stage, such selection should be made. Also, what information should be available to the regulator when it makes its decision? For example, if the regulator selects a

particular TO before the planning process has been undertaken, will all relevant information be available and would the selection be open to legal challenge? If it makes its decision after planning permission has been granted, an opportunity to re-evaluate the optioneering stage may have been lost and a solution that takes a holistic approach to the economics of the project could be missed.

We fervently believe that an approach which takes full account of the socio-economic impact of each project is essential. Draft documentation¹ recently exhibited by the incumbent TO specifically precludes such an approach, seemingly in an attempt to place major energy infrastructure projects, which have a profound impact on many communities, in the same category as 'ordinary' commercial development.

The questions in the consultation document indicate that Ofgem is aware of the dilemmas illustrated above. We have therefore focussed on those questions that deal primarily with these issues.

Section 3. Changes to Industry Codes

Questions 1 - 3

We do not claim expertise in industry codes but the changes to definitions appear essential for third party involvement. We do not believe that such changes damage the standing of the existing TOs, nor present a threat to their business model.

Section 4 - Pre-requisites for an effective selection process

Questions 1 - 3

There are obvious potential problems involving duplication of effort and cost if more than one party undertakes the design, costing and planning stages. This work is likely to require repeated review and revision before planning consent can be obtained. Land purchase and obtaining wayleaves would take the candidate even further down the road to completion and the only advantage in using a third party after this stage is likely to be a cost-cutting exercise imposed on the eventual contractors.

Pre-construction outputs must therefore involve a high level of detail but only up to the earliest practical stage for decision-making. There are some types of work where later third party access might be advantageous but this assumes the TO's are not effective at managing their purchasing operations and their contractors. Ofgem can - and already does - use other mechanisms in an effort to benchmark TOs. In general we concur with the assumptions in Figure 2 (page 10).

¹ Draft detail relating to the project assessment criteria for the "New approach..." to energy transmission lines.

Question 4 - Independent verification of the needs case and solution

In theory, thorough optioneering should deliver the optimum solution. However, it does so only from an engineering and commercial perspective. ENSG reports are used to inform the needs case but again this is primarily from a technical perspective. The recently published ENSG review of *Vision for 2020* acknowledges some of the problems this presents but does not appear to advance the quest for solutions.

We would welcome greater consultation at the early optioneering stage. We propose that expressions of interest from 3rd parties should be obtained at this point and solutions should be subject to independent verification, with an in-depth examination of all options and outcomes, including those that extend beyond engineering expediency.

Questions 5 - 6 - Transfer of pre-construction outputs

Using the model proposed above, transfer of pre-construction outputs would need to be negotiated on a case-by-case basis, although in many instances little transfer would be involved.

Question 7 - Light touch licence

We agree a light touch licence is appropriate. This appears to offer sufficient flexibility for a variety of potential scenarios.

Questions 8 - 9 - Bid separation arrangements

We understand the significance of bid separation arrangements but believe these questions are best answered by industry respondents.

Conclusions

We applaud Ofgem's drive to develop an effective regime, fit for a "Gone Green" UK energy industry. Increased third party access seems a natural progression, offering real benefits. However, definitions of "efficiency" and "value for money", as mentioned in the consultation document must not be confined to simplistic cost cutting objectives. Rather, they should build on the foundations of good economics, underpinned by existing Treasury guidance.

As this process develops, we also suggest Ofgem should consider and refine its relationship to the planning process, whether as a filter, helping sift out the sub-optimum solutions, or whether any aspect of its function might subsume the role of the relevant planning bodies. The latter is not automatically a negative step, so long as consultation and transparency are embedded throughout the process.

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Bury not Blight

Colne-Stour Countryside Association

CPRE Essex and Suffolk Branches

Dedham Vale Society

Stour Valley Underground

The Suffolk Preservation Society