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The Office of Gas and Electricity Markets (OFGEM)
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Dear Mr Brearley,

Open letter on the RIIO-2 Framework

Friends of the Peak District welcome the opportunity to respond to this open letter which begins a comprehensive review of the RIIO framework. We are the national park society for the Peak District and represent the Campaign to Protect Rural England (CPRE) in the Peak District National Park (PDNP) and some surrounding areas. We are also a part of the Campaign for National Parks (CNP). Our aim is for a living, working Peak District that changes with time but remains beautiful forever.

Our background

We have a long history of involvement in issues of powerlines (both transmission and distribution), visual amenity and landscape protection. We work closely with CNP's and CPRE's national offices and others (CPRW, NAAONB, John Muir Trust and Friends of the Lake District) to ensure more sustainable landscape outcomes in relation to the existing electricity distribution and transmission network and new lines, where proposed. We also work with three DNOs (Electricity North West, Northern Powergrid and Western Power Distribution) on the OFGEM undergrounding for visual amenity scheme in the PDNP, in conjunction with the PDNPA. We were involved with the NG-ET stakeholder consultation on the options (including undergrounding) for the long term future of the Stalybridge to Woodhead (4ZO) 400 kV line. Most recently we have been involved in the stakeholder consultation on development of NG-ET's Visual Impact Provision (VIP) as applied in the Peak District, the Dunford East section of the Stalybridge to Woodhead line for undergrounding and the Landscape Enhancement Initiative (LEI) in Longdendale.

As our key concern is the environment, predominantly in relation to the issue of visual amenity and public engagement, and our experience is with existing lines, our response focuses on these issues.

RIIO-1 to date

Distribution Network Operators (DNOs) were given an allowance of £103.6 million in RIIO-ED1 (2015-2023) for the undergrounding of lines in AONBs, National Parks and National Scenic Areas in order to protect visual amenity. The scheme, which continued from the previous price control periods (DPCR4 and 5), is non-mandatory and OFGEM considered it sufficient for stakeholders and DNO to consider and agree on the various merits and impacts of particular projects and to accommodate any special circumstances of particular projects as appropriate. However we continue to be concerned that one DNO, Western Power Distribution, do not utilise the full allowance, which obviously limits the potential for landscape enhancement in designated areas.

The Transmission Operators (TOs) were given a baseline allowance to deploy undergrounding technologies equivalent to 10% of the new transmission lines proposed for delivery in RIIO-T1 (2013-2021), and a £500 million allowance (available to SHETPLC, SPTL and NG-ET) to reduce the impact of the electricity transmission system in designated landscapes. These measures demonstrate OFGEM's commitment to reducing the impact of the electricity distribution and transmission systems on nationally designated landscapes, and reflect the importance that OFGEM attaches to its statutory duty to have regard to the statutory purposes of designation of those areas.

The open letter gives only brief information on the performance of companies to date in RIIO-1. We note that we are only half-way through the existing set of price controls for TOs and that only one year of data for electricity distribution has been analysed. In terms of outputs, the DNOs expect outputs to be fully delivered by the end of the price control period. The TOs expect output deliveries will meet or exceed targets against five out of six output categories - but we are not told which target will not be met. In terms of expenditure DNOs are forecast to spend 3% less than their allowances over the control period and all TOs are expecting to outperform their forecast allowances.

Response to issues

RIIO-2 objective

The objective '*RIIO-2 will ensure regulated network companies deliver the value for money services that consumers want and need*' makes no mention of the fundamental role of these companies to deliver a sustainable energy network. The objective of RIIO-1 is '*to encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for money for existing and future consumers*[1].' We see no reason to change the overarching objective. OFGEM has duties under the Electricity Act 1989, section 3A (5) to carry out its functions in a manner which is best calculated to contribute to the achievement of sustainable development and also have regard to the effect on the environment of activities connected with the generation, transmission, distribution or supply of electricity. A narrow focus on value to customers, particularly if customers are to have a stronger voice, will not automatically deliver a sustainable energy sector. In order to

[1] RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid, Overview document, Ofgem, Executive Summary, 17th December 2012

reflect these duties and give the context within which the 'value to customers' should be delivered, we suggest the objective be as for RIIO-1. In this way the importance of the environment, which barely figures in the open letter, alongside society and the economy would be made explicit.

The ultimate long term goal for visual amenity should be that, where practically feasible, all new and existing distribution and transmission lines are underground through, or avoid, designated landscapes.

Distribution system
The undergrounding of overhead line (OHL) assets in designated landscapes (National Parks and Areas of Outstanding Natural Beauty, and their equivalents in Scotland) has proved successful and popular with local stakeholders over the past three price periods (DPCR4-5 and RIIO-ED1). Scheme delivery has improved in its efficiency, in part due to improvements in stakeholder relationship management, although we are still concerned that one DNO, Western Power Distribution, chooses not to utilise its full allowance, based on what we believe to be a biased choice offered to a sub-section of WPD customers.

In our view, this was not genuinely reflective of the authoritative data on overall public willingness to pay for (undergrounding) services which underpinned the original allowance (see Key principle 1 of the RIIO-2 framework review). It seems unfair to us that the outputs framework allows one DNO to deliver less (and therefore we would question whether they are meeting their target outputs), especially as the current price period is showing companies enjoying above-baseline returns and asset values, in part through reduced expenditure against their allowances.

However there are limits to the role of consumers in price control decisions. Ofgem needs to act on its environmental duties, and enable networks operators to act on theirs, but this isn't simply a matter of the (economic) preferences of energy consumers. Consumer preferences may be one useful source of information in determining how the duties are met, but not determining the extent to which they are met, and there are other legitimate mechanisms for gauging the wider public interest.

Transmission system
The environment was one of six outputs for RIIO-T1, of which addressing visual amenity by reducing the impact of new and existing power lines was one of the four outputs for NG-ET. (The other three were a target for sulphur hexafluoride (SF6) leakage, reporting on its carbon footprint, and reducing transmission losses.) The questions pertinent to our interest are questions 6, 7, 8 and 25 which ask respectively *Did the outputs target the right behaviours? How can we address areas of expenditure for which a clear output is difficult to define? Were the output targets and associated financial incentives set for RIIO-1 appropriate, reflecting what consumers value and are willing to pay for? What has an eight-year price control period allowed network companies to accomplish or plan for that would not have occurred under a shorter price control period?*

With regard to visual amenity of existing overhead lines we believe that *the output incentivised the right behaviour*. NG-ET has run an effective transparent

process for the VIP. Qualified landscape architects assessed all potential candidate areas using well recognised methodologies for landscape and visual impact assessment. Those with the highest impact were then assessed for mitigation options and further refined through technical and economy/efficiency filters. This approach, coupled with a national stakeholder working group and workshops for local stakeholders, led to a selection process in which there is a high degree of stakeholder engagement and agreement on the coordinated assessment of the benefits, costs and practical feasibility of candidate projects, as desired by OFGEM. An eight-year price control period has allowed NG-ET to undertake this robust process with a reasonable chance of delivery of a scheme, neither of which would be possible in a shorter time (question 25).

The *financial incentives for VIP did reflect what customers value* but undercut in our view the amount they are willing to pay. OFGEM's initial allowance of £100 million for the VIP was raised to a final allowance of £500 million based on the robust evidence of positive public willingness to pay (WTP) for amenity improvements, which remained undiminished even given the difficult economic circumstances. Through consultation on RIIO-T1 OFGEM accepted that the WTP survey method is robust and provides evidence of domestic consumers' willingness to pay for such benefits. However, OFGEM retained its view that the level of expenditure should be informed by estimates of the median WTP rather than setting the cap based on the average WTP[2]. This is despite OFGEM's view that it expected the median WTP to be significantly higher than £500 million. As OFGEM knows from our joint response with CPRE, JMT and CNP to RIIO-T1 (Sept 2012) we reviewed the existing research on WTP for visual amenity benefits for the energy sector and concluded that OFGEM's anxieties about working with an average rather than a median were unfounded.

The allowance for visual amenity could be considered to fall into an *area of expenditure for which a clear output is difficult to define*. Obviously managing future expenditure would be informed by the TOs performance in RIIO-T1, an assessment of which is premature. None of the four shortlisted VIP candidate schemes has reached a stage where assessment of the outcome can be made. However, whilst the approach towards the distribution system has matured over two price control periods, an allowance for undergrounding the transmission system was an innovation for RIIO-T1 and is still in its development phase. It is therefore crucial that the allowance continues beyond RIIO-T1 in order that the project potential is fully realised, the most intrusive pylon lines in National Parks and AONBs are removed, and that demonstrable public preferences for landscape enhancement are met. In relation to the Peak District, the application of the LEI funds (part of VIP) in Longdendale was specifically pursued with the understanding amongst local stakeholders that it would not jeopardise consideration of the future undergrounding of the Stalybridge to Woodhead line (which would rely on a new tranche of funding in RIIO-2).

For RIIO-T2, NG-ET's guiding principles for VIP scheme selection[3] coupled with the data and experience that has accrued through RIIO-T1 should allow future

[2] RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid, Ofgem, 2.92-2.94, 17th December 2012

[3] Visual Impact Provision, how we intend to reduce the visual impact of electricity transmission lines in national parks and AONBs, National Grid, 2013

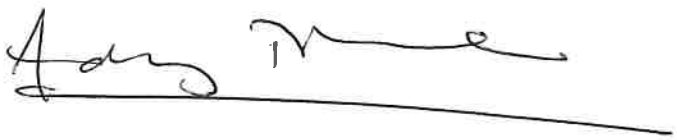
outputs to be constructed and an appropriate allowance to be made. Such an approach sits well with the Natural Capital Committee's *'two simple guidelines for natural capital investments: (1) Decision makers should consider the benefits of alternative options for using the resources available to them; (2) The overall stock of natural assets should be improved. Taking these two rules together can help ensure good value for money for taxpayers who fund public investment*[4].' However, from our knowledge of the Dunford East scheme we would suggest that the choice of schemes and their length should be re-considered in relation to a RIIO-T2 VIP. These issues would include whether a narrow focus on the highest assessed intrusiveness is the best option, when it potentially then causes additional intrusion (within a sensitive area) with the introduction of new infrastructure (in the form of a sealing end compound). The potential outcome at Dunford East raises the issue of doing fewer, but more comprehensive schemes. We would hope to address this issue in forthcoming consultation stages (see below).

We do not believe further studies of WTP are required at this stage. The process for updating the amount of the expenditure cap during RIIO-T1, which could only be triggered when one or more of the TOs requested OFGEM to review the amount of the expenditure cap, required a TO to present new evidence on the median WTP of consumers. Before this is required we believe that the VIP must first show concrete results on the ground that can be appreciated and considered by the public.

In conclusion we request that the explicit incentives of funding streams directed towards reducing the visual impact of the transmission network be continued.

Stakeholder engagement for framework review
We agree with OFGEM's broad stakeholder engagement approach and would like to be included in this as a stakeholder.

Yours sincerely,



Dr Andy Tickle
Director

[4] How to do it: a natural capital workbook, Natural Capital Committee, Annex 4, April 2017