Suffolk County Council update on Electricity Transmission

The National Symposium on Future Electricity Networks

Suffolk County Council has produced the Proceedings of the Symposium which highlighted a number of issues:

- there is a need for a strategic approach to electricity transmission in the same way there is for low carbon generation
- the current offshore regulatory regime is unlikely to deliver a coordinated network
- the principles behind the new RIIO price control mechanism were broadly welcomed but there was concern that realisation of its objectives may be hindered by the respective statutory duties of Ofgem and the regulated companies
- the emerging planning regime, within which most of the upgrades to the electricity transmission network would be determined, is insufficiently flexible to alternatives to overhead lines.
- cost benefit analysis is a well established tool for explicitly accounting for environmental and social impacts in decision making processes and could readily be used to appraise alternative options for reinforcement of the electricity transmission network
- there was a need to examine how more support could be given to innovative products and innovation more broadly

http://www.suffolk.gov.uk/PlanningAndBuilding/PlanningPolicy/National+Symposium+on+Future+Electricity+Networks.htm

Ministerial Meeting

Suffolk County Council met with Charles Hendry MP and officers of the Department and Climate Change on 30th March and presented a series of recommendations which can be summarised as:

- The Government needs to drive the delivery of a coordinated electricity transmission network through the development of a strategic and spatial framework covering onshore and offshore reinforcements.
- Government needs to review the framework within which tradeoffs in customers' interests are being made
- Government should recognise that overground transmission networks have substantial impacts on the environment and local communities and should therefore consider how the costs of mitigation could be factored into energy prices.
• Government needs to consider how innovation in the electricity transmission sector can be better supported

This meeting followed earlier meetings in February between SCC and Ofgem and SCC and DECC officers in which similar points were made. Minutes for all meetings available on request.

SCC is now represented on the “stakeholder community” supporting the newly formed Offshore Transmission Coordination Group (jointly chaired by DECC and Ofgem). The main group had its first meeting on 18th April and next meets on May 6th. Full details of the first meeting along with the terms of reference of the group can be found here: http://www.ofgem.gov.uk/Networks/offtrans/pdc/pwg/OTCP/Pages/OTCP.asp

With regard to the meeting of the stakeholder community, the presence of one local authority (Suffolk CC) and one amenity body (Bury not Blight) on the group allowed a wider range of issues to be discussed than would have otherwise been the case. The offshore operators became more aware of the need to take into account the landside environmental implications of their own proposals and the subsequent National Grid strengthening. Furthermore there was a recognition amongst the stakeholders that the main coordination group should take on the need for an integrated “wet and dry” approach to the transmission network, not treat onshore and offshore separately.

DECC have confirmed that the Electricity Networks Strategy Group (ENSG) is considering how it may update its 2009 work which is effectively acting as the current blueprint for onshore network development.


National Policy Statements

DECC have confirmed, as indicated in the ‘The Plan for Growth’ paper accompanied the Budget, that the presentation of the National Policy Statements on Energy to Parliament has been delayed following the events in Japan. DECC are currently unable to provide a revised timetable.


The Energy and Climate Change Committee on 18th January published its report on the Revised Draft National Policy Statements on Energy which called for a full day’s debate on the revised draft NPSs (paragraphs 40-45). The Government has yet to produce a response to the Committee’s report, thus the process for ratification of the NPSs has not been finalised.
The IET/Kema report on the costs of various transmission technologies which will inform the final NPSs is now two months later than expected and a release date has not been confirmed. National Grid have confirmed their own consultation on undergrounding policy will however extend for one month beyond the publication of this report.

Price Control

On 31st March Ofgem produced its Decision Notice on the next transmission price control, known as RIIO-T1. RIIO-T1 will run for 8 years commencing 1st April 2013 and will provide the basis of economic regulation of the onshore transmission network.

The overriding objective of the new RIIO model is to encourage energy network companies to play a full role in the delivery of a sustainable energy sector, and do so in a way that delivers value for money for existing and future consumers. It does this by rewarding those companies that demonstrably deliver the network services that consumers’ value and the networks needed to drive the transition to a low carbon energy sector. Companies that do not deliver will be penalised.

To this end regulated companies are now required to produce ‘well-justified business plans’ which address the following outputs; safety; environmental impact; customer satisfaction; reliability; conditions for connection; and social obligations.

The regulated companies must produce their plans by 31st July. Ofgem will review them and then consult on their appraisal of the documents in October. Ofgem have outlined 15 criteria against which the business plans will be assessed, they are wide ranging and incisive. Those that are well justified will be fast tracked and subjected to less scrutiny.

Stakeholder engagement

Stakeholder engagement is a key element of the new regime – companies will need to provide evidence of how consultation has informed the development of their business plans and depending on the quality of engagement Ofgem may financially reward the company. RIIO intends to deliver a sea change in network behaviour with regard to customer satisfaction, a term which is interpreted broadly.

Environmental impact

RIIO intends to drive a step change in the contribution that network companies make to the UK’s broader energy and environmental objectives. Ofgem has committed to include an allowance for each company to reduce the impact of existing infrastructure in National Parks and AONBs. This will be based on consumer willingness to pay which companies must undertake as
part of their business plans. There will be an allowance in base revenue for mitigating the visual impacts of new infrastructure.

Ofgem have developed guidance for Transmission Owners requiring them to demonstrate a well-justified consideration of socio-environmental impacts in their business plans.

There is however no direct output measure on the impact of transmission networks on visual impact as DECC advised Ofgem this issue is better dealt with through the planning system.

Subject to further consultation, Ofgem intends to introduce an incentivised broad environmental measure for electricity transmission, which would give companies a vested interest in the achievement of the UK’s renewable and low carbon targets.

**Innovation**

The RIIO model has a number of elements which will encourage innovation, including the longer price control period, the outputs focus and strong efficiency incentives. Another important aspect of Ofgem’s approach is to consider efficiency over the longer term, which will allow companies to propose, in their business plans, the roll-out of innovative technology, techniques or commercial strategies which may pose higher costs in the price control period than the business as usual approach, but that are justified by the longer-term delivery of outputs at lower cost to customers. It will also provide them with a better opportunity to obtain a pay back for innovative solutions within the price control period, and an ability to obtain ex ante funding for solutions with a pay back beyond this period. Ofgem expect network companies to consider the opportunity to apply innovative approaches when formulating their business plans.

The first incentive is the Network Innovation Competition (NIC) (£30m pa) which may be used for projects which meet environmental objectives, which could include innovation which benefits visual amenity. For example, this could include research and development aimed at reducing the costs of undergrounding or other uses of technology to reduce the visual impact of network assets.

NIC is accompanied by an Innovation Allowance (capped at 0.5-1% of allowed revenues, depending on the quality of the company’s innovation strategy) and the Revenue Adjustment Mechanism, which enables companies to apply for additional funding within the price control period for the rollout of initiatives with demonstrable and cost effective low-carbon or environmental benefits.

**Secondary deliverables**

In addition to primary outputs, companies must also work towards ‘secondary deliverables’, of which investment in wider reinforcement works is particularly relevant. This will be evaluated with reference to the capacity of the network across its predefined boundaries.

The companies will be required to be forward looking and alert to developments and adjust their plans in the interests of consumers. Ofgem expects companies to set out revenue allowances in their business plans and
justify the scope and scale of work this will cover. Ofgem expect this will include maintaining a strategic network development plan, ongoing assessment of the needs case for potential reinforcements as well as pre-construction costs to ensure timely and efficient delivery.

Companies will also need to justify their approach to network development against alternatives (routes and technologies), demonstrate that they have adequately consulted stakeholders and outline the costs and benefits (including contribution to sustainable development) of their proposals. Companies should not rely on the ENSG work.

http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=77&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes

Providing a greater role for third parties in electricity transmission

Ofgem is currently exploring the role for third party involvement in delivery, ownership and operation of new assets on the pretext that additional competition within the transmission sector could have positive benefits to customers through driving down costs. Responses are requested by 18th May.


National Grid’s Business Plan

To gauge stakeholders views, National Grid held a series of workshops (of which we have only latterly become aware) and have created a consultation portal on their website, available here: http://www.talkingnetworkstx.com/consultation.aspx

These workshops have now concluded and any comments on the emerging business plans should now be sent directly to graham.frankland1@uk.ngrid.com by 31st May.

Suffolk County Council is likely to emphasise the following points in its response;

• National Grid needs to develop (and consult on) a strategic development plan as expected by Ofgem (para 7.5, Outputs & Incentives Annex)
• National Grid needs to develop (and consult on) their methodology for willingness to pay as expected by Ofgem (para 4.61 Outputs & Incentives Annex)
• National Grid needs to demonstrate that it is has considered and consulted on all reasonable alternatives for major projects, for example Bramford to Twinstead, as expected by Ofgem (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)

- 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)

**Price Control Review Forum**

SCC has also put itself forward for representation on Ofgem’s Price Control Review Forum. We are informed by Ofgem it is likely to next meet in May. Details are available here: [http://www.ofgem.gov.uk/Networks/PriceControls/PCRF/Pages/PCRF.aspx](http://www.ofgem.gov.uk/Networks/PriceControls/PCRF/Pages/PCRF.aspx)

Comments and queries to: [michael.wilks@suffolk.gov.uk](mailto:michael.wilks@suffolk.gov.uk)