

Charles Gallacher
Director GB External Relations,
Scotland and Wales



The Rt.Hon Dr Liam Fox MP
House of Commons
London
SW1A 0AA

Promoting choice and value for all gas and electricity customers

Our Ref: GAFCE5253
Direct Dial: 0141 331 6000
Email: charles.gallacher@ofgem.gov.uk

Date: 21 April 2011

Dear Dr Fox,

Energy transmission network regulation – visual impact

Thank you for your letter of the 5th April to Alistair Buchanan. This was regarding the publication of Ofgem's strategy document for the regulation of the energy transmission network and the area of visual impact.

Ofgem's first priority is the protection of energy consumers. As part of this work we have a duty to have regard to visual amenity, particularly in relation to Areas of Outstanding Beauty, National Parks and the Broads.

One of the ways in which we protect consumers is through the economic regulation of the monopoly companies that operate the electricity and gas networks. Through this regulation Ofgem incentivises the companies to be efficient and to innovate technically as well as setting the maximum amount of revenue they can make through the charges they levy on users of their networks.

Since the privatisation of the energy markets this regulation has been delivered through the RPI-X framework. This regulatory regime was based on pegging revenue growth to within a given percentage (X) of the retail price index (RPI) with X decided at five-yearly review. It is through this framework that we have previously provided funding for the undergrounding of network infrastructure.

However whilst this model has delivered for consumers over the past two decades, it is not effectively equipped to ensure that the energy networks play their part in the transition to a low carbon economy. We estimate that in order to meet the demands of this transition the networks alone will require over £30bn worth of investment over the next decade.

This is why Ofgem has developed a new regulatory model RIIO, which, as you have noted, will become fully operational in 2013. One of the key aspects of RIIO (which stands for

The Office of Gas and Electricity Markets

*3rd Floor, Cornerstone, 107 West Regent Street, Glasgow G2 2BA Tel 0141 331 2678 Fax 0141 331 2777
www.ofgem.gov.uk*

Revenue = Incentives + Innovation + Outputs) will be the delivery of environmental objectives; with the network companies rewarded or penalised financially, dependent on their performance.

There are a range of these environmental objectives including funding to encourage innovative investment solutions, for smarter energy networks, at low costs for consumers.

In respect to the issue of visual impact, the energy networks, through this new framework, will need to accommodate new generators whilst protecting the visual amenity of the surrounding landscape. There will also be guidance, and an allowance, for each company to reduce the visual impact of existing infrastructure in designated areas.

Ofgem will therefore continue to provide funding for undergrounding. Any requests for such funding will continue to be assessed on a case by case basis and will take into account our statutory duties.

In such cases we would expect the network companies, such as National Grid who operate the electricity transmission network, to engage with stakeholders and Ofgem itself will take into account consumer and stakeholder views.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Charles Gallacher', written in dark ink.

Charles Gallacher