

Energy UK response to Consultation on the proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 projects

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Submitted via email to RIIOElectricityTransmission@ofgem.gov.uk

Executive Summary

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Energy UK welcomes Ofgem's consultation on the funding and approval process for the identified tCSNP2 projects. We overall agree with the proposals and appreciate the level of ambition Ofgem is showing in order to achieve the UK's decarbonisation targets and obligations. We also do agree with the need to further optioneering the majority of the identified projects given their immaturity and we agree with the proposed track processes.

We note concerns from members on the hesitancy Ofgem feels in some areas, especially regarding the accuracy of the FES' assumed deployment of offshore wind in 2035. Anticipatory investment by its nature implies accepting a higher degree of uncertainty of future generation mix in order to ensure network is delivered in a timely fashion. While it is sensible for Ofgem to acknowledge the uncertainties outlined in the consultation we strongly advise Ofgem not to err too much on the side of caution and consider the cost of late delivery or non-delivery of tCSNP2 projects.

We also encourage Ofgem to ensure that coordination and synergies with the ongoing ASTI projects are enabled and that there is sufficient adaptability of projects to the upcoming Clean Power by 2030 (CP2030) plan. There is also a need to account for

coordination with REMA and network charging reform. Most importantly, the form of tCSNP2 projects should also account for the rapidly changing arrangements to connections processes and the uncertainty for industry investment that has subsequently emerged.

Finally, we ask whether there is an opportunity to integrate this large scale workstream with a wider Government industrial sector deal. Some in the industry are already aware that Great British Energy (GBE) is exploring what role it might play in securing the supply chain for the energy transition as well as the needed labour force. Whatever form such a project might take, the potential synergy with tCSNP2 projects moving into the Development track might present a substantial opportunity for economic growth, job creation, energy bill reduction as well as decarbonisation. This could serve as an opportunity for the UK to cement itself as a world leader in the energy transition and an exemplar to other countries.

Consultation Questions

Section 3

Q1. Do you agree with our assessment of the tCSNP2 and the risks that we have identified?

Energy UK overall welcomes the tCSNP2 funding and approval proposals that Ofgem have laid out and believe that the risks identified are appropriate. We appreciate that Ofgem acknowledges that, unlike with the Accelerated Strategic Transmission Investment (ASTI) projects, the projects recommended to be brought forward are at an earlier stage of development, inevitably leading to a number of uncertainties that need addressing. We therefore agree that that more work needs to be done by the TOs to undertake development and detailed design of the projects so that there is greater certainty on project scope, delivery timings and costs before obligations on timings and incentives are finalised for the 41 projects at the scoping stage.

On this, while we acknowledge and generally agree with the need for a robust Cost Benefit Analysis (CBA) from TOs for the immature projects and the lack of information on the benefits of accelerated delivery, we urge Ofgem to keep in mind the potential wider costs of non-delivery of many of these projects when assessing the TOs work when they submit it in 2025. Not least of which would be the slower roll out of low carbon energy, the subsequent forgoing of employment and growth opportunities in the energy sector, and the loss of the UK's position as a global leader on climate change action. We appreciate Ofgem's proactive stance taken in this consultation.

Nonetheless, we caution against delaying progressing transmission projects purely on the basis of non-holistic CBAs.

Indeed, we encourage Ofgem to work with the TOs to prioritise coordination and synergies with existing ASTI projects when producing their detail designs and optioneering. Such flexibility will be essential, especially in light of what transmission work might be recommended as part of the ESO's upcoming report on how to deliver a decarbonised electricity system by 2030.

We similarly note that, while the Review of Electricity Market Arrangements (REMA) and Balancing Market (BM) reform do add uncertainty regarding future network requirements, there will regardless likely be a need for the infrastructure included in this consultation. We therefore urge Ofgem not to err to heavily on the side of caution when considering these reforms and their impact on the needs case for the 46 projects or potentially bringing them forward, especially given it will likely be many years until the outcome of REMA is decided and implemented.

Furthermore, while we agree with Ofgem there is some uncertainty regarding potential for revising pathways in the Electricity System Operator's (ESO's) Future Energy Pathways (FEPs), given the projects outlined are highly likely to be needed both for 2030 and 2035 decarbonisation pathways, it is unlikely to substantially change the needs case for these projects or to materially delay anything. Further, nothing in this consultation lays the groundwork for how Ofgem's considerations meet the requirements of the SSEP to support anticipatory investment. We do have concerns that the Ofgem's proposal for a 'refreshed tCSNP2' implies a significant degree of reworking of the additional proposals. If works are shown to be critical for delivery of a 2030 decarbonised power system, we are keen to understand if waiting until January 2026 to receive sign-off is consistent with ensuring timely delivery of necessary network infrastructure.

Further, some members have significant concerns regarding Ofgem's views in relation to the Future Energy Scenarios (FES) scenarios' assumed deployment of offshore wind in 2035. The role of the FES as the foundation for network planning is well established, and indeed Ofgem recently reconfirmed that role in its consultations on the development of the CSNP. The move to pathways instead of forecasts implies a greater level of similarity of options, particularly in the short to medium term. With that in mind, we question what evidence there is to support Ofgem's concerns that this makes them less reliable than a wide range of options. If Ofgem is concerned about a potential shortfall in offshore wind energy development, it is not clear why they are not also concerned about an overshoot of expected deployment (especially given the new Government's greater ambition to achieve a decarbonised power system by 2030) and thus the risk that buildout under tCSNP2 is insufficient.

Anticipatory investment by its nature implies accepting a higher degree of uncertainty of future generation mix in order to ensure network is delivered in a timely fashion. Rejecting modelling on the basis that it fails to consider a reduced level of generation build, but not that it doesn't sufficiently consider greater levels of generation build, implies that OFGEM's continues to have an imbalanced view of risk of stranded assets vs. risk of delayed deployment of zero carbon generation. We would appreciate if Ofgem more clearly evidence these concerns with consideration of the principles of anticipatory investment and Ofgem's [statutory duty](#) to "*consider the cost to consumers of delays to infrastructure delivery and the impact of disruption by multiple increases in network capacity over time*".

On this, members have concerns that retesting tCSNP2 against FES 2024 sets a precedent that repeatedly revisiting the evidence case for network investments is necessary/desirable. To do so risks perpetuating the stop-start cycle of investments that has led to the significant network delays the country is facing today. To do so is

inconsistent [with recommendation SS4 from the Winsor Review](#) that ‘projects identified in the shorter-term Centralised Strategic Network Plan (CSNP) should become the baseline and the need for them should not be revisited in the next shorter-term CSNP’. While we appreciate that this tCSNP2 faces uncertainty, the principle remains that continually revising the modelling does nothing to offer certainty to the TOs that their projects will eventually receive regulatory approval.

We also advise Ofgem to coordinate its assessment of needed tCSNP2 projects with the ongoing work to develop [the FEP guidance](#) and methodology. This workstream has the potential to materially affect the exact assessment of the needs case for tCSNP2 projects.

Coordination for tCSNP2 is also needed between the GB network and North Seas Energy Cooperation (NSEC). The UK and the NSEC have an agreement to develop 120GW of offshore wind by 2030 and 300GW by 2050. Half of this will be located off the coast of GB and Norway. There is a risk broader strategic plans are focusing too little on how projects delivered in the 2030s will achieve this. To achieve this scale of offshore wind generation most efficiently and cost-effectively, the EU and UK need to align their respective system planning and operation. Closer engagement is needed between the UK and NSEC, including enhanced strategic dialogue on integrated infrastructure planning and maritime spatial planning (which should be tackled at a basin level rather than at a national level). These suggestions will make infrastructure buildout more efficient and reduce the passthrough cost of infrastructure construction accordingly.

Section 4

Q2. Do you agree with our proposals for the “Development track”?

Energy UK overall agree with the proposed structure of the Development Track of projects proposed to be brought forward. We note the particular importance of getting the funding and regulatory arrangements for this track right given the majority of the 46 projects are at this stage.

Energy UK also believes it is appropriate to allow TOs to flexibly use the pot of funding across their portfolio of Development Track projects.

We do note that the proposed 0.5% of estimated project cost may not be the best estimate for the scoping and strategic optioneering work to progress to maturity rating Level 3 by the end of 2025. It might instead be better for Ofgem to permit funding allowances on a more granular basis in line with the more detailed Transmission Operators (TOs) estimations of scoping and optioneering costs. This could be done as a part of Ofgem’s recommendation that TOs submit additional evidence for each of their tCSNP2 projects by June 2025. Given that Ofgem does not intend to be overly

prescriptive with what precisely TOs use the 0.5% funding allowance for, this option may be better suited to ensuring better guardrails on what exactly TOs can spend their allowance on based on their own detailed analysis.

We do also note the tight timelines for TOs to produce scoping and optioneering updated in 2025. While, like Ofgem, we do hope TOs will work as expeditiously as possible to produce these updated assessments, Ofgem should begin to consider contingencies for late delivery of information by TOs.

Q3. Do you agree with our proposals for the “Delivery track”?

Energy UK overall agrees with the proposed structure for the Delivery track of tCSNP2 projects.

We do nonetheless note the need for Outcome Delivery Incentives (ODIs) to be specifically targeted at moving from the Development Track to the Delivery Track once the incentives are ready to be developed. Much like incentives for early project delivery, incentives (either at the Development or Delivery stage) should reward rapid and thorough movement of a project from one track to the next.

Furthermore, whilst Energy UK understands the logic of moving away from the use of Early Construction Funding (ECF), used for the ASTI projects, for land purchases, enabling works and securing supply chains to relying on joint tendering within RIIO-ET3, we note that the joint tendering framework is still at a highly conceptual stage and is not likely to be fully developed until late 2025. As such, there may be significant uncertainty for TOs when developing their optioneering and CBAs and subsequent investment uncertainty. We urge Ofgem to provide forward guidance on how joint tendering within RIIO-ET3 will be treated regarding tCSNP2 projects ahead of final decisions in late 2025.

Finally, as more transmission projects move to the Development track, we ask whether there is an opportunity to integrate this large scale workstream with a wider Government industrial sector deal. Some in the industry are already aware that Great British Energy (GBE) is exploring what role it might play in securing the supply chain for the energy transition as well as the needed labour force. Whatever form such a project might take, the potential synergy with tCSNP2 projects moving into the Development track might present a substantial opportunity for economic growth, job creation, energy bill reduction through connection of low carbon assets, and ultimately achieving the UK's emission reductions objectives. This would subsequently serve as an opportunity for the UK to cement itself as a world leader in the energy transition and an exemplar to other countries.

Q4. Do you agree with our proposals for the “Small / Medium Sized Project Delivery track”?

Energy UK overall agrees with the proposed framework for Small/Medium Sized Delivery track for tCSNP2 projects and the preference for funding to rely either on RIIO-ET2 reopeners or the appropriate baseline or reopener funding in RIIO-ET3.

Section 5

Q5. Do you agree with our categorisation of tCSNP2 projects?

We have no major disagreements with Ofgem's categorisation of tCSNP2 projects in each of the three tracks. We also appreciate the efforts by Ofgem to ensure tCSNP2 projects that are part of TO's existing licenses are treated appropriately.

Q6. Do you agree with our proposed approach for the tCSNP2 asset classification projects?

We have no outstanding disagreements with the projects selected under tCSNP2 asset classification. We especially appreciate Ofgem noting the essential need for the Shetland to Coachford project and placing it in the Delivery track given its strong needs case in spite of the project's immaturity.

Q7. Do you agree with our approach to identifying a project for early competition?

This question appears to be a copy of question 8 and is better answered there given it is in Section 6 which addresses the role of competition.

Section 6

Q8. Do you agree with our approach to identifying a first project for early competition?

Energy UK supports the use of competition for transmission project in principle given its potential to help the rollout of needed infrastructure based on resource availability.

Nonetheless, special consideration is needed at this time to ensure the projects subject to competition fit with broader holistic delivery plans. There need to be credible assurances of project timelines and deliverables if delivered by third parties, especially when ownership of a project changes or its scope needs revision. Renewable and storage developers connecting to the network require additional guarantees, likely within licence conditions, that give them assurance that these are the right parties to be delivering critical infrastructure, especially their connections to the network.

Furthermore, as with industry views relating to the broader Competitively Appointed Transmission Owner (CATO) regime, Ofgem must seriously consider how the boundaries and separability of projects informs exactly what is competed for in auctions. We appreciate that the ESO included the separability and interface point of projects in its assessment of which projects were eligible for competition. However,

exactly how this informs what works are put out for auction to developers requires clearer guidance.

We also advise Ofgem to consider at what stage of the project's development should competition occur for the identified tCSNP2 projects. Ofgem should consider if competition should occur prior to the optioneering stage to provide a wider range of proposal or if options be narrowed down prior through scoping. Certainty and coordination are needed at this crucial stage. Nonetheless, it must be noted that if Ofgem considered competition can bring benefits to the delivery of tCSNP2, then it is more difficult to deliver real material benefits at later stage than earlier on.

Section 7

Q9. Do you agree with our expectations for the TOs and ESO?

Energy UK agrees with the need to standardise Earliest in Service Dates (EISDs) and improve transparency about how they are developed so that delivery dates for transmission projects are both realistic and ambitious. We appreciate Ofgem laying out clearly what is expected of the TOs when developing a better approach to EISDs. In principle, this should result in quicker delivery times. However, we ask that Ofgem is active in ensuring the TOs develop this process transparently and with regular contact with other relevant parties, including those applying to connect to the network, rather than leaving them to engage with wider industry at their discretion (as was done during the Open Networks workstream).

We also agree that it is right that TOs develop the scoping and optioneering for the 41 immature tCSNP2 projects by June 2025 so as to better inform incentives and license obligations and that this is assessed by the ESO prior to the tCSNP2 Refresh, currently planned for January 2026.

The timing of the delivery of these expectations will impact other processes in 2025 and it is essential Ofgem takes account of this. Namely, when the new 'Gate' process is introduced for queue connections, the first of the 'Gates' is currently expected to run from February to November 2025. Which projects will be able to connect and is intrinsically linked with the funding and delivery timescales for the tCSNP2 projects. Therefore, any uncertainty or delay to either the connections reform process or the tCSNP2 Refresh will have knock on effects that could cause a serious hiatus of investment in GB's low carbon energy sector. Certainty of connection times is needed for the securing of Contract for Difference (CfD) or Capacity Market (CM) contracts and thus the very case for investment. Ofgem must therefore hold ESO to account on maintaining industry certainty through its connection reform process and ensuring the timelines and optioneering of tCSNP2 projects does not adversely impact the

connections reform process. Should the latter occur, the implications for existing connections contracts must be seriously considered.

Section 8

Q10. Do you agree with our proposals to introduce a scope change governance process for onshore transmission projects?

Energy UK overall agrees with the proposal for a governance process on scope change. We do however caution Ofgem to ensure that the final governance process does not create a formalised, open window for TOs to delay timelines for project delivery. We also urge Ofgem to consider the need to analyse the implications of scope change governance on existing connections contracts, something not mentioned in the consultation.