

Email to:

RIIOElectricityTransmission@ofgem.gov.uk

29 August 2024

Dear Jon Sharvill,

Response to proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 projects consultation

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 360-plus members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

RenewableUK members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and access markets to export all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

Scottish Renewables and RenewableUK welcome the opportunity to respond to Ofgem's consultation on its proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 (tCSNP2) projects. Advancing transmission projects that have been identified as critical for enabling the UK's net-zero targets relies on proactive, anticipatory action. Ofgem's support of the projects categorised in tCSNP2 is a positive signal and scaling investment to mirror project maturity is an appropriate response to progress early-stage developments. Early funding for the planned network buildout bolsters investor confidence that strategic network plans will materialise and at the pace required to connect projects on time.

However, Ofgem cannot be stalled by the anticipation of Labour's Clean Power by 2030 plan (CPP2030) while the government has affirmed long-term certainty of need for projects. The direction is clear: government and industry must work together to unlock a clear path for rapid network deployment to avoid all delays. As Scottish Renewables and RenewableUK have iterated in previous consultation responses, Ofgem must view its actions through a macro-economic lens, with its net-zero obligations and its duty to future consumers front of mind. Any risk to consumers associated with early investment is outweighed by the known consequences of delayed delivery, not least from constraint costs and an over-dependency on international energy imports. Ofgem's suggestion for a tCSNP2-Refresh in 2026 appears to unnecessarily delay project confirmation and potentially misuse industry resources.

In the context of network urgency, the multi-track design for project funding is a robust and welcome approach to support immature projects. Likewise, the accompaniment of an advanced procurement

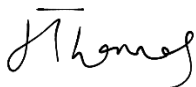
mechanism will be revolutionary in boosting the UK's ability to secure the physical components required to fulfil its network ambitions. However, again Ofgem's actions lack consistency when compared with the low urgency and significant reworking of proposals implied by a tCSNP2-Refresh. Regressing to a Network Options Assessment (NOA)-like approach through iterative network consideration with unknowns beyond the immediate track deadlines does not reflect the ambition and certainty required for network development. Furthermore, if the tCSNP2 and tCSNP2-Refresh are to be treated as regulatorily separate from the CSNP, further complexity is being woven into a space that requires clarity and certainty of funding. Scottish Renewables and RenewableUK believe industry resource should be conserved and, albeit transitional in nature, the value of the original tCSNP2 be better recognised. Ofgem should thus consider combining the tCSNP2-Refresh with the CSNP if the former cannot be delivered earlier than 2026.

In line with our concern around potential delays, we would like to see more evidence to support the benefits perceived from introducing early competition to network build out. As Ofgem seeks ways to promote standardisation, e.g., via Earliest-In-Service-Dates (EISDs) development practices, the concept of competition fragments network design, delivery and operation. Competition within the current context risks jeopardising infrastructure of national importance and incurring greater costs to the consumer including via delivery delays if not optimised. For competition to prove beneficial, a pipeline of projects must be presented to group project learning and improve efficiencies.

Ofgem must look more closely through the lens of the urgent, macro-economic reality and its net-zero duty to safeguard the UK's ambitions on climate targets. Radical rather than iterative action is demanded of the regulator.

Please find our response to the questions in the consultation below, where we have provided more detail on the highlighted issues. Scottish Renewables and RenewableUK would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,



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

While it is an accurate assessment that the tCSNP2 projects are low in maturity and thus the perception of risk is fair when considered at a project level, Ofgem fails to appropriately consider the macro perspective and the much greater risk of system delay.

Despite frequent citations within the consultation on the indisputable need for network build out, the focus on project-level risks feels disproportionate and inconsistent with Ofgem's proposals to accelerate network development. The affirmation within the consultation that the 'framework is highly likely to be needed irrespective of a 2030 decarbonisation target' and that there is 'no reason to delay that work until the updated network plan is available' seems at odds with Ofgem's subsequent references to review the framework upon publication of the CPP2030 and the decision to have a tCSNP2-Refresh in 2026. The confirmed need for projects inherently reduces the immediate risks associated with supporting early projects and thus, should be better reflected in Ofgem's delineation of risks informing its proposals for iterative network reviews.

Being steered by individual project-level risks and upfront costs to consumers does not align with government's more strategic direction for the network nor Ofgem's net-zero remit and consideration of future consumers. By delaying project certainty by years, as proposed with the refresh, the potential for system-level delay and costs incurred only increases. If net-zero projects are to progress at the required pace, existential risks such as the anticipation of REMA and balancing mechanism reforms cannot overshadow urgent decision-making. Ofgem needs to adjust its regulatory aperture to the optimum and appropriate level for network development: focusing on long-term system need based on pre-determined government targets that align with its net-zero duty.

While the TOs require individual project certainty and the ESO clarity of long-term network schemes, the two must work better together to allow the latter to present a neutral, more precise picture of the risks to Ofgem. Scottish Renewables and RenewableUK acknowledge and accept the individual project-level risks; however, these must be reweighted within the proposals to reflect the broader perspective that there is overwhelming confidence in project need to meet climate targets.

2. Do you agree with our proposals for the "Development track"?

Scottish Renewables and RenewableUK welcome the outlined multi-track approach for administering early funding based on varying levels of early project maturity. The 0.5% initial development funding (IDF) for projects following the development track on a 'Use-It-Or-Lose-It' (UIOLI) basis is a positive step from Ofgem, recognising the difference between ASTI and tCSNP2 projects while still encouraging development. The flexibility to spend the IDF across a portfolio of projects is also a welcome feature.

However, the potentially limiting nature of a tCSNP2-Refresh starts to become clear within the parameters of the development track. The development track price control deliverable (PCD) is set at achieving ESO maturity rating 3 by June 30, 2025. However, there is considerable concern around the

possibility of a regulatory funding gap between submission for the delivery track in June 2025, which could be achieved even earlier, and the introduction of a tCSNP2-Refresh in 2026. Although the IDF is programmatic and can thus be shared between different projects, those that would have reached delivery track level won't be able to access pre-construction funding (PCF) until at least six months later. In addition, there is no information about the circumstances if a project reaches maturity level 3 significantly earlier than the June 2025 date. Cited as one of the design principles for the regulatory framework, 'regulatory certainty for TOs' needs to be strengthened within the model through appropriate, consistent funding that demonstrates greater certainty of projects.

In addition, allowances made for joint ventures must be revised to reflect the actual split relative to each TO, as opposed to an assumed 50:50. Furthermore, guidance around the ESO's maturity ratings is especially vague and would benefit from a more detailed description. Lastly, we support the regulatory approvals remaining off the critical path for project delivery.

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

As with the development track, Scottish Renewables and RenewableUK support the proposed delivery track, its level of funding, and the required outputs. The 2.5% PCF draws upon the successes of the ASTI scheme and will help drive projects forward.

However, as with projects in the development track, there is uncertainty about their progression beyond the tCSNP2-Refresh date. While there is reference to Output Delivery Incentives (ODIs) being set within RIIO-T3, it is unclear how the two funding streams will be streamlined and what this will mean for the projects.

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

The proposal to allow smaller or medium-sized projects to continue relying on existing mechanisms within the RIIO-ET2 framework, such as via the Medium Sized Investment Projects (MSIP) scheme, is welcomed. The recognition that the network is becoming increasingly congested, leading to more project interaction, is reflected in the flexibility to amend outputs in existing projects. Ofgem should maintain and further support flexibility where possible via such routes as projects advance.

Regarding further funding flexibility, Scottish Renewables and RenewableUK strongly support the intention to establish an advanced procurement mechanism, which we view as a positive, significant step towards strategic procurement. The ability for TOs to procure for a portfolio of projects on a programmatic level will aid their competitive ability to secure components with long lead times from the constrained global supply chain and avoid delays. Developing and implementing this tool at pace will be vital to maximising its potential benefit in meeting delivery dates by allowing TOs to reserve supplier availability proactively.

Specifically, the advanced procurement mechanism should reflect the same characteristics of early construction funding (ECF) administered through ASTI. The ECF has been instrumental in enabling

projects to undertake a wide range of construction activities: strategic land acquisition, early supply chain commitment and early enabling works. The advanced procurement mechanism should support the same level of scope, extending beyond solely procurement to offer greater flexibility, as seen in the programmatic nature of the development track's IDF.

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

Scottish Renewables and RenewableUK have no objections to the categorisation of the tCSNP2 projects as outlined by Ofgem.

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

We support the classification of projects for both the development and delivery pathway and welcome the firm funding outlined. We recognise that the exact scope of these projects will likely change as they contribute to the wider HNDFUE, participants of which will continue to undergo incremental scope and impact assessments.

The proposal to develop a robust, standardised approach for setting achievable delivery dates collectively with the TOs is a welcome suggestion. The current methodology, as used for ASTI, relies on EISDs developed as part of the NOA process that were intended as a 'best-case scenario' estimation, not for formal use in setting regulatory incentives, hence the lack of standardised methodology. As such, they have become a regulatory burden for TOs and Ofgem as frequent requests for material scope changes and delays must be submitted due to the original, sub-optimal dates set. Determining a suitable methodology will help ease this burden and generate a more realistic vision of delivery time for network build.

Regarding expedited delivery dates, we need greater clarity around what constitutes 'acceleration' within the current context. While ODIs formed under ASTI marked a noticeable departure from the incumbent regime at the time (Large Onshore Transmission Investment (LOTI)), design principles are now being adopted from an already accelerated status quo. Does acceleration mean expedited delivery compared to the new reference point of ASTI? Or does it mean a pace of delivery that is consistent with ASTI-style rates of development? More information on what Ofgem understands and expects from acceleration will help industry effectively meet its shared targets.

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

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

As outlined in Scottish Renewables' response¹ to Ofgem's consultation on early competition earlier in the year, we hold reservations about the structure of the CATO regime. Competition is a positive tool

¹ [SR Response: Early Competition in onshore electricity transmission networks: policy update consultation \(scottishrenewables.com\)](https://scottishrenewables.com/sr-response-early-competition-in-onshore-electricity-transmission-networks-policy-update-consultation)

when it promotes consumer value; however, robust evidence on the full scope of risks and thus costs to consumers must factor into Ofgem's decision. Therefore, Ofgem must adopt a rigorous bidding process to ensure PBs have demonstrable experience and sufficient capital to operate and maintain the asset over the long term, likewise for initial delivery.

To ensure the smooth operation and swift recovery of network assets, the interface arrangements between the incumbent TO and CATO must be suitably designed. Data exchanges will be required to link systems while preserving commercially sensitive information. Ofgem should acknowledge the complexity and sensitivity of the task to determine the appropriate level of information sharing required for effective communication between both parties and support the development of a robust data and information sharing mechanism.

As Ofgem seeks to adopt standardisation where possible, as evidenced by the desire to co-develop a network-wide approach for calculating EISDs and the ESO's progress on the Electricity Transmission Design Principles (ETDPs), the decision to introduce competition should seek to maintain this intention. For competition to be successful, there needs to be the formalisation of a competitive tender process, which prioritises capable organisations that can enhance the capacity to deliver. This must be supported by a clear pipeline of projects to enable learnings, efficiencies and economies of scale, as opposed to isolated and iterative decisions on eligible projects. In addition, a clear pipeline of projects would better support market enthusiasm and the attractiveness of the enduring end-to-end process for competent bidders.

With the first CATO project due to be tendered later this year, numerous unanswered questions remain, not least on how competition will work with the connections process. The introduction of competition cannot undermine the RIIO framework, and the net benefits to consumers need to be properly assessed. In a time of urgency for projects to be delivered, Ofgem must take a balanced view of the risks and seek to enhance the opportunities for competition to support infrastructure delivery at pace.

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

We agree generally with the expectations as set out for the two parties with the development of standardised EISD methodology a notably positive step towards more alignment. However, Ofgem should not underestimate the resources required for the design and development work to deliver on these proposals.

Although the tCSNP2 is an interim, transitional process, considerable work is undertaken to develop the network recommendations. The idea of publishing a tCSNP2-Refresh in six months, as inferred by development track projects submission in June 2025 and Refresh publication in January 2026, is an ambitious timeframe to recalibrate additional proposals with existing ones. With the potential for delay on the tCSNP2-Refresh and the CSNP also expected in 2026, it is unclear how the two plans will avoid duplication and confusion if published close together. To utilise resource efficiently and

effectively, Ofgem should consider marrying the tCSNP2-Refresh proposals into the CSNP in one document that avoids layered regulation that industry must navigate.

To support the ESO and the TOs in their work, Ofgem should consider additional funding to support these activities.

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

We agree with the rationale and decision to introduce a scope change governance process for onshore transmission projects with the caution that Ofgem avoids any cumbersome processes that add more to the regulatory burden than they provide benefits.

Regarding the window submission process for impact assessment requests to the ESO, more justification is needed to warrant this approach.