

RIIO Team
Ofgem
10 South Colonnade
Canary Wharf, London, EH14 4PU

04 September 2020

Implications of the RIIO-T2 Draft Determinations: Consultation Response

I am writing in response to the RIIO-T2 Draft Determinations (DD), in particular the DD on SHE Transmission's Business Plan, and the resulting impacts to Fred. Olsen Renewables Ltd and our portfolio of projects both operational and under development. Specific consultation questions are responded to below.

We are seriously concerned at the proposed **55% cut to Network Operating Cost allowance** (with alarming reductions of 63% to Repairs and Maintenance, and 70% to IT Capex). SHET has advised us that this will have serious consequences for maintaining their network, risking more planned and unplanned outages, which will restrict competition in the supply of electricity due to the increased unavailability of generation, and may unduly drive high balancing services costs for the ESO. We are concerned that a whole-system cost of the impact of these reductions has not been presented, and that the impact to generation customers (and hence the price impact to customers) has not been quantified. This approach at a high level seems to be short-sighted, and adds unnecessary additional cost and risk to the delivery of a net-zero system. We are also concerned of the knock-on consequences for the investment case for new generation (noting that 3GW of new wind, onshore and offshore, is required every year to meet net zero, according to NGENSO's recent FES) if the network is viewed as insufficiently inspected or maintained, such that the forecast ability to supply electricity into the system will have to be downgraded.

We are concerned that aggressive reduction of **Volume Driver Unit Rates** risks non-delivery, with knock-on consequences for net zero delivery (see SHETQ11).

We are equally concerned with the blanket **rejection of pre-construction allowances for RIIO-T3** delivery projects. We have projects in development now aiming for delivery in the late 2020s, necessarily part of the UK's net zero pathway, which would realistically be pushed into the 2030s as a result of this DD.

The mechanisms and decision-making for the **net-zero re-openers** are not clear, but it seems that requests at least for so-called "medium" infrastructure projects are not permitted until 2024 – given the lead time for such scale of infrastructure projects, this will significantly delay the connection of necessary new renewables, which again seems at odds with the UK's net zero targets.

The DD questions we have answered cover (1) SHET, (2) ET Sector, and partially (3) SPT.

(1) SHET Questions

SHETQ1. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

SHETQ2. Do you agree with our consultation position to reject the 'RIIO-T2 System Outage Management Proposals to Reduce Constraint Costs'?

No. Benefit outweighs cost. Decision seems at odds with UK's Net Zero delivery. Limits market access to low-cost (chiefly renewable) electricity.

SHETQ3. Do you agree with our proposals on the bespoke PCDs? If not, please outline why.

No, **rejecting digitalisation** proposals outright is at odds with efficient delivery of least cost electricity, and risks UK's net zero delivery. It further limits the customer service improvements which better enable us to make timely informed commercial decisions in relation to new and existing renewables generation, to support the UK's net zero targets.

We are concerned that Ofgem hasn't considered the whole-system cost of rejecting SHET's proposals of reducing interruptions (**Faults** PCD). Increased network availability for users, particularly as much of the generation in Scotland by volume is on economic but uncompensated single-circuit connections, best permits competition in supply of electricity (the energy which could have been produced is wasted during an interruption) and further gives confidence for new investments (grid availability assumptions may otherwise reduce, increasing the cost of bringing new generation to market. The DD gives the impression that network costs have been considered in isolation of the impact to market participants, including generation, where a whole system view would better inform the CBA.

SHETQ4. Do you agree with our proposals on the CVPs? If not, please outline why.

Concerned that the sensible proposals for actual historic data in the **volume driver unit cost allowance** will simply be dropped, despite the welcoming rationale written in the "reject" box. Expect SHET to provide further justification.

SHETQ5. Do you agree with our proposal to approve the Biodiversity No Net Loss / Net Gain CVP and do you agree with our proposal to re-quantify the value of it?

SHETQ6. Do you agree with our proposed allowances in relation to load related capex? If not, please outline why.

See Q11

SHETQ7. Do you agree with our proposed allowances in relation to non-load related capex? If not, please outline why.

See Q11

SHETQ8. Do you agree with our proposed allowances in relation to non-operational capex? If not, please outline why.

See Q11

SHETQ9. Do you agree with our proposed allowances in relation to network operating costs? If not, please outline why.

We are seriously concerned at the proposed **55% cut to Network Operating Cost allowance** (with alarming reductions of 63% to Repairs and Maintenance, and 70% to IT Capex). SHET has advised us that this will have serious consequences for maintaining their network, risking more planned and unplanned outages, which will restrict competition in the supply of electricity due to the increased unavailability of generation, and may unduly drive high balancing services costs for the ESO. We are concerned that a whole-system cost of the impact of these reductions has not been presented, and that the impact to generation customers (and hence the price impact to customers) has not been quantified. This approach at a high level seems to be short-sighted, and adds unnecessary additional cost and risk to the delivery of a net-zero system. We are also concerned of the knock-on consequences for the investment case for new generation (noting that 3GW of new wind, onshore and offshore, is required every year to meet net zero, according to NGENSO's recent FES) if the network is viewed as insufficiently inspected or maintained, such that the forecast ability to supply electricity into the system will have to be downgraded.

SHETQ10. Do you agree with our proposed allowances in relation to indirect operational expenditure? If not, please outline why.

We are concerned that the proposal to cut overheads in relation to improved services for connections has not been supported by a quantified whole system view, nor placed into context of the volume of new connections required to meet the UK's net zero targets. We need better information to be available to us when developing projects and the Customer Hub, online capacity maps and new tailored customer products and services would make the connection process more accessible and cost effective. Digitalisation needs significant initial investment now to realise lasting efficiencies for customers and bill payers in the long term.

SHETQ11. Do you have any other comments on our proposed allowances for SHET?

(SHETQ-6-8 also-) The new **uncertainty mechanisms** being introduced appear to drive additional delays of approval and process, risking material knock-on delays to the critical investments required to alleviate current and future constraints. this could result in new generator projects being offered **2030** connection dates. This is not in line with the timescales needed to deliver a pathway for net zero.

The **Volume Driver unit rates** (page 53) have been cut so enthusiastically, *they risk disincentivising SHET from delivering new circuit*. While previous rates may be improvable, there is a threshold below which SHET will consider new circuit to be loss-making, which will only incentivise SHET to delay (or otherwise avoid) building the critical infrastructure needed for all new system users on a pathway to net zero. The range of voltages and technologies that these rates are supposed to cover is too broad for this simplistic mechanism to be cost effective For

example, it does not make sense to us why there appears to be no distinction for voltage – the per-km and per-MWkm rates for 132kV onshore overhead assets will be substantially and rationally different from 275kV or 400kV assets, underground even moreso.

The reopener date of **2024 for the Medium Sized Investment Projects (MSIP) is too restrictive**. A solution to this would be to remove the fixed window for SHET to apply and for Ofgem to set out clearly that applications will be assessed within six months, to avoid undue delays to customer connections.

The 30-month **assessment process proposed for Large Onshore Transmission Infrastructure (LOTI) approvals is excessive** and does not align with project consenting activities or the Contract for Difference (CfD) auction process. The timescales need to be significantly shortened and allow consenting to run in parallel with the regulatory assessment. We believe this should also be a six-month approvals process and Ofgem should take into consideration the outputs of the NGENSO's Future Energy Scenarios and Networks Option Assessment in its decision making.

SHETQ12. Do you agree with our proposal to accept SHET's subsea cable repair re-opener?

SHETQ13. Do you agree with the level of proposed NIA funding for SHET? If not, please outline why.

(2) ET Sector Questions

ETQ2. Do you have views on the common milestones, target audience and question of overall satisfaction for the Quality of Connections survey incentive provided in Appendix 2?

We have some concern about the weighting applied to such a survey, and how participation in the survey might be misused. Large corporate entities may have vested interests, due to business interests in this or other markets, to respond to the survey in a certain way. Some entities may through the nature of their business have very large numbers of connections, performed through separate 'child' companies, which could skew the survey in one direction. Transmission connections can be very bespoke and high value, there are pitfalls in trying to reduce this to a single score out of ten, and in only comparing the three onshore TOs. We would like to see the concerns addressed before a material incentive was enforced.

ETQ4. Do you agree with our proposed LPD mechanisms and do you agree with the criterion that we are proposing to use for our LPD mechanisms?

The proposed project delay charge will likely incentivise the TOs to be overly conservative with planned project completion dates, delaying the connection of new projects and risking net zero delivery as a result. We have not seen in the DD how consumers and new connections are protected against this outcome.

ETQ10. Do you agree with our proposed eligibility criteria for the LOTI re-opener and do you agree with the assessment stages, and their associated timings?

Seems unduly slow. The 30-month assessment process proposed for Large Onshore Transmission Infrastructure (LOTI) approvals is excessive and does not align with project consenting activities or the Contract for Difference (CfD) auction process. The timescales need to be significantly shortened and allow consenting to run in parallel with the regulatory assessment. We believe this should also be a six-month approvals process and Ofgem should take into consideration the outputs of the NGENSO's Future Energy Scenarios and Networks Option Assessment in its decision making.

ETQ11. Do you agree with our proposed definition of PCF for RIIO-2, and the areas of work that we intend that definition to cover?

PCF definition intrinsically only addresses "LOTI" projects. This appears too restrictive - where is the pre-construction allowance for Medium or Small infrastructure, which may be triggered by near-future need but is not covered by NOA (because, for example, a project doesn't affect boundary flows, only within-boundary or connections facilitation).

ETQ13. Do you agree with our proposed scope of, associated eligibility criteria for, and timing of the submission window under the MSIP re-opener?

Doesn't open until 2024!! Serious risk of delaying new connections, hindering UK's net zero pathway.

(3) SPT Questions

SPTQ1. Do you agree with our proposals on the bespoke ODIs? If you disagree, please outline why

On Whole System ESO-TO Constraint Mitigation (ODI-F): rejection is a missed opportunity to deliver an overall lower cost system, with greater utilisation of network capacity. It seems there may be a misunderstanding of the applicability of STCP 11.4 – we hope SPT can be given the opportunity to explain. Without an allowance or mechanism, it is likely that the barriers to the use of STCP 11.4 will remain untouched.

SPTQ2. Do you agree that SPT's bespoke ODI-R would be in the interests of existing and future consumers and do you have any views on the proposed metrics to track SPT's progress in delivering the ODI-R?

No - It is not clear to us why the resources occupied in granting of up to 4MW of community generation on non-operational land (per site) is in the best interests of consumers, nor how this proposal facilitates effective competition in supply of electricity.

SPTQ5. Do you agree with our consultation position to reject the "RIIO-T2 System Outage Management Proposals to Reduce Constraint Costs"?

On Whole System ESO-TO Constraint Mitigation (ODI-F): rejection is a missed opportunity to deliver an overall lower cost system, with greater utilisation of network capacity. It seems there may be a misunderstanding of the applicability of STCP 11.4 – we hope SPT can be given the opportunity to explain. Without an allowance or mechanism, it is likely that the barriers to the use of STCP 11.4 will remain untouched.

We look forward to your subsequent considerations on RIIO-T2, which we hope will acknowledge the need for a view of a whole-system cost-benefit and lay a platform which enables net zero delivery.

Kind regards



Dr Graham Pannell

Grid & Regulatory Manager

 Fred. Olsen Renewables

T: 07823 432 508