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Dear Thomas,

Eastern HVDC – Consultation on the project’s Initial Needs Case and initial thinking on its suitability for competition

This response is provided on behalf of National Grid Electricity Transmission (NGET) in our role as Transmission Owner (TO) in England and Wales. As one of the parties developing the Eastern HVDC (EHVDC) projects alongside the Scottish TOs SPT and SSENT, we welcome the opportunity to respond to the INC Consultation document published on 12 May 2021.

We have structured our response around the questions included in the INC Consultation document. In summary, we welcome Ofgem’s confirmation of the compelling need for the EHVDC links and that the options selected are the right ones. We also welcome Ofgem’s acknowledgement of the consumer impacts of delay that would result from the application of the CATO model. We have made clear that a lack of clarity over the delivery model for the project is a cause of substantial supply chain uncertainty, in a market with significant capacity constraint issues given the volume of HVDC projects in development globally. This puts the delivery date of the project at risk. We therefore continue to urge that a decision is made on delivery model as early as possible.

Do you agree that meeting the technical requirement with the two proposed HVDC links is appropriate? (INC Question 1)

Yes, we strongly agree with and welcome Ofgem’s confirmation that:

- there is a clear consumer benefit in transmission reinforcement works between the east coast of Scotland and the north east of England, bringing large savings to GB consumers; and
- there is a need for at least two HVDC links; and
- a clear case has been made for the two proposed HVDC links that form the EHVDC project.

Do you agree with our initial conclusions on the cost benefit assessment and the appropriateness of the options taken forward? (INC Question 2)

We agree with Ofgem’s conclusions on the cost benefit analysis (CBA), that the right options have been progressed and that *“the case for them is only likely to strengthen over time due to the later EISD of alternative options”* (INC Consultation para. 3.36). As recognised by Ofgem, the EHVDC links offer up to £18bn net present value to consumers, and constraint costs would be as high as £665m if both links are delayed by a single year.

We welcome Ofgem's confirmation that the process used to narrow down the options for inclusion in the CBA was logical, and that no option was inappropriately excluded. We also agree with Ofgem's confirmation that options landing at Cottam have been appropriately discounted based on the route-specific challenges of the Humber Estuary and the Yorkshire Wolds Area of Outstanding Natural Beauty. Whilst these factors do not make these options infeasible, they would add to the delivery timeline relative to the Hawthorn Pit option (E2DC).

Do you agree that on the balance evidence including CBA, recent FES and NOA documentation, that these investments appear low regret? (INC Question 3)

We agree with this conclusion. As confirmed in the Consultation Document (para. 3.20), differences between the best ranked option combinations at the time of the CBA were marginal, demonstrating that, against an uncertain future, the financial regret of not selecting the optimal combination would be significantly outweighed by any cost associated with project delay. As the Consultation Document also notes, all subsequent NOA reports since the LOTI CBA was started have indicated that the proposed options (E4D3 and E2DC) should be prioritised.

Ofgem notes that the latest NOA (2020/21) recommends proceeding with two further HVDC links between the east coast of Scotland and England and requests that the TOs "*provide analysis that explores the interaction with these potential additional links, as part of the FNC [Final Needs Case] for EHVDC*" (para. 3.23). This interaction will be explored in the CBA underway to support the FNC. However, the latest NOA already took account of this interaction and gave 'proceed' signals to E2DC and E4D3 as well as the third and fourth links.

At para. 3.30 Ofgem points to the use of FES 2017 in the CBA for the original submission, and asserts that this extended the time of the assessment. Ofgem advises that the "*TOs should avoid this situation in future in order to ensure that our assessment is able to proceed as smoothly and as quickly as possible*". Whilst we recognise the importance of using the latest available information, the passage of time and the consequent availability of new information is an inherent feature of developing LOTI projects. The CBAs produced under LOTI should be read in conjunction with the NOA process, rather than seen as distinct and separate.

As recognised by Ofgem in para. 3.31, the NOA process uses the same (BID3) methodology as the CBA, and this is a key input into our decision-making process. Recognising this will become increasingly important due to the interlinked nature of the need cases of upcoming LOTI projects, where the holistic view provided by NOA, and any similar outputs from the Holistic Network Design (HND) being undertaken for the Offshore Transmission Network Review (OTNR), will be as relevant as the project-specific CBAs. The latter, in being limited to only one or a few projects, is not the best tool to guide overall network development.

Are there any additional factors that we should consider as part of our Initial Needs Case assessment? (INC Question 4)

Interaction with OTNR

We are mindful of the interaction of the EHVDC links with the important work and welcome Ofgem's focus on ensuring a coordinated approach is maintained. We also welcome Ofgem's confirmation that there is no reason to think that future offshore network co-ordination as part of the OTNR will have a material impact on the consumer benefit case for the TOs' proposals for the two HVDC links (see para. 3.39).

Delivery dates

Ofgem states that, at the FNC stage, "*where there are any changes to the delivery dates of the proposed options, TOs can expect our FNC assessment to be more in depth*" (p.5). We recognise the importance of rigorous assessment, and the significant consumer benefit in delivering the links to their current EISDs. However, as stated in the INC, the EISDs represent a best view of the earliest date

that the reinforcement options can be feasibly be delivered, assuming an optimal planning, procurement and delivery programme (e.g. planning consent is secured without delay, cable and converter market capacity is available, timely regulatory decisions are made). As discussed with Ofgem, early market engagement indicates that there is some variability in supplier assumptions on construction duration. Some suppliers have flagged heightened cable manufacturing constraint issues (caused by high market demand), which may make programme delivery challenging and will require an appropriate proactive approach by all parties to secure necessary mitigation. It is therefore possible that, as we engage with the market and are better able to understand the project risks and market appetite, the EISDs may be updated.

Delivery Model Question 1: Do you agree with our proposal to make a final decision on delivery model at the FNC?

We note that Ofgem has not reached a view on applying one of the late competition models to the project due to ongoing uncertainty over the required legislation for the Competitively Appointed Transmission Owner (CATO) model. We welcome Ofgem's acknowledgement that *"any delay resulting from the application of the CATO model on EHVDC would not be in the interests of consumers"* and its recognition that *"it is likely to be beneficial to provide the TOs with certainty of the delivery model ahead of the Invitation to tender (ITT) stage of the EHVDC procurement process in order to provide certainty to the market and minimise unnecessary costs incurred by the TOs ahead of any decision to apply the CATO model"*.

Ofgem intends that, once the FNC has been submitted, it will if necessary prioritise its delivery model assessment to ensure the decision is made ahead of ITT.

We urge that a decision is made on delivery model as early as possible for the reasons explained in response to Delivery Model Question 2 below.

Notwithstanding the existence or otherwise of legislation to enable CATO, we consider it would be highly unlikely to be possible to implement a new regime and run a competition in time to meet the EHVDC EISDs.

Delivery Model Question 2: Do you consider there is likely to be any quantifiable consumer detriment if we defer our decision on competition until the FNC?

The three TOs have been clear that we and the supply chain require as much certainty as possible as early as possible. Initial joint TO discussions have been held with the HVDC supply chain. These confirmed that lack of certainty over the proposition being offered could cause significant uncertainty for the associated tendering activities, including detrimental effects on the Contract Notice (Call for Competition) process scheduled for Q4 2021, the Pre-Qualification Questionnaire (PQQ) in January 2022 and the Invitation to Tender (ITT) in April 2022. This lack of certainty is compounded by market capacity constraint issues (both cable and converter).

Other European TOs have sought to avoid these constraints by creating more certainty around their projects, for instance by letting early development contracts with all key cable suppliers. Many of the suppliers are currently tendering for multiple projects and their capacity for our projects will be influenced by their success (or otherwise) in these other tenders.

A Contract Notice without certainty of incumbent TO delivery would significantly weaken our proposition compared to other competitor projects that are more defined and certain. Whilst supply chain response levels cannot be entirely foreseen, cable and converter suppliers have alluded to the necessity for project prioritisation based on perceived certainty around the opportunity to secure the works. Therefore, those that do not fit the criteria run the risk of de-prioritisation or even non-participation.

It is not possible to quantify the consumer impact of such issues as this would require knowledge from the supply chain that would only be revealed once a formal tender has been completed. However,

there is a clear and evident risk of a suboptimal procurement process if the proposition we are expecting the market to engage in is not clear. This risks potentially higher prices, lack of engagement or delay to the delivery dates.

In addition to the equipment supply market, uncertainty provides the opportunity for challenge and adds risk to the land acquisition and consent processes, which could potentially lead to delay.

We therefore urge that a decision is made on delivery model as early as possible.

Final Needs Case timing

Para. 5.2 states that Ofgem *normally* “expect to only receive a FNC submission once planning consent is in place, but in the case of such a strategically important project, we are comfortable that it is in the interests of consumers to allow flexibility to the LOTI process to help the project meet its required delivery dates”. This flexibility is welcome.

Ofgem also states that “we do not intend to publish our decision on the FNC until after the planning consent decision”. The current programme makes this timing feasible. However, until planning is granted, there is always a risk of delay to this milestone. In these circumstances, given the significant consumer benefits in delivering the EHVDC links, it is possible we would progress other project activities (procurement etc.) without consent, to ensure that delivery timescales are maintained. We therefore believe that Ofgem should maintain an open mind on the possibility of an FNC decision prior to the grant of planning consents if this is necessary. This could potentially be determined on a provisional basis, conditional on the planning decision(s).

Care should be taken that a precedent is not set, as for other projects this timing may not be possible. For example, on the Yorkshire GREEN project, for which a LOTI INC has just been submitted, a decision on FNC as late as the planning decision would mean that it would be roughly contemporaneous with the scheduled contract award, which would not be acceptable or practical, and would risk a suboptimal tender process.

LOTI process learning

We note Ofgem’s comments in the INC Consultation on learnings that could improve the LOTI submission assessment process and we welcome Ofgem’s feedback (for example on explaining ESIDs and the process for narrowing down options) and the intention for as streamline an assessment as possible. This will be critical in delivering on Net Zero decarbonisation ambitions in coming years. We look forward to working with Ofgem to bring forward further LOTI projects in as efficient a way as possible.

Confidentiality

I confirm that this response can be published on Ofgem’s website.

Yours sincerely,

[By email]

Chris Bennett

Director, UK Regulation, National Grid