SP ENERGY NETWORKS

Network Planning & Regulation

Thomas Johns
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Date
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Contact / Extension
Eric Leavy
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Dear Thomas,

Eastern HVDC - Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (the Eastern HVDC (EHVDC) Initial Needs Case Consultation)

This response is from SP Transmission plc (SPT) which holds the transmission licence for the south and central Scotland. SPT is part of SP Energy Networks (SPEN) and the wider Iberdrola group.

The EHVDC project is an important strategic infrastructure project to construct two subsea High Voltage Direct Current (HVDC) links, each with a c2GW capacity, down the east coast of Scotland to the North-East of England. Working alongside National Grid Electricity Transmission (NGET), SPT is a partner in the development of the first of the two links, from Torness in Scotland to a connection point at Hawthorn Pit in the North-East of England. We therefore welcome the opportunity to respond to this EHVDC Initial Needs Case (INC) Consultation.

SPT is strongly of the view that the two proposed HVDC links are low regret investments and the most appropriate strategic reinforcements to progress at this time. We also support the ESO's NOA 2020/21[1] conclusions that a further two HVDC links along the east coast of GB will be required, at a later date, to accommodate the scale of future offshore wind development across GB. We also welcome Ofgem's acknowledgement of the ESO's conclusions in NOA 2020/21 that further significant development of the Main Interconnected Transmission System (MITS) between Scotland and England will be required on the pathway to facilitating UK and Scottish Government targets of Net Zero by 2050 and 2045 respectively.

As outlined in the EHVDC Consultation, in reaching their conclusion that the two proposed HVDC links are low regrets investment, the TOs started with an initial list of 210 conceptual options before identifying 32 options for further scoping and cost benefit analysis (CBA). They then considered 7 options as part of the INC CBA exercise. Following this extensive work, we welcome Ofgem's conclusion that the TOs' preferred options of a link from Torness in Scotland to Hawthorn Pit in the North-East of England and a second link from Peterhead in North East Scotland to Drax in North Yorkshire "*are therefore likely to represent the best approach, and the case for them is only likely to strengthen over time due to the later EISD of alternative options*".[2]

[1] NOA 2020/21 https://www.nationalgrideso.com/document/185881/download
[2] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.36

SPT supports Ofgem's initial conclusions on the CBA and agrees that there is a clear consumer benefit in the EHVDC project progressing. As analysis from the ESO shows, delays in delivering both links could result in additional generation constraint costs of £665m[3] for a single year delay, to the Earliest In Service Date (EISD). In relation to the development of the Torness to Hawthorn Pit HVDC link, this could result in £330m[4] in additional constraint costs, for a single year delay. It is therefore imperative that the EHVDC project progresses through the Large Onshore Transmission Investment (LOTI) process with expediency, to ensure that this strategic national infrastructure is constructed and operational in line with the EISD. It must also be noted, as set out in the INC, *"that EISDs represent the earliest possible dates and are only achievable by following an optimal delivery timeline, including regulatory milestones"*. Given the significant value of the potential additional constraint costs, which ultimately would be borne by consumers, it is imperative to ensure that any potential delays to the EHVDC project are minimised, if not avoided.

As a TO, SPT is an active stakeholder in the work of the Offshore Transmission Network Review (OTNR) and we welcome Ofgem giving consideration to this important strategic work, as it reaches a decision on the INC for the EHVDC project. We are pleased that as part of its assessment of the EHVDC project, Ofgem has considered the need for the two proposed EHVDC links in the context of the OTNR.

SPT is strongly of the view that development and construction of both of these links are needed now, to mitigate increasing constraint costs and given the current large capacity of renewable generation throughout Scotland. Any change to the scope of the EHVDC project would significantly impact on the EISDs. We therefore support Ofgem's conclusion, *"there is therefore no reason to think that future offshore network coordination will have a material impact on the consumer benefit case for the TOs' preferred first two links for EHVDC"*[5] and that the future work of the OTNR will not have an impact on the technical need for, or have a negative impact on, the consumer benefit case for the development of these two links.

We have concerns, however, about the potential delays to the EHVDC project's delivery, if there is a requirement to wait until major planning consents have been secured before Ofgem will make a decision on the EHVDC's Final Needs Case (FNC). We welcome the flexibility offered by Ofgem in this consultation, *"in the case of such a strategically important project"*[6] to receive the FNC submission ahead of the decision on major planning consents. However, given the magnitude of additional constraint costs which may have to be met by consumers, should the EHVDC project be delayed, we would ask Ofgem to continue to show flexibility on timing, by remaining open to a potentially earlier decision on their FNC assessment, ahead of the securing of major planning consents. An earlier signal on the FNC will encourage formal engagement with the market, with the supply chain now confident that this project will proceed.

[3] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.18
[4] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.18
[5] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.39
[6] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 5.2

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Regarding Ofgem's decision on the delivery model for the EHVDC project (i.e. whether it should be delivered via one of Ofgem's late models for competition), SPT's strong preference would have been for Ofgem to take a decision at the INC stage, in line with Ofgem's current LOTI Re-opener Guidance and Submission Requirements Document, rather than at FNC stage. Certainty of the delivery model to be used, and in particular, the owner, developer and operator of the asset, drives certainty when interacting with statutory consultees and key stakeholders as we seek to secure the EHVDC project's planning consents at the earliest opportunity. As mentioned above, given the potential scale of additional constraint costs which GB consumers would be subjected to, it is key that the potential for any delay to project delivery is minimised.

SPT's detailed responses to the consultation questions can be found in the enclosed Annex 1.

Please do not hesitate to get in touch if you have any questions in relation to the points raised in this response.

Yours sincerely

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Network

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ANNEX 1

SP Transmission's (SPT) response to Consultation Questions

Eastern HVDC Links Initial Needs Case (INC) Assessment

Q1: Do you agree that meeting the technical requirement with the two proposed HVDC links is appropriate?

SPT agrees with Ofgem that meeting the technical requirements with the two HVDC links proposed, in particular, given the strong and urgent requirement for significant additional power transfer capacity from Scotland to England, is appropriate. We welcome Ofgem's conclusion that the TOs' preferred option of a first link from Torness in Scotland to Hawthorn Pit in the North-East of England and a second link from Peterhead in North-East Scotland to Drax in North Yorkshire, is the most economic and efficient option to meet the current technical requirements, following consideration of the LOTI CBA and Network Options Assessment (NOA) work.

As a TO, SPT is an active stakeholder in the work of the OTNR and we welcome Ofgem giving consideration to this important strategic work, as it reaches a decision on the INC for the EHVDC project.

SPT is strongly of the view that the two proposed HVDC links are low regret investments and the most appropriate strategic reinforcements to progress at this time. With the ESO's analysis showing, delays in delivering both HVDC links could result in additional generation constraint costs of £665m[7] for a single year delay to the EISD and that both links are justified under scenarios of low wind deployment in Scotland, this project should continue to proceed through the LOTI process.

We support the ESO's NOA 2020/21[8] conclusions that a further two HVDC links along the east coast of GB will be required, at a later date, to accommodate the scale of future offshore wind development across GB. We also welcome Ofgem's acknowledgement of the ESO's conclusions in the NOA 20/21 that further significant development of the Main Interconnected Transmission System (MITS) between Scotland and England will be required on the pathway to facilitating UK and Scottish Government targets of Net Zero by 2050 and 2045 respectively.

The technical specification for the EHVDC project's links is currently being drafted. In view of the ongoing OTNR and the wider development of the GB transmission network, provisions for future extensions to the DC system are under consideration for inclusion in the specification. However, the additional cost of such provisions has to be weighed against factors such as the consequent reduction in future constraints during the extension works, or the risk that such extension works may not proceed.

[7] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.18
[8] NOA 2020/21 https://www.nationalgrideso.com/document/185881/download

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Q2: Do you agree with our initial conclusions on the cost benefit assessment and the appropriateness of the options taken forward?

SPT supports Ofgem's initial conclusions on the CBA and agrees that there is a clear consumer benefit in the EHVDC project progressing. As noted above, analysis from the ESO shows, delays in delivering both HVDC links could result in additional generation constraint costs of £665m[9] for a single year delay. In relation to the development of the Torness to Hawthorn Pit HVDC link, this could result in £330m[10] in additional constraint costs, for a single year delay. It is therefore imperative that the EHVDC project continues through the LOTI process with expediency, to ensure that this strategic national infrastructure is constructed and operational in line with the EISD.

We welcome the fact that as part of its assessment of the INC for the EHVDC project, Ofgem considered the need for the two proposed EHVDC links in the context of the OTNR. SPT is strongly of the view that development and construction of both of these links are needed now, to mitigate increasing constraints given the current large capacity of renewable generation throughout Scotland. Any change to the scope of the EHVDC project would significantly impact on the already challenging EISDs. We therefore support Ofgem's conclusion, *"there is therefore no reason to think that future offshore network coordination will have a material impact on the consumer benefit case for the TOs' preferred first two links for EHVDC"*[11] and that the future work of the OTNR will not have an impact on the technical need for, or have a negative impact on, the consumer benefit case for the development of these two links.

Additional onshore and offshore transmission infrastructure will be necessary to mitigate future constraints as the UK Government seeks to meet its 40GW target of offshore wind by 2030 and the Scottish Government looks to deliver on its complementary target of 11GW of offshore wind by 2030, as well as wider Net Zero targets. We support the findings of the ESO's NOA 2020/21[12] conclusions that a further two HVDC links along the east coast of GB will be required, at a later date, to accommodate the scale of future offshore wind development across GB. These conclusions are being considered as part of the current OTNR work. As discussed with Ofgem previously, the TOs are keen that the OTNR Pathway to 2030 Holistic Network Design, which the ESO and TOs are currently working on, should form the basis of a INC for future LOTI projects that relate to the OTNR.

[9] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.18
[10] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.18
[11] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.39
[12] NOA 2020/21 https://www.nationalgrideso.com/document/185881/download

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Q3: Do you agree that on the balance evidence including CBA, recent FES and NOA documentation, that these investments appear low regret?

SPT is strongly of the view that these investments are low regret. As Ofgem acknowledges, *"The greatest benefits are found in the CBA combinations that include two HVDC links, with these all having a net benefit of over £10bn"*[13]. As mentioned in response to the question above, the EHVDC project is being developed to mitigate increasing constraints and as a result of the significant renewable capacity in Scotland. A further two EHVDC links, as well as other network infrastructure, is already being recommended to 'Proceed' by the NOA process to accommodate future renewable development in the coming decade, particularly in light of the UK and Scottish Government targets for offshore wind by 2030, the Round 4 and ScotWind offshore leasing round, and wider Net Zero targets.

Q4: Are there any additional factors that we should consider as part of our Initial Needs Case assessment?

We have concerns, however, about the potential delays to the EHVDC project's delivery, if there is a requirement to wait until major planning consents have been secured before Ofgem will make a decision on the EHVDC's Final Needs Case (FNC).

We welcome the flexibility offered by Ofgem in this consultation, *"in the case of such a strategically important project"*[14] to receive the FNC submission ahead of the decision on major planning consents. However, given the magnitude of additional constraint costs which may have to be met by consumers, should the EHVDC project be delayed, we would ask Ofgem to continue to show flexibility on timing, by remaining open to a potentially earlier decision on their FNC assessment, ahead of the securing of major planning consents. An earlier signal on the FNC will encourage formal engagement with the market, with the supply chain now confident that this project will proceed.

Delivery Model considerations

Q1: Do you agree with our proposal to make a final decision on delivery model at the FNC?

SPT's strong preference is for Ofgem to take a decision on the delivery model for the EHVDC, at the INC stage, in line with Ofgem's current LOTI Re-opener Guidance and Submissions Requirements Document. As mentioned above, given the scale of additional potential constraint costs which consumers would be subjected to, should these two links be delayed, it is important that any project uncertainty is minimised so as to ensure the EHVDC project is constructed and operational, in line with the EISD.

[13] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 3.22
[14] Ofgem, Eastern HVDC – Consultation on the project's Initial Needs Case and initial thinking on its suitability for competition (May 2021) para 5.2

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Q2: Do you consider there is likely to be any quantifiable consumer detriment if we defer our decision on competition until the FNC?

Certainty of the delivery model to be used, and in particular, the owner, developer and operator of the asset, drives certainty when interacting with statutory consultees and key stakeholders as we seek to secure the EHVDC project's planning consents at the earliest opportunity.

Delays to a decision on the EHVDC project's delivery model may undermine the market's confidence when engaging on this project. With a specialised supply chain already in demand, due to the scale of infrastructure developments happening across the UK and beyond, any project uncertainty may damage the supply chain's confidence to commit to this EHVDC project, which in turn may reduce competition and the associated range of solutions available, increase risk provisions delay and/or add cost to the project. If there is no certainly on the delivery model and/or asset ownership beyond the planned ITT issue date of Q2 2022, this could adversely influence supplier bid assessments and governance processes and suppliers may seek to focus resources and the significant cost of developing a bid(s) into other projects that have more certainty. A significant lack of interested competitive players in the supply chain could delay the timeline of the ITT itself. Both scenarios would impact on the delivery timescales for the project, with significant detriment to the GB consumer, given the scale of constraint costs this project will alleviate.

A delayed decision on the final delivery model also adds risk to any proposed compulsory purchase process that may be required so as to secure certainty of land provision to support the two links. Being unable to secure the appropriate land rights at key points in the project's development could again have a detrimental impact on the project's already challenging delivery timelines and costs.

Certainty of delivery model is key as the EHVDC project looks to engage with the supply chain, planning authorities, key stakeholders and land owners. We'd therefore urge Ofgem to take a decision on the delivery model, at the earliest opportunity.

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