

Energy UK
26 Finsbury Square
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By email FAO: Offshore Coordination, Networks Team, Ofgem Offshore.Coordination@ofgem.gov.uk

22 September 2021

Dear Mr Copeland,

RE: Ofgem Consultation – Increasing coordination in the development of offshore energy networks

Energy UK welcomes the opportunity to respond to Ofgem's consultation on increasing coordination in the development of offshore energy networks.

Energy UK is the trade association for the energy industry, with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership. We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

As the trade association representing the full spectrum of technologies in the power sector, we fully endorse the RenewableUK and Offshore Wind Industry Council (OWIC) response submitted on 16 September 2021. This letter supports that response and pulls out its headline points but also captures a few points not covered in the submission to represent the rest of the energy industry.

The importance of 2030 and net zero targets

The UK is committed to delivering net zero emission by 2050, and the CCC recommends all but decarbonising our power system by 2035. Offshore wind will be the backbone of this zero-carbon power system, and the industry is committed to delivering 40GW by 2030 as an essential part of this ambition, as set out in the Government's manifesto.

Changes to the regime will also take time to bring about. There is a risk that this will lead to project delays, with the potential for a hiatus in deployment as we transition from one regime to another. This must be avoided at all costs. First, it will delay deployment and put our 2030 and longer-term targets at risk; second, it will undermine confidence in the most successful offshore wind market in the world; third, it will drive up risks and costs (for example through ongoing lease and option fees), which will ultimately be passed on to consumers.

The success of the offshore wind sector to date has, in part, been built on a clear and stable regulatory regime where offshore wind developers are able to identify and manage risk clearly, including the design, optimisation and build out of offshore transmission connections. The purpose of this consultation is to prepare the ground for a new, enduring regime for offshore transmission. During this transitional process, we should not lose the strengths of the current regime, before a new one is in place.

Building skills and competencies

The consultation proposes that new actors may need to come forward to design and build coordinated or integrated offshore transmission assets. To date, this work has exclusively been done by offshore wind developers. For projects to be delivered by 2030, via a continuous and steady pipeline needed to support and develop the local supply chain, the early design work will need to be undertaken, at the

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latest, within the next 3 years, and construction in the second half of this decade. The UK does not currently have a full range of companies that would be able to deliver this work: for example, the necessary supply chain that may be needed to deliver a Detailed Network Design, and then build it. In developing the Pathways to 2030, we need to be sure that the solution can be delivered by parties with the right skills and experience to command the confidence of the development community and, crucially, be delivered without creating delays. Given the volume offshore wind and the associated offshore transmission assets required to deliver it, there is an opportunity for UK leadership in emerging technologies such as HVDC as well as offshore hydrogen electrolysis and floating offshore wind.

A public generation map

We are concerned that Ofgem is not seeking views on the generation map or the Terms of Reference for the Central Design Group. Both will be central to the successful delivery of a more coordinated, economic and efficient network. In particular, developers and the wider industry hold a wealth of information and data that could be highly beneficial to a high-quality generation map. A lack of consultation of this important part of the process potentially leaves decisions based on these documents open to challenge. In contrast – the prevailing onshore system design processes are subject to open governance and the NOA is subject to annual methodology consultations; in future the development of an HND should be built into the annual network design decision-making processes which includes NOA and ETYS.

Aligned incentives for all parties

We are concerned that the objectives for the Early Opportunities and Pathways to 2030 elements of the OTNR are inconsistent with the incentives placed upon Generators for early delivery of projects. Specifically, the TCE Round 4 and CES ScotWind options for lease heavily incentivise early delivery (not least through the requirement to commit very significant sums of money up front), and CfD contracts penalise late delivery (late delivery can potentially lead to termination). Imposition of costs through these incentive frameworks will ultimately place additional burdens on consumers. It is therefore essential that the impact of these incentives is considered in parallel with the OTNR processes and steps are taken by the Government to ensure that the objectives of all aspects of its offshore wind programme are consistent; i.e. timely delivery of projects. Where necessary action should be taken to mitigate any increase in risks facing generators and to avoid introduction of additional costs that will ultimately fall on consumers.

Furthermore, it is important that the system for sharing of AI between developers and consumers helps promote Early Opportunities projects. The system must take into account that projects that will connect later in time to a shared offshore transmission asset will not be able to commit to substantial levels of AI before the project has received a CfD and has made a final investment decision. The consequence is that AI needs to be underwritten by the consumer and socialized until the later project starts generating. This is not unreasonable given that the consumer will benefit from shared infrastructure through less impact on local communities, less environmental impact and lower system costs. The system for AI also needs to include a gateway assessment process before the relevant CfD allocation round. This is necessary to reduce risk for investors as it is too late that this is assessed and approved at OFTO transfer stage.

A framework for demand

The OTNR has rightly considered how the development of offshore wind farms and the transmission network can be coordinated, and improved, in different timescales. However, the OTNR does not consider the impact of transmission demand. Currently, the transmission demand framework is designed to accommodate stand-alone demand sites onshore. The framework does not consider transmission demand that might be offshore or onshore demand that might look to synergise with offshore generation, such as a hydrogen electrolyser. We recommend that BEIS and Ofgem reviews the framework for offshore demand under the OTNR.

Further, we view this needs to be done quickly, as this framework is a necessary enabler for both offshore electrification and efficiently connecting hydrogen demand and will be essential to the UK's net-zero transition.

Consenting process and issues

Whilst it is accepted that the majority of this consultation has a focus on connection issues and the mechanics of the grid regime, it is essential that the context of planning and environmental consents is considered fully and considered throughout. The fundamental lead time for offshore planning consents together with the assessments which precede an application have the potential to be materially impacted by any significant changes which occur over the course of that window.

Developers have so far taken responsibility for the consenting processes for offshore transmission connections, together with any onshore components. This has served to minimise risks and uncertainties for the development community but has also resulted in increasingly effective examples of co-ordination, between projects or between specific phases of projects, a situation which will only continue to improve. Reform of the offshore regime must not lose these benefits.

Any proposed move away from developer-led consent, via an early OFTO for example, would be a significant change, that will need to be carefully and appropriately managed in order to ensure that developers can maintain confidence in the system, are not exposed to significant delay, redesign or challenge and are ultimately supported to deliver the essential pipeline of renewable projects required to facilitate a steady pipeline of known projects for 40GW by 2030, and the longer-term contribution to net zero targets.

The risk that fundamental change to grid design, after the event, would pose to project development and consent should not therefore be underestimated or oversimplified and should form a material consideration within the consultation. The choices made by developers and promoters in relation to connections, both in terms of technology and in terms of physical location or corridor are closely linked to the overall consenting process. Restricting the choices that can be made in relation to the infrastructure required to serve a given project may have the unintended consequence of increasing the length or scale of development, placing additional burdens on the environment (at a local or national level) and will potentially lead to greater impacts upon communities. All of which would need to be mitigated by developers.

For the pathfinder projects, where shared connections require new cable corridors, these will require new consents, which may have already been received as part of the wider project. Unpacking that consent, and ultimately resubmitting would be a long, costly, inefficient process, that can take many years to complete. Such a scenario would undoubtedly have a significant impact on our ability to deliver on net zero.

As the prospect of increased co-ordination is explored by the review it is important to ensure that stakeholders and regulatory bodies are collectively focussed on the current arrangements and their limitations, it is of concern that specific demands surrounding co-ordinated activities which simply cannot be facilitated may be placed on developers unduly or at an unreasonably advanced stage in comparison to the outputs of this review. Developers are keen to see a co-ordinated approach to the design of transmission infrastructure, however equally keen to see a co-ordinated approach to the process of delivering it.

Finally, Ofgem and BEIS should bear in mind that consenting and planning regimes vary across the UK and a "one size fits all" may not be possible for all solutions, but the final rather will need to take into account national variations in planning and consenting policy.

If there is anything you would like to discuss, please do not hesitate to get in touch.

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Yours sincerely,

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