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SSEN Transmission's response to Ofgem's consultation on Yorkshire Green's Initial Needs Case and initial thinking on its suitability for competition

This response is prepared on behalf of Scottish Hydro Electric Transmission Plc (SSEN Transmission), part of the SSE Group, responsible for the electricity transmission network in the north of Scotland.

Transmission Owners (TOs) play an essential role in Net Zero, by planning, building, operating and maintaining infrastructure. The Yorkshire GREEN project is an example of key infrastructure required to transport renewable energy to areas of high demand. We support Ofgem's assessment of the Yorkshire GREEN project.

Specifically, we support Ofgem's assessment that:

- Transmission infrastructure (i.e., Yorkshire GREEN) is essential and required to manage increasing power flows from North of England to the South;
- Cost Benefit Analysis (CBA) should not solely focus on capital costs, but wider socio-economic benefits (i.e., earlier Earliest In Service Dates and Net Zero); and,
- Flexibility within the LOTI process is required for Yorkshire GREEN, and other LOTI projects.


In our consultation response, we raise concerns relating to the application of late competition. Re-packaging the project and delaying the decision of applicability until Final Needs Case (FNC) may result in loss of economies of scale and scope for consumers and create supply chain challenges.

Whilst we support Ofgem's flexibility in receiving the Yorkshire GREEN FNC ahead of achieving planning consents, in regards to the LOTI framework, Ofgem must adopt agility in its decision-making process, and provide a conditional decision to allow progression of the project to avoid delays.

We look forward to seeing progress as NGET's Yorkshire GREEN project develops.

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Consultation Questions

1. Do you agree with the technical need for investment on the transmission network in Yorkshire across the B7a and B8 boundaries?

As Ofgem rightly pointed out, infrastructure and reinforcement are required to manage increasing power flows from renewable generators from North to the South. Achieving Net Zero targets requires the connection of significant renewable generation and the associated timely investment in onshore transmission infrastructure to transport renewable energy from areas of high generation to locations of demand.

SSEN Transmission's modelling of the requirements to meet Net Zero targets indicates that connected generation in our network area alone will need to increase to between 13.6GW and 15.7GW by 31 March 2026 and up to 23.1GW connected by 2030. This highlights the scale of ambition that will be required across the whole of GB to meet targets.

2. Do you agree with our initial conclusions on the cost benefit assessment and the appropriateness of the option taken forward?

We support Ofgem's wider considerations outside of capital cost of projects. Ofgem's assessment of onshore investment and its cost benefit analysis has historically been centred around capital and constraint costs, with limited consideration given to Net Zero and other socio-economic benefits.

Whilst the assessment of network investment remains heavily focussed on cost efficiency, which is vital, this must also be balanced with, and set in the context of wider government, societal, and environmental objectives as recommended by the HMT Green Book¹.

The CBA is a tool to enable Ofgem's decision-making, but it should not be the "be all and end all" tool to determine investments. By its nature, the CBA currently used to determine network investments provides very narrow analysis as it does not consider wider economic indicators, such as environmental and social costs and benefits of investments. In addition, the analysis tends to be 'static' with an emphasis on what is known today rather than the transformative change associated with the Net Zero transition.

We point to academic evidence from Frerk² and Zachary et al.³'s papers, as well as Professor Cloda Jenkins' oral evidence⁴ to the Committee for Industry and Regulation, who suggest that analysis tools are required to support decision making, however pragmatic decision-making and acceptance of some level of risk is increasingly required by the regulator. Jenkins stated that, "There is a risk of overinvesting, but there is a real risk of underinvesting too."

¹

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938046/The_Green_Book_2020.pdf

² <https://www.sustainabilityfirst.org.uk/publications-project-research-reports/242-regulation-for-the-future>

³ <https://www.ofgem.gov.uk/publications/decision-making-future-energy-systems>

⁴ Transcript: <https://committees.parliament.uk/oralevidence/2493/pdf/>

We also support Ofgem's whole system considerations and agree that providing capability uplift is required to realise the full benefits of the Eastern HVDC Link (E2DC) on the network. TOs operate across a wide portfolio giving us the ability to coordinate across our network and allows us to have oversight of all development in our region.

We do not agree with Ofgem's feedback that costs must be broken down into specific activities and proportioned at the INC stage. The LOTI Reopener Guidance⁵ does not require TOs' submissions to include detailed costings for benchmarking at INC stage. The purpose of the INC stage is to assess the need for the project, and understand the process followed to reach the preferred technical solution. At this stage, many costs are still high level, and granularity cannot be provided.

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

We support Ofgem's flexibility in the LOTI process, by accepting Yorkshire GREEN's FNC ahead of planning consents. While we are not privy to the full details of this specific project, more generally, not providing a conditional decision until planning consents are approved may result in delays in the PA submission and wider delivery programme, and PA approval. This delay could result in an expectation that TOs undertake construction risk, where we would be spending significant values whilst the final financial settlement for a LOTI project is uncertain, and there are no appropriate protections in place. We disagree with the expectation that TOs should incur LOTI construction spend ahead of completion of Ofgem's PA assessment.

Beyond the INC and FNC, we ask Ofgem to confirm that all PA decisions are made ahead of the elapse of contract price guarantee period, and ahead of contract award to preferred bidders. Furthermore, it is essential that Ofgem acknowledge that tendered project costs undergo competitive bidding, and therefore are the best value market price the supply chain can provide. Provided that the competitive process is fair, open, transparent, and proportionate, there is limited justification to reduce competitively tendered costs.

Lastly, we have concerns about the arrangements Ofgem may introduce under the RIIO-T2 Large Project Delivery (LPD) mechanisms, and in particular any Project Delay Charge. We understand that it is Ofgem's expectation that licensees utilise contract delay clauses to cover most or all of any Project Delay Charge. SSEN Transmission strongly disagrees with this policy position. Ofgem must set out clearly where this has been factored into the cost of capital which it has failed to do. It must then provide further detail on the applicability of LPDs as soon as possible. This should include detail on dates of application, delay charge rates, and consideration of the possibility of incentivisation (LPDs should be symmetrical i.e., allow reward as well as penalty).

4. Do you agree with our views regarding the assessment of Yorkshire GREEN against the New, Separable and High Value criteria?

⁵ <https://www.ofgem.gov.uk/publications/large-onshore-transmission-investments-loti-re-opener-guidance>

We have no strong views on the assessment of Yorkshire GREEN against the late competition criteria, however we disagree with separating out, or “repackaging”, the project to be considered for late competition. There is no evidence that re-packaging the project will reduce costs for consumers, nor that this way forward will encourage timely delivery. Fragmenting the network will create challenges for incumbent TOs to plan, construct, and operate the national transmission system in a coordinated way. There is also a real risk that increased constraint costs due to delays will outweigh any unproven short-term cost savings competition could introduce.

TOs can provide multiple benefits by delivering the project in its entirety. These benefits that natural monopolies can provide include, but is not limited to:

- **Strategic coordination and planning efficiencies:** Incumbent TOs can optimise solutions and management by finding efficiencies in operational expenditure. We benefit from economies of scope and scale, by bundling projects to obtain volume discounts and efficiency in delivery programmes.
- **Community and environmental benefits:** Incumbent TOs can find efficiencies and can plan projects with local communities, planning authorities, and statutory consultees in a collaborative and coordinated manner, without repeatedly disrupting a region, the environment and the community.
- **Supply chain negotiations:** Certainty of delivery is required to effectively negotiate the most efficient supply and costs with the supply chain, for the benefit of GB consumers. The increase in renewable generation and the associated construction to reinforce the energy network is already putting a strain on supply chains and manufacturers of transmission assets globally, in particular HVDC cables and high-voltage transformers. The supply chain for transmission assets is limited; only a handful of manufacturers and suppliers worldwide can produce the high technical specifications and bear the expense in developing and manufacturing high voltage transmission equipment. Introducing an additional competitive element into this mix is unlikely to generate additional cost savings or innovation. More likely it will create delays, further uncertainty, and as a result, cost increases at a point when we should be focusing on delivering the UK’s legally binding emissions reduction targets in already challenging timescales.

Lastly, Ofgem states that “competition has a key role to play in driving innovative solutions and efficient delivery that can help meet the decarbonisation targets at the lowest cost to consumers”. We note that innovative solutions are limited for late competition, as the scope of tender is limited to one particular type of solution⁶, usually traditional solutions. Furthermore, timely delivery of infrastructure assets using competitive frameworks have not been proven or considered as part of a robust CBA.

As we stated in our multiple consultations responses on the proposed competitive framework, we would caution the use of generic and theoretical arguments for competition and ask Ofgem

⁶ <https://www.gov.uk/government/consultations/competition-in-onshore-electricity-networks>

to consider the reality of network management, practical implementation, and consequences competition may have on long term planning, reliability, and consumers.

5. Do you consider there is likely to be any consumer detriment if we defer our decision on competition until the FNC stage at latest? If so, do you have views on how such detriment could be quantified?

Application of late competition should be announced as soon as possible to enable meaningful engagement and mitigate challenges with the supply chain. Ofgem must consider the timeliness of its decision making and the signals it is providing in context of the broader industry supply chain.

We have engaged with our supply chain, who have asserted that a certain, predictable framework, and defined pipeline of projects is required to enable infrastructure providers to negotiate early with global suppliers and contractors to provide competitive costs. TOs are currently able to start procurement negotiations early to ensure assets are procured at a competitive price, and in time to meet key dates.

Early engagement allows for TOs and the supply chain to collaborate on the best solutions for consumers. This includes an approach that encourages freedom to challenge traditional thinking, exploration of new designs, methods, materials, and identifying drivers for eliminating risk, efficiency savings, and safety improvements.

Globally, manufacturers in the sector are limited for highly specialist transmission equipment, which will be in high demand as multiple nations decarbonize their grids simultaneously. Short lead times will inhibit TOs' abilities to negotiate competitive prices to maximise economies of scale and ensure appropriate hedging of commodity costs. Competition of any sort would disincentivise and hamper such benefits.

Some considerations that could be used to measure detriment is monetising the delay of delivering infrastructure, and impact on Net Zero Targets include:

- Deferred carbon abatement and impact on costs and Net Zero targets;
- Impact on safety of network and ability to physically constrain load;
- Impact on reliability and costs of outage changes;
- Increased intergenerational consumer costs;
- Layered Operations and Management teams and costs for separately owned and fragmented assets;
- Etc.

We continue to reiterate our strong view that we do not agree with the imposition of CPM for LOTI projects. There is no evidence that suggests this model provides consumer benefit. This concern is particularly acute in the context of RIIO-T2, which is the most stretching price control to date. TOs are expected to deliver ambitious plans with more challenging efficiency targets and lower returns.