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Dear Adam,

Thank you for the opportunity to respond to Ofgem's minded-to position for the allocation of anticipatory investment (AI) in the Early Opportunities workstream of the wider Offshore Transmission Network Review (OTNR).

We are broadly supportive of policy changes which seek to achieve optimum AI to support later connection to the offshore (and onshore) transmission network. We agree that the costs associated with these risks and should be allocated between users of the relevant transmission assets and consumers where this best supports the wider objectives of the OTNR.

However, as offshore wind development incorporates competition between developers, through leasing and Contracts for Difference (CfD) allocation rounds, we are unclear as to how Ofgem will incentivise those competing developers to coordinate. We note that no offshore developer has adopted the 'OFTO Build' model presumably due to a lack of control over project development and construction activities. OFTOs are not incentivised to adopt the additional construction delay risk where transmission assets are developed by a third party. It is therefore unlikely, even with the ability to recover reasonable AI, an OFTO will voluntarily adopt to construct offshore transmission network for a future known project.

In principle, we are also supportive of Ofgem's proposed Early Stage Assessment in seeking to confirm the proposed AI would contribute to the efficient and economic development of the system. In keeping with the Government's British Energy Security Strategy¹, Ofgem must ensure that any assessment process is consistent with the stated aim of expediting approvals process to build networks in anticipation of new sources of generation.

We appreciate Ofgem has indicated that further guidance on the Early Stage Assessment process and CUSC modification to enable user commitment arrangements to new 'shared' offshore transmission assets. We have raised several points in response to the questions below that we will seek further engagement with Ofgem as more detail becomes available.

Please find our answers to the individual consultation questions in the annex below.

Yours sincerely

¹ <https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-strategy>

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Josh Henderson

SSEN Transmission



Anticipatory investment – consumer sharing

Question 1: Do you agree that consumers should underwrite the risk of the AI Cost Gap by funding the AI Cost Gap until the later user starts paying TNUoS charges?

We agree with Ofgem's view that consumers should underwrite the risk of the AI Cost Gap through socialised use of system (coupled with Ofgem's offshore transmission User Commitment proposal to protect consumers). However, we note that the justification for this approach provided within the consultation document appears to be based on a low likelihood of delay or no later connection happening without the full reasoning for this likelihood being evidenced.

Question 2: Do you agree with the proposal to recover the AI Cost Gap from the later user if the later user connects? If so, do you agree that this should take place over the period of the relevant OFTO licence, starting from the date that the later user starts to pay TNUoS charges?

Yes.

Question 3: Do you agree that, save for any amounts recovered under user commitment arrangements, AI costs should be recovered from consumers if the later user fails to connect?

Yes, similar arrangements are established for onshore transmission and appropriately mitigate the risk of cancellation or reduced capacity of proposed connection projects.

Question 4: Do you agree with our assessment that policy option 3 better meets the aims of the Early Opportunities workstream of the OTNR?

Yes. However, as noted above, we are unclear as to how Ofgem will incentivise those competing developers to coordinate. This is particularly important if the initial developer is liable for potential delays through liquidated damages for any delay to the later user's connection date.

Question 5: Do you have views on the modelled assessment of capital cost savings? Please provide any additional quantitative analysis and any further information.

In principle, we would tend to agree that a coordinated approach to the development and construction of transmission infrastructure (both onshore and offshore) will lead to lower costs for consumers. We are not in a position to provide any additional analysis at this stage.

Anticipatory investment – early stage assessment

Question 6: Do you agree with the introduction of the proposed early stage assessment process?

As noted above, in principle, we are supportive of Ofgem's proposed Early Stage Assessment in seeking to confirm the proposed AI would contribute to the efficient and economic development of the system. In keeping with the Government's British Energy Security Strategy², Ofgem must ensure that any assessment process is consistent with the stated aim of expediting approvals process to build networks in anticipation of new sources of generation.

In theory, this approach will aid in providing certainty to the developer or OFTO in terms of an allowable cost in any future cost assessment process enhancing deliverability and enabling meaningful engagement with the supply chain.

Question 7: Do you think the information sought as part of the early stage assessment process is appropriate?

The application criteria including cost, infrastructure description, timeline and wider benefits appear appropriate and worthwhile but further assessment is also like to be reserved until it is shown how they are accommodated within the accompanying guidance.

² <https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-strategy>

Question 8: Do you have any views on the timing of the early stage assessment process?

No, Ofgem's approach would appear reasonable.

Question 9: Is there any other information which you believe should be included in the confirmation to developers?

Ofgem's approach should focus on having a timely and efficient assessment which does not unnecessarily cause delay or barrier to assessment and decision (as noted above).

Minimising AI risk with user commitment

Question 10: Do you agree with the proposed extension of user commitment arrangements to the potential later user of offshore transmission infrastructure which has been funded by AI?

We agree with the proposed approaches for reducing the liability falling on consumers.

There will also be the need for understanding if securities put up by the later connecting developer would cover a development where the asset will be built anyway. The current view under CUSC 15 is that user commitment securities would be required and be proportionate to the current project spend. If this is not the expected procedure, then the securities being required could end up being prohibitive themselves and then run counter to the conditions that Ofgem want to achieve. Likewise, if these securities also turn out to be prohibitively large, it could also challenge efforts to remove barriers to investment.

Question 11: Do you have any views on the manner in which the user commitment should be calculated?

The calculation for liabilities is provided by the TO through the application of SIF(Strategic Investment Factor), LARF(Local Asset Reuse Factor) and Distance Factor.

However, there are some concerns on how a User who builds the network would apply the LARF since this is an estimate of what percentage of the component could be reused, should the secondary User cancel their project. The TO has a large network to be able to reuse assets that are no longer necessary for a specific connection, however under a User build scenario, the likelihood is that the User would not be able to, or unlikely to, reuse these assets on any other sites they own. This could mean that the LARF proportion of the liability would have a low percentage thus causing the liability costs to be higher than they could be when compared to if the TO applied the calculation. Therefore, calculation for liabilities may need to be reassessed for the Offshore proposals to ensure the liabilities are not prohibitively high.

Calculations for securities based on consented/non-consented schemes may need reassessing to ensure they are the appropriate levels for Offshore Users.