

# IREGG RESPONSE: Ofgem consultation on Accelerating Onshore Transmission Investment

September 2022

## Overview

Accelerating investment in onshore transmission investment is incredibly important both for achieving our decarbonisation targets, and achieving them at least cost.

Our response to this consultation:

1. Supports early construction funding certainty;
2. Supports streamlining the approvals process; and
3. Favours competition at all stages of transmission delivery wherever practicable.

However, as outlined in the document, a case can be made for a one-off, limited set of competition exemptions for a short list of 2030 electricity decarbonisation target-critical transmission projects.

### **Question one: Do you agree with our criteria for identifying projects in scope for the application of the proposed accelerated delivery framework?**

The rationale for the £100m threshold is not immediately clear, and it seems rather high. However, taking the totals into consideration, it is unlikely that choosing a lower threshold would make a significant difference.

### **Question three: Do you agree that it is in the consumer interest to consider exempting projects from competition?**

Competition delivers significant benefits, and in general maintaining competition is in the best interests of consumers. However, the document presents a valid case for making a one-off exception for a limited set of competition exemptions for a short list of transmission projects that have been identified as critical for achieving 2030 targets.

### **Question five: Do you agree that without upfront certainty that they will be delivering enough of the investment needed for 2030, TOs will face significant difficulties mobilising the supply chain to deliver the works on time?**

It is correct that without upfront certainty that they will be delivering enough of the investment needed for 2030, TOs are likely to face challenges mobilising the supply chain to deliver the works on time.

Certainty will support proper engagement at an early stage with supply chain agreements, which will bolster delivery certainty - if not overall value.

**Question six: Do you agree that it is in consumer interest to consider streamlining our regulatory processes?**

Giving due consideration to streamlining regulatory processes will be in the best interests of consumers. There is a clear need for acceleration, and streamlining regulatory processes will help to achieve this.

As set out in our overview section, the ESO has forecasted huge rises in constraint payments - exceeding £2bn pa in mid-2020s - which we know can be reduced via strategic transmission investment.

EHVDC 'bootstrap' delivery is associated with a better than £1bn pa reduction in forecast constraint payments, for a fraction of the cost (EHVDC allowed costs, annuitized using RII0-T2 parameters, is estimated to cost £0.18 bn pa).

Ultimately, consumers stand to benefit considerably had the EHVDC project been progressed earlier. The NOA has been too conservative and approvals too slow, and in particular has taken too conservative a view of the risk of stranded assets.

If similarly conservative approaches are repeated, and delays persist, UK targets will be missed, and consumers will be burdened with additional cost, as the document rightly sets out.

**Question seven: Which of our options for streamlining our regulatory processes do you favour?**

Both Approach 2 and Approach 3 merit being taken forward. These approaches provide the necessary certainty for the early-construction activity which has been identified as essential to delivering acceleration.

Approach 1 should be ruled out on the basis that it is unclear how it would provide the certainty needed to achieve the required acceleration. Approach 4 should be ruled out because, as the consultation paper correctly notes, this passes too much risk of cost over-estimation.

Approach 3 provides more certainty to TOs, but could potentially be carved into milestone sections to mitigate risk, with reviews as necessary. Therefore, in practice, there is a spectrum of hybridisation between Approach 2 and Approach 3.

The abandoned cost risk referenced in section 5.7 and elsewhere needs to be measured not just on historical build, but also on feasible, forward-looking paths to Net Zero (CB6 aligned). Rather than 1-in-15 projects failing, it may be the case that different users come to require connection in the same area (behind the same transmission reinforcement), hence continuing to justify the build.

**Question eight: Do you agree with the costs and benefits methodology we have established?**

As in our answer to question seven (above), the abandoned cost risk appears to be overly conservative. As identified by the consultation document, it is correct to cite the broad concept of reduced forecast constraint as a benefit.

Although this is not straightforward to quantify, there is a further benefit of avoided opportunity cost if generation or demand does not deploy as expected in FES, and new projects and technologies are required to maintain a net zero pathway. In that scenario, an upgraded transmission grid is more likely to be able to accommodate this future need at the necessary pace.

In addition, we support the approach to modelling competition savings.

**Question nine: Do you agree with the conclusions of our cost and benefits analysis?**

Yes – as acceleration is much-needed and will deliver material net benefits.

**Question ten: What are your views on introducing a package of regulatory measures which Ofgem may apply to protect consumers?**

We are in favour of an alignment of incentives, as suggested in 7.11, 7.12, 7.13 within the document, and in our answer to question eleven (below).

**Question eleven: What are your views on the design of each of regulatory measure? (Please clearly reference which measure(s) your comments relate to e.g., Accelerated delivery Output Delivery Incentive, Ex post efficiency review, etc.)**

Regarding the accelerated delivery (Output Delivery Incentive), we strongly support the consultation sections 7.11, 7.12 and 7.13. That TOs do not face financial consequences as a result of delays, yet have significant influence on delivery timing, is a factor that has increased constraint costs.

We support a well-calibrated incentive mechanism with penalties and rewards linked to the expected consumer detriment and the benefits of delivering late or early (featuring constraints cost impact).