



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

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To whom it may concern

HIE Response: Consultation on accelerating onshore electricity transmission investment

Highlands and Islands Enterprise (HIE) is the Scottish Government's economic and community development agency for the North and West of Scotland, from Shetland to Argyll and the Outer Hebrides to Moray. In line with the Scottish Government's National Strategy for Economic Transformation, HIE has set out a clear vision for sustainable and inclusive economic growth in every part of the Highlands and Islands.

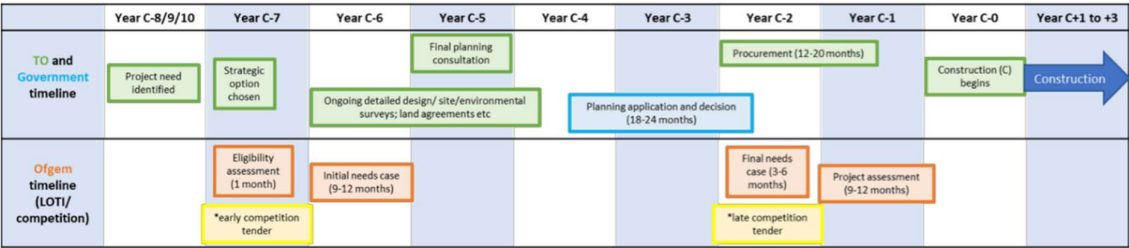
HIE has worked with a number of local authorities (Shetland Islands Council, Orkney Islands Council, Comhairle nan Eilean Siar, Highland Council and Argyll & Bute Council) and Scottish Government in the preparation of this response. We would like Ofgem to consider this response as jointly representing all our views. This will be in addition to a number of those included submitting individual responses.

The low carbon economy and renewables sector already contribute significantly to the region and represent a major economic, social and industrial opportunity. Our oil and gas industry will continue to play a key role in supplying energy but will also afford the skills and expertise to support our transition to a highly productive, low carbon future. HIE is committed to building on the region's international reputation for excellence in energy and low carbon, and to forging collaborative partnerships to further strengthen the industry and our position in it.

From early advances in local energy systems on our islands and marine energy technology development and deployment, through to large-scale industrial developments supporting offshore wind, subsea engineering and ultra-deepwater capabilities for decommissioning, the whole region is exceptionally well-placed to capitalise upon the UK and Scottish Governments' commitments to move to a net zero, decentralised and locally based energy system. Timely investment in electricity transmission infrastructure is clearly central to achieving this.

We welcome the opportunity to provide our views on the proposals outlined in the consultation and as ever, would be pleased to discuss our response in more detail.

We welcome Ofgem’s willingness to consider accelerating the process for approving and delivering the electricity transmission system investment needed to unlock this potential. Ofgem should adopt a continuous improvement approach to its regulatory processes, in conjunction with its stakeholders.



*This is contingent upon the requisite legislation being in place

Ofgem’s Indicative process for strategic onshore ET projects

Having considered the outline process shown above, illustrating a ten-year timeline for the delivery of strategic upgrades from the point of selecting the strategic options; we believe there are opportunities to enable the final case development and engagement of delivery partners during the near two-to-three-year hiatus during planning consultation and approval illustrated in Ofgem’s diagram.

We can see clear benefits in industry and Ofgem working much more closely to accelerate approvals so that construction can begin as soon as planning permission is granted, particularly on projects vital to unlocking the renewables potential in Great Britain.

We remain convinced that a geographically diverse portfolio of renewable energy is a vital component of a secure, resilient low carbon energy system. It is vital that transmission investment is brought forward to facilitate this.

Without the capacity to connect production and demand centres there is a real risk that projects to develop the plentiful resources around the British Isles will not come forward.

This will have wider consequences than simply the constraint costs that fall on the ESO, potentially increasing carbon emissions and delaying economic development in areas such as the Highlands and Islands. We believe the benefits of accelerating investment are therefore understated, or at least the minimum benefits.

The certainty created for the supply chain with visibility of a long-term pipeline of activity is essential – never more so than in the current economic climate – and early opportunities companies will be crucial in building confidence in making strategic investments to enable delivery of infrastructure on which reaching net zero is predicated.

Ofgem should not be overly cautious on the detriment to customers of increasing transmission capacity where it is strategically essential to the development of the system in the long term.

Whilst we appreciate Ofgem’s duties to today’s customers at a time of high energy prices, it is possible to make a case that a wider failure to make long term strategic investments in energy are making the response to unforeseen external events harder. Investments that increase the resilience of the electricity system should be enabled by a more adaptable, flexible, proactive regulatory framework. Ofgem’s caution must be weighed against the impacts on the longer-term investment in renewable energy a highly constrained transmission system creates.

Yours faithfully

Elain MacRae
Head of Energy Strategy

Consultation Questions

Q1: Do you agree with our criteria for identifying projects in scope for the application of the proposed accelerated delivery framework?

We agree the projects needed for 2030 that are subject to the LOTI are the highest priority projects. Ofgem should also give wider consideration to those projects needed to enable the target to decarbonise the power system by 2035¹ and ensure the learning from these early projects is applied to any investment to meet that target.

Q2: Are the 26 projects identified the correct ones to initially focus on?

We note that there are projects not yet in the NOA process that are shown as needed for 2030 which Ofgem should keep under review.

Short Works	Description of	Type of works	Interface Point	NOA ref	HND Recommendation
	Establish a 1.8GW monopole HVDC link from a new 275kV substation site on the Western Isles, including bays for connection to the coordinated offshore network, to a site on the GB mainland. The location of the new site on the Western Isles and the site on the GB mainland is still to be confirmed	Interface point	Arnish	N/A	Required for connections that deliver 2030 targets

Q3: Do you agree that it is in the consumer interest to consider exempting projects from competition?

Ofgem should consider the risks and benefits as discussed in the paper and we would support exempting these projects on the basis that the TO's will still need to contract for the delivery of the projects and have suitable allowances made under the RIIO framework that should offer customers reasonable assurance of efficient costs.

Q4: Which of our options for exempting projects from competition do you favour?

We do not fully understand how Ofgem's concerns around customer detriment differ for those six projects not needed until 2030 whilst exempting all needed by 2029 from competition. We believe some of these are vital to unlocking renewables in the Highlands and Islands. Unless Ofgem has specific concerns about consumer detriment, then we support exempting all 26 projects.

Q5: 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?

Given the delivery timescales and challenges, Ofgem should ensure that the TO's have enough certainty to progress the projects, securing sufficient resources to enable the 2030 targets to be met. We expect Ofgem to work closely with TO's to ensure this.

¹ <https://www.gov.uk/government/news/plans-unveiled-to-decarbonise-uk-power-system-by-2035>

Q6: Do you agree that it is in consumer interest to consider streamlining our regulatory processes?

We believe that Ofgem should continually review its processes to ensure that they support timely and responsive decision making. We believe this is in the customers' interests. Ofgem has much experience through RIIO in managing project cost risk across both Transmission and Distribution and should ensure the learning is implemented.

Ofgem's own assessment is that the upper bounds of the risk to consumers is less than 1% of the costs of the projects and does not appear to encompass the environmental and economic risks of the projects not advancing.

Q7: Which of our options for streamlining our regulatory processes do you favour?

We favour a mix of Approaches 1 and 2 as Ofgem indicates is the current minded-to position.

Q8: Do you agree with the costs and benefits methodology we have established?

We note that the benefits are limited to the short-term benefits of the constraint costs. We believe in view of challenging net zero targets, Ofgem ought to also consider the wider environmental and economic benefits of reduced uncertainty in the development of renewable energy that the approach will bring.

Q9: Do you agree with the conclusions of our cost and benefits analysis?

No comment.

Q10: What are your views on introducing a package of regulatory measures which Ofgem may apply to protect consumers?

This should be inherent in any RIIO project to ensure that customers benefit from any savings and that the transmission companies and their suppliers are incentivised to deliver efficiently and on time.

Q11: 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)

We would support Price Control Deliverables for suitable groups of projects implemented through a specific Licence Condition(s) combined with an incentive mechanism to reflect the costs of any delays on to the bodies responsible for delivery.

Price Control Deliverables and Totex Incentive Mechanism

Each project should have specific outputs (PCDs) with revenues at risk in an ex-post review, as used for distribution high value projects. This will ensure that the Totex Incentive Mechanism (TIM) is applied correctly. We would support a lower TIM rate if it encourages a lower allowed cost (and therefore lower overspend risk) with most of any savings passed back to consumers. If the TOs benefit from reduced competition in so much that they are guaranteed returns on the final costs, then it is important that the TOs and Ofgem work to ensure costs are as low as possible, financial risk is minimised and savings are passed back to consumers.

A reopener process and ex-post review should be included, to allow early engagement with the supply chain in a way that reduces the contingencies that could be applied from advancing projects while uncertainties remain.

Accelerated Output Delivery Incentive

We would support an Accelerated Output Delivery Incentive to reflect some of the risks to the TOs delivering the projects late. The functioning of the overall transmission system is difficult to link to individual projects and we would support an overall incentive on delivery of the

programme, based on its ability to allow the unconstrained connection of the anticipated 50GW of wind. The incentive should drive not only the highest value projects but the overall programme delivery.

The 26 projects have a value of £19.8bn (Table 10 page 45), so 15% would be equivalent to £3bn which is equal to the benefits envisaged in paragraph 6.17. As a downside risk, this would reflect the full value of the delivery delay, but it is not clear that this should be the same upside benefit. Early delivery should clearly not expose customers to the same costs as late delivery.

Any upside benefit needs to be balanced against the TIM incentives so as not to increase costs in order to deliver early (it would seem perverse to reward early delivery and have to then address higher costs through the TIM mechanism and delivery review as PCDs are likely to have been met). It is important that the ODI is not embodied in higher deliver contingencies, hence the combination of TIM, ex-post review and ODI must be considered.

Q12: Do our you think our proposals raise any financeability concerns or create excessive financial risk for the network companies? If so, how could they be addressed?

We have no further comment on financeability risks. We note that the TIM and RIIO framework incentivises later delivery as lower initial expenditure (p61 8.6) produces significant cash flow benefits for companies. We would expect accelerated delivery incentives to address this issue. The mechanisms in Q11 should protect companies from downside risk through the RIIO revenue mechanisms, even ex-post.

Q13: Is any further guidance, or additional specific information, needed as part of the TOs' project delivery plans?

No comments

Q14: Are there any additional timetable issues that need to be considered?

We believe Ofgem should target March 2023 for the specific framework licence changes with individual or groups of projects then reflected in these either through consulted changes or directions to modify values as projects are approved.