Accelerating Onshore Transmission Investment, Ofgem, August 2022.

**Fred. Olsen Renewables’ Response**

Dr. Graham Pannell, September 2022.

Response to: [consultation on Accelerating Onshore Electricity Transmission Investment](https://www.ofgem.gov.uk/publications/consultation-accelerating-onshore-electricity-transmission-investment)

Fred. Olsen Renewables is one of the leading independent renewable power producers in the UK, developing and operating wind farms in the UK since the mid-1990s. Our portfolio comprises an operational wind farm capacity of 530 MW in GB and an extensive pipeline of projects – spanning offshore, onshore and emerging technologies. We are members of the representative bodies RenewableUK, Scottish Renewables and IREGG.

Our response is divided by the relevant consultation chapter headings:

# 1. Introduction & 2. Why we are proposing changes

**We strongly support the need for acceleration**. We can see for example in the ESO’s forecasting of constraints, huge rises in payments (forecast to exceed £2bn pa in mid-2020s) which are successfully reduced by the delivery of strategic transmission investment – in particular 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 RIIO-T2 parameters, is estimated to cost £0.18 bn pa). *In conclusion consumers would have benefitted considerably if the EHVDC project had been progressed earlier* – the NOA has been too conservative and approvals too slow, with an overly conservative view of the risk of stranded assets.

If such delays and conservatism in transmission delivery is repeated, as the consultation document correctly explains, UK targets will be missed, and consumers will suffer additional cost.

In our answers below:

* We support early construction funding certainty
* We support streamlining the approvals process
* We favour competition at all stages of transmission delivery wherever practicable. However, we see the case for a **one-off** limited set of competition exemptions for a short list of 2030-critical transmission projects.

# 3. Projects in Scope

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

£100m threshold seems arbitrary and high. However, looking at the totals can’t see that a lower threshold would make a material difference.

1. Are the 26 projects identified the correct ones to initially focus on?

No feedback.

# 4. Role of Competition / Exemption

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

In general, no, given the scale of benefit available through competition. However, we acknowledge validity of the case you have presented for a **one-off** limited set of competition exemptions for a short list of 2030-critical transmission projects.

1. Which of our options for exempting projects from competition do you favour?

No favourite.

1. 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?

Yes, agree that the certainty will support earnest engagement at an early stage with supply chain agreements, which will strengthen delivery certainty (if not overall value).

# 5. Changes to Assessment Process

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

Yes.

We agree with you that the Abandoned cost risk assumption is too pessimistic (more in answer to Q7).

As per our introduction, **we strongly support the need for acceleration**. We can see for example in the ESO’s forecasting of constraints, huge rises in payments (forecast to exceed £2bn pa in mid-2020s) which are successfully reduced by the delivery of strategic transmission investment – in particular 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 RIIO-T2 parameters, is estimated to cost £0.18 bn pa). *In conclusion consumers would have benefitted considerably if the EHVDC project had been progressed earlier* – the NOA has been too conservative and approvals too slow, with an overly conservative view of the risk of stranded assets.

If such delays and conservatism in transmission delivery is repeated, as the consultation document correctly explains, UK targets will be missed, and consumers will suffer additional cost.

1. Which of our options for streamlining our regulatory processes do you favour?

 **Approach 2 and Approach 3** merit being taken forward. Both give the necessary certainty for the early-construction activity which has been identified as crucial to acceleration.

Prefer to rule out:

 Approach 1 – not clear how this gives sufficient certainty for the necessary acceleration.

Approach 4 – agree this passes too much risk of cost over-estimation.



Approach 3 gives more certainty to TO, but could be carved into milestone chunks to mitigate risk, with reviews as necessary – hence in practice there is a spectrum of hybridisation between approach 2 and approach 3.

**Abandoned cost risk** (section 5.7 and elsewhere) needs to be measured not (solely) on historical build, but on credible forward-looking pathways to net zero (CB6 aligned). Rather than 1-in-15 projects failing, it may be that different users come to need to connect in the same area (behind the same transmission reinforcement) which continues to justify the build. Furthermore, can add international evidence on users which have chosen to site generation or demand projects nearer to strategic transmission infrastructure, further mitigating ‘stranded asset’ risk. On principles-basis, suspect this outcome is (significantly) less conservative than the 1-in-15 failure assumed in this section.

# 6. Cost-Benefit Analysis

1. Do you agree with the costs and benefits methodology we have established?

Abandoned cost risk appears too conservative (see answer Q7).

Agree with the broad concept of reduced forecast constraint as a benefit.

There is a further benefit of avoided opportunity cost (although not straightforward to quantify) – if generation or demand does not deploy as expected in FES, and new projects and technologies are required to maintain a net zero pathway, then an upgraded transmission grid is more likely to be able to accommodate this future need in a timely manner.

Agree with the approach to modelling competition savings.

1. Do you agree with the conclusions of our cost and benefits analysis?

Yes – in that acceleration is necessary and will deliver material net benefit.

# 7. Measures to Protect Consumers

1. What are you views on introducing a package of regulatory measures which Ofgem may apply to protect consumers?

We support alignment of incentives, as suggested in 7.11, 7.12, 7.13 (and in answer to Q11).

1. What are you 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 *Accelerated delivery Output Delivery Incentive*:

We **strongly support your sections 7.11, 7.12 and 7.13**. That TOs have significant influence on delivery timing, but do not face financial consequences arising from delays, specifically increased constraint costs. We welcome a well-calibrated incentive mechanism with penalties and rewards linked to the expected consumer detriment and benefits of delivering late or early (featuring constraints cost impact).

# 8. Financeability

1. 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?

No response.

# 9. Next Steps

1. Is any further guidance, or additional specific information, needed as part of the TOs’ project delivery plans?
2. Are there any additional timetable issues that need to be considered?

No response