RESPONSE TO ACCELERATING ONSHORE ELECTRICITY TRANSMISSION INVESTMENT – OFGEM CONSULTATION

This response presents the views of SSE's generation businesses, which encompass SSE Renewables and SSE Thermal. A separate response will be submitted representing the views of SSEN Transmission.

SSE Renewables is a leading developer and operator of renewable energy across the UK and Ireland, with a portfolio of around 4 GW of onshore and offshore wind and hydro. Our strategy is to drive the transition to a zero-carbon future through the world class development, construction and operation of renewable energy assets. We are aiming to deliver enough new renewable projects to generate 50 TWh by 2031, which equates to a fivefold increase in renewables output. This will be delivered through developments, including Dogger Bank Wind Farm, which is currently the world's largest offshore wind farm development, at 3.6 GW.

SSE Thermal is a leading developer and operator of assets that play a key transitional role in the SSE Group and across the wider energy system. While providing much-needed system flexibility to ensure security and stability of supply in the short term, the business is also actively pursuing options to decarbonise its generation fleet progressively over the long term. SSE Thermal owns and operates 4 GW of conventional thermal generation, including Keadby 2 which will become one of the world's most efficient CCGT power stations on completion of the current commissioning programme. SSE Thermal is also developing flexible low-carbon power including carbon capture projects in partnership with Equinor at Keadby and Peterhead as well as two hydrogen projects in the Humber.

KEY MESSAGES

- Waiting for transmission upgrades to connect low carbon generation has cost GB consumers money, wasted energy generation through constraints, impacted the UK's development of the supply chain and raised questions about the ability of renewable energy to deliver. To accommodate the new wind and low carbon electricity generation assets necessary to deliver Government targets and make the link to homes and businesses across the UK, it is key that urgent investment in the transmission system is brought forward and accelerated.

- As such, SSE's generation businesses support changes that will expedite delivery of strategic investment in the network and enable these targets to be met. Importantly, this extends beyond connecting new low carbon capacity; this capacity must in turn be able to run and its output utilised for environmental benefits to be realised and constraint costs reduced.

- Whilst recognising the driver for this consultation as the Government's 2030 targets for offshore wind generation, it is important to note that offshore wind generation is not the only technology that will deliver the Government's net zero targets. The strategic investment in infrastructure necessary to deliver the gamut of low carbon projects that will enable these targets to be met and existing pressures on the current system to be reduced, needs to be accelerated. Further, it is key that any technology-specific accelerated framework does not undermine or stall key infrastructure already in train or necessary to support other

low carbon technologies that will contribute to Government targets to deliver a fully decarbonised power system by 2035.

- In using the NOA to inform the list of electricity transmission projects that are eligible for acceleration, it is key that this takes proper account of the need for and the effect of proposed storage developments. Further, as above, in determining strategic electricity transmission projects, we believe consideration should not be limited to offshore wind but extended to include all projects that are consistent with delivering net zero targets.

- The level of accelerated investment identified relative to existing / previous network investment delivered, is significant. We anticipate this placing a huge amount of pressure on supply chains and the workforce with the knowledge and skills necessary both to build the projects and then commission them. Whilst managing the risk to consumers, it is key that the allocation of risk recognises the scale of the ask and does not seek to excessively penalise companies. For example, we are not convinced that a funding mechanism that could see network companies' funding paired back to 85% of project costs is an effective mechanism given the ask.

RESPONSES TO SPECIFIC CONSULTATION QUESTIONS

This section presents the views of SSE's generation businesses in response to the questions raised.

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

We believe it is important that the identifying criteria does not rule out strategic investment necessary to deliver the Government's net zero targets, which will be delivered through enabling a range of low carbon generation technologies. We therefore challenge the proposal to focus only on strategic network investment necessary to deliver offshore wind targets. The network infrastructure to support all low carbon technologies needs to be prioritised according to the strategic importance of each project, regardless of technology. We therefore agree that it is key that Ofgem keeps an open mind on other / future projects that could fall within this proposed new framework.

We also note that the criteria appear to focus on projects currently funded through the Large Onshore Transmission Investments (LOTI) framework and less on those funded through the Medium-Sized Investment Project (MSIP) framework. Again, we would encourage the qualifying criteria to be kept relatively open to ensure that any strategically important investment has the mechanism to support its acceleration, if required.

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

We are not in a position to comment on which projects should be the initial focus but welcome the inclusion of projects such as CGNC and others. However, we would welcome assurances that the approach used to identify projects, i.e. the NOA Refresh, adequately reflects all technologies, including the role of proposed storage developments.

Further, we believe it is important that the list of projects is kept under review. We are particularly keen to ensure that projects not earmarked for acceleration because they are deemed '2030 projects' do not suffer as a result of these proposals.

Finally, for reasons set out above, we caution against a technology-specific approach.

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

It seems reasonable for the TOs to call out that the introduction of competition could lengthen the existing timelines for delivering new onshore ET projects, most notably through impeding their ability to efficiently engage and mobilise supply chains. Therefore, given the need to deliver these projects within an accelerated timeframe, it seems prudent to exempt in-scope projects from competition.

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

We are ambivalent with regards to option 1 or option 2. Our support is for whichever option is best able to deliver the objective, i.e. the necessary works to facilitate timely connection and utilisation of new capacity.

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?

As above, it seems reasonable for the TOs to call out that the introduction of competition could lengthen the existing timelines for delivering new onshore ET projects.

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

We agree that it is prudent to consider and challenge whether any efficiencies can be made to the regulatory processes, whilst maintaining adequate rigour to protect both consumers and licence holders.

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

We do not have strong views on the options presented. However, given the scale of the ask on TOs, we believe it is important that the regulatory processes do not subject them to excessive risk. We are minded to agree that Approaches 1 and 2 appear the most balanced, both in terms of TOs and consumers.

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

No comment at this stage.

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

No comment at this stage.

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

Ofgem is right to consider this as a package that delivers both the necessary infrastructure and puts in place the measures to protect consumers, particularly amidst today's cost of living crisis and rising energy bills and all consumers' ability to pay.

However, we recognise that the delivery of this infrastructure is a vital part in ensuring that the challenges the country faces today on energy do not happen again, whilst also enabling the Government to meet its net zero targets. Waiting for transmission upgrades to connect low carbon generation has cost GB consumers money and wasted low carbon energy generation as a result of constraints.

The scale of the ask on TOs needs to be adequately recognised. In RIIO-ET2, TOs are already tasked with delivering 16 projects totalling £9.2 bn. To deliver an additional 10 projects totalling a further £10.6 bn by 2030 – as set out in the consultation – is a colossal ask. Therefore, whilst recognising the need to deliver this investment and ease its path to delivery, the regulatory regime needs to be both proportionate to the ask and realistic over national / global resources to facilitate this.

As such, we believe the regulatory mechanism to drive this needs to be more incentive-based. Fundamentally, against this context, we do not believe it is appropriate that TOs could face penalties of up to 15% of the estimated project value by failing to meet the ESO's delivery date for each project.

Q11: 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)

Accelerated delivery ODI - As stated above in response to Q10, we believe the regulatory mechanism to drive this needs to be more incentive-based. Given the context of the ask being placed on TOs, we do not believe it is appropriate that TOs could face penalties of up to 15% of the estimated project value by failing to meet the ESO's delivery date for each project.

Reduced incentive rates under the TIM – No specific comments at this stage.

Ongoing monitoring and reporting obligations – Appear reasonable.

Reopeners to adjust outputs and allowances - Appear reasonable.

Ex post efficiency review - Appear reasonable.

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

We believe this is for network companies and Ofgem to agree.

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

No further comments at this stage.

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

No further comments at this stage.