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RIIO Team
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Dear RIIO Team,

Consultation on Accelerating onshore electricity transmission investment

We welcome the opportunity to comment on the issues raised in this consultation.

This response is from ScottishPower Renewables (SPR). With a portfolio of 20GW of offshore and onshore renewable generation in planning, development and construction SPR are at the forefront of decarbonisation of the electricity system. The delivery of strategic electricity transmission network upgrades is essential to release the economic and environmental benefits this renewable generation can provide and must be achieved quickly if the Governments 2030 ambitions are to be realised.

Ofgem are consulting on changes to their current RIIO-ET2 regulatory approval and funding mechanism that will support accelerated delivery framework of 10 strategic large transmission projects that have been identified as not currently meeting the 2030 deadline. Specifically, this requires changes to Ofgem's current "Large Onshore Transmission Investment (LOTI) regulatory process".

Ofgem propose "*taking a relatively cautious approach to implementation, so that consumers are protected against exposure to unnecessary costs*"¹, should other factors such as the renewable generation not materialise by 2030 or if the infrastructure in question is not delivered. They also are requiring "*clear and binding commitments from the TOs that these projects will be delivered on time before we make the changes proposed in this document.*"²

SPR consider Ofgem need to be more confident and bullish in their approach. They need to ensure their regulatory funding model does not in any way cause delay to these projects and ensure it is fit for purpose. This consultation sets out a good basis for achieving this however, we would raise the following concerns:

- Ofgem propose to ring fencing 10 projects currently identified with an earliest in-service date beyond 2030 (ESID) for acceleration could risk delivery of other projects currently with an ESID ahead of 2030. A comprehensive and consistent regulatory framework needs to be applied to all transmission strategic investment.

¹ Accelerating onshore electricity transmission investment page 6 para 2

² Accelerating onshore electricity transmission investment page 6 para 4

- Projects that fall below the threshold of £100m must also be effectively funded and delivery supported. Ofgem should confirm that the current regulatory framework for these smaller projects is robust and does not cause delays.
- Ofgem should be much clearer in their use of “competition” in respect of onshore transmission which is related to ownership of transmission infrastructure and not primarily on delivery of infrastructure. Competition is already embedded within the existing delivery process in the design, procurement and construction strategies of the incumbent onshore TO’s. Implementing a regulatory framework for onshore transmission competition in the form Ofgem are proposing requires primary legislation and until this is in place competition should not be applied to any strategic transmission infrastructure project.
- Whilst SPR support the use of a package of measures protect consumers in general, the specific measure “Accelerated Delivery Output Delivery Incentive (ODI)” proposes using constraint costs as a measure for the reward or penalty of the performance delivery of the project. This is fundamentally flawed, and this proposal should be removed. A consistent approach that achieves a proportionate approach for all projects linked to their complexity and the TO performance is required in determining any penalty or reward value. SPR suggest a proportionate, informed reward or penalty can better be determined through investigation and review of the project management approach and factors which resulted in delay or early delivery.

In general, SPR support Ofgem’s minded-to position set out in para 5.17 for approval of allowances and that grouping of project allowances could also be beneficial.

Please find below our detailed responses to the consultation questions in Annex 1.

If you have any questions regarding this response, please don’t hesitate to contact me or my colleague Deborah MacPherson (deborah.macpherson@scottishpower.com).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Joe Dunn', written in a cursive style.

Joe Dunn
Head of Grid & Regulation

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

SPR Response: Ofgem have used the findings of the Holistic Network Design (HND), 2021/22 Network Options Assessment (NOA) Refresh. These initiatives are the primary means for determining strategic network upgrades in GB and while are appropriate to use, SPR would like to highlight two concerns with this approach:

Firstly, the limitations of these reports are well-documented in relevant consultations and feedback from industry. Ofgem should be aware of these but are beyond the scope of this consultation. For example, Ofgem highlight (table2) that the HND and NOA refresh focus on Offshore and Onshore infrastructure strategies respectively. The interdependency of the onshore and offshore networks is, however, paramount, and a whole system consideration that recognises and responds to both regimes is crucial for an overall efficient transmission system.

Secondly, Ofgem state (para 3.1) “that onshore ET projects identified in the NOA Refresh that are not needed to meet the Government’s 2030 ambitions should not be considered strategic projects for the purposes of this consultation”. It is unclear from this consultation which projects these are and how they will not be supporting decarbonization of the electricity system and therefore the Government’s 2030 ambitions and beyond. It is SPRs view that all infrastructure projects should be supported for accelerated delivery.

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

SPR Response: Ofgem have identified 26 projects worth £19.8bn that are high value strategic projects i.e., estimated cost of £100m or more to focus on (para 2.5). Of these Ofgem have targeted 10 projects (with a combined cost of £10.6bn) that are currently expected to be delivered after 2030 (para 2.8).

Notwithstanding our concerns set out in our response to Q1 above, SPR consider these projects to be appropriate as they will maximise the necessary increase in transmission system capacity and therefore result in the most benefit. The threshold of £100m aligns with the qualifying threshold for LOTI projects which provides a single regulatory process to be the focal point for the improvements to be made.

SPR would highlight those projects under this £100m value also need to be funded and Ofgem should ensure that the existing RII0-T2 framework supports the delivery of these projects effectively as well. It is not clear from this consultation that this has been considered and Ofgem should clarify this in their future consultations.

Ofgem are proposing to accelerate those 26 projects that currently meet the >£100m threshold and specifically 10 that are not going to be delivered by 2030. If Ofgem intend to target only those 10 for acceleration, this could introduce an additional risk to the delivery of those currently intended for delivery by 2030. This arises because, if financial penalties are applied to TO’s for only those projects with an EISD post 2030, resources and focus could be diverted away from those with an EISD pre-2030 resulting in their completion date slipping. A consistent approach to all strategic projects should be introduced that removes unnecessary regulatory barriers for all transmission infrastructure.

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

SPR Response: Ofgem indicate they will have targeted exemption from onshore competition for projects where there is a clear benefit from that exemption (para 2.32). Ofgem should be much clearer in their use of “competition” in respect of onshore transmission. SPR understand that the proposal for introducing competition in onshore transmission is particularly focused on the enduring ownership of transmission assets. Furthermore, that delivery of projects is already subject to competition in the approach the onshore TO’s use to design and build these projects that is heavily reliant on third party delivery.

Introducing onshore competition has therefore limited upside in terms of removing potential delivery delay and cost but adds uncertainty and complexity to the onshore transmission regime. Implementing the necessary regime is subject to primary legislation being introduced and has been pending for almost a decade. The potential for a project to be subject to competition causes unnecessary uncertainty for TOs and the supply chain that undermines the development of these projects. SPR consider that Ofgem exempt all projects pre-dating the establishment of an onshore competition regime from competition to remove this delaying factor.

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

SPR Response: With reference to our previous answer and the two options presented, Ofgem should exempt all 26 projects from consideration for competition. It is SPRs view that the regulatory framework established on primary legislation should be in place before a consideration can be considered to implementing onshore competition to transmission infrastructure projects. And this should only apply for new projects brought forward after the appropriate framework is in place. This will remove unnecessary uncertainty and consequential risk of delivery to existing project delivery.

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?

SPR Response: Yes, uncertainty in the supply change is a fundamental risk to the delivery of transmission infrastructure at the scale and timescales required. To meet the demand for resources and manufacturing that the unprecedented level of investment in transmission infrastructure presents, requires the supply chain to extend their capacity by developing new markets to opening new factories and establishing new mines.

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

SPR Response: SPR agree that it is consumer interest to consider the streamlining of the regulatory process from the evidence presented. Currently, the process involves an iterative approach to funding proposals and approval as the life cycle of the project develops. Removing multiple iterations need not result in a detrimental outcome if sufficient accountability and scrutiny is maintained at the right point in the process. Typically, this would be following planning consent approval.

Q7: Which of our options for stream-lining our regulatory processes do you favour?

SPR Response: With reference to our previous answers, the minded to position set out in para 5.17 for approval of allowances would seem appropriate. Grouping of project allowances could also be beneficial.

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

SPR Response: SPR are unclear as to the merits of the cost and benefits methodology Ofgem have developed. It seems intuitive that timely delivery of transmission infrastructure is essential to meet the Government ambitions for 2030 and reap the economic and environmental benefits. Ofgem recognize that the existing regulatory regime risks delaying this infrastructure and so the proposals included in this consultation are welcomed and stand up on their own merits.

The risk of consumer detriment through inefficient or unnecessary costs can be heavily mitigated by the mined-to approach for allowances Ofgem present.

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

SPR Response: In general, the cost benefit analysis includes a significant amount of uncertainty and broad assumptions. Whilst SPR consider the cost and benefit analysis provides a helpful exercise to support the consultation proposals, we do not believe it delivers a robust approach to forecasting actual consumer benefit or detriment.

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

SPR Response: SPR support the use of a package of measures. These projects are large and complex, so a sophisticated approach is required to be effective. The balance of risk and reward is crucial given the importance of these projects. In general, SPR support the measure proposed with the exception of the accelerated delivery Output Delivery Incentive (ODI) which we explain in our next response to Q11 below.

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.)

SPR Response Please see our response against each measure as follows:

1. Accelerated delivery Output Delivery Incentive (ODI)

Ofgem's fundamental approach to the Accelerated delivery Output Delivery Incentive (ODI) does not seem robust. Penalty and reward based on estimated constraint costs does not reflect on the performance of a TO to deliver the project whether early or late. A constraint forecast will vary according to the location and nature of the project being delivered. Actual constraints are likely to be very different again, changing with network configuration, generation background, season and weather conditions. Setting a penalty or reward on such a variable value is flawed. A consistent approach that achieves a proportionate approach for all projects linked to their complexity and the TO performance is required in determining any penalty or reward value. SPR suggest a proportionate, informed reward or penalty can better be determined through investigation and review of the project management approach and factors which resulted in delay or early delivery.

Without this approach Ofgem could inadvertently introduce a risk of cost increases for consumers. An uncertain and potentially very high penalty linked to a constraint value applied to late delivery will inevitably be mitigated by higher damages being introduced to contracts, higher costs for mitigation being incurred and potentially later EISD being proposed. SPR suggest existing licence obligations are sufficient and capped to ensure TOS deliver to the best of their abilities.

SPR do not support the use of this ODI.

2. Totex Incentive Mechanism (TIM)

SPR understand Ofgem are proposing to apply the TIM mechanism on a project-by-project basis. Currently the TIM is applied to the price control settlement as a whole. This is reasonable given the scale of costs for these projects and is a valuable tool to incentive performance and delivery by the TO. SPR support the use of this ODI.

3. Ongoing monitoring and reporting obligations

Clear and consistent reporting throughout a project life cycle is essential and valuable for consumers and stakeholders. SPR support Ofgem's use of this approach provide these reports can be entered into the public domain with suitable redaction on certain information.

4. Re-openers to adjust outputs and allowances

Re-openers are an effective mechanism to mitigate the risk and allows for high impact but low probability risk to be managed. SPR therefore support the proposal and would support a threshold that allows for multiple cumulative events as well as single vents to be admissible.

5. Ex post efficiency review

Ex-post review of efficiency undermines the incentive to achieve efficiency throughout the project. Both consumers and the TO benefit from performance that is more efficient than allowances. On balance SPR consider this proposal is likely to add risk and delay to projects rather than accelerate them and so do not support its use.

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?

SPR Response: the value of these projects will potential exceed the current regulatory package of each of the TO's. This presents a significant change to the scope and proposition to their financability. Ofgem need to address this and ensure that these projects can be delivered. This will require the package of regulatory measures proposed to constitute a balance of risk and reward to investors.

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

SPR Response: SPR have no comment at this stage

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

SPR Response: SPR have no comment at this stage