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21 February 2023

Dear Team,

Ofgem's Forward Work Programme 2023/24

Thank you for the opportunity to provide our views on Ofgem's Forward Work Programme (FWP) 2023/24. SSEN Transmission¹ is committed to delivering a Network for Net Zero. We therefore welcome Ofgem's continued focus on enabling the delivery of Net Zero.

We acknowledge the challenging environment in which the energy sector is currently operating and regard the introduction of short-term and long-term priorities as an important step in the right direction to protect consumers whilst also delivering against Government ambitions. While we recognise the importance of the short-term solutions detailed in the FWP, we urge caution that these do not compromise longer term plans and ultimately tomorrow's consumers. Investing in networks is for the long-term – providing stability and cost certainty that benefit consumers now and in the future whilst also acting as a key enabler to Net Zero. It is important to ensure that when considering network investment, the long-term investment certainty and stability it offers is adequately balanced against the short-term risk to consumers of exposure to volatile energy prices.

As the Transmission Owner for the north of Scotland, we are committed to enabling the transition to Net Zero, whilst also delivering a secure and reliable network for our customers. We have an important role to play in connecting and transporting the vast renewables potential in the north of Scotland to the demand centres across Great Britain. Our objectives in the north of Scotland are consistent with the Authority's principal objective to protect consumers' interests, now and in the future, including their interest in a cleaner, greener environment.

We therefore welcome the positive steps that Ofgem has taken in enabling the near-term delivery of unprecedented levels of investment in the transmission network, through the Accelerating Strategic Transmission Investment (ASTI) framework and Offshore Transmission Network Review (OTNR) Pathways to 2030 workstreams. Continued focus on

¹ We are SSEN Transmission, the trading name for Scottish Hydro Electric Transmission. Following a minority stake sale which completed in November 2022, we are now owned 75% by SSE plc and 25% by Ontario Teachers' Pension Plan Board.

Scottish and Southern Electricity Networks is a trading name of: Scottish and Southern Energy Power Distribution Limited Registered in Scotland No. SC213459; Scottish Hydro Electric Transmission plc Registered in Scotland No. SC213461; Scottish Hydro Electric Power Distribution plc Registered in Scotland No. SC213460; (all having their Registered Offices at Inveralmond House 200 Dunkeld Road Perth PH1 3AQ); and Southern Electric Power Distribution plc Registered in England & Wales No. 04094290 having their Registered Office at No.1 Forbury Place, 43 Forbury Road, Reading, RG1 3JH which are members of the SSE Group www.ssen.co.uk

those areas is crucial over the coming 12-months to ensure the network is net-zero ready. However, given that we are only seven years away from 2030, facilitating time critical investment in infrastructure should be one of Ofgem's key short-term priorities.

There remain significant outstanding uncertainties that may directly impact our ability to deliver for the longer term. Whilst we support Ofgem's strategic approach to transforming the energy sector, it is important to ensure that the process of change does not create uncertainty impacting short- and long-term delivery. We are concerned that the scale of reform may slow down the strategic investment required across the entire energy sector to support government targets. In the shorter term, it is imperative that change does not impact in-train regulatory processes that are vital to the delivery of Net Zero. In the longer term, we are concerned that some elements of change, such as the introduction of competition in onshore networks, directly hinders the collective ability of future GB networks to enable a decarbonised energy system. It is of critical importance for the TOs to maintain a pivotal role in the planning, development and operation of the transmission network given our decades-long experience operating our network and building trust with stakeholders.

This energy sector transformation needs a holistic and tripartite approach between Government, the Regulator, and industry. This is imperative particularly over the next year as policy and frameworks are developed and implemented, as the bedrock upon which future development is built. We strongly encourage Ofgem to consider the interaction between the various strands of transformation and set a clear, coordinated direction of travel across the energy sector landscape. This will provide the important clarity and will support market stability, both of which are important to facilitating investment in a decarbonised energy system.

In Annex 1 below we provide more specific feedback on some elements of the draft FWP, including the consumer interest framework.

Yours sincerely,

Dora Gencheva
Senior Regulation Analyst

ANNEX 1

Consumer interest framework

We would encourage quicker decision making and a less 'risk-averse' approach from Ofgem in the journey to Net Zero. We acknowledge that we cannot predict the outcomes of an investment of such a scale, however we are of the view that a bolder approach is required to enable the transition to Net Zero.

We would welcome a more detailed explanation and definition of the 'consumer interests' part of the framework. It would be helpful to clarify whether it includes transition, wide scale carbon abatement, market reform, or whether it is more focused on the affordability to consumers i.e bills. One point for clarification is whether the 'least cost' is being used as a guide. Without knowing the 'least cost' that consumers are willing to pay to get to Net Zero, we cannot make a judgement call on whether the cost is efficient or not.

We would support the inclusion of trade-off analysis in decision making; however, urge Ofgem to provide more information by way of an example as to what a trade-off may consist of and how the framework will be used to assess/score this and whether there would be a hierarchy to this.

Further clarity on whether Ofgem are inferring that Net Zero will become part of their statutory duty would be welcome. The FWP refers to the framework supporting the statutory duties and not overriding them. Therefore, the impact of this is that it would change the nature of any decision-making framework.

Long term priority - Facilitating infrastructure investment

- **Future network regulatory framework**

Competition: While we welcome the confirmation from Ofgem within its ASTI decision that low regret strategic investment in the transmission network as identified by the HND will be exempt from competition we remain concerned and disagree with Ofgem's intention to introduce competition in onshore electricity networks.

Given the need to accelerate investment in transmission infrastructure to 2030 and beyond, we question whether now the right time is to proceed with competition in onshore transmission. Fundamentally competition introduces uncertainty and delay, as we have set out in previous responses. We therefore do not think that competition in onshore networks is consistent with the long-term priority of facilitating infrastructure investment.

The GB energy market has experienced a fundamental shift over the last 12 months driven by the need to achieve energy security, affordability and Net Zero targets. There is also a clear need to learn lessons from the energy retail market and it is vital that we do not repeat these risks with national infrastructure. These failings act as a reminder of the need to carefully consider the applicability and consequences of competition in the transmission sector.

There is the potential for competition to introduce suboptimal outcomes for consumers and introduce delay to Net Zero and additional risk. We do not think Ofgem should include a point about it driving down the cost of meeting Net Zero. The ESO's Early Competition CBA consultation does not provide any evidence of how it will benefit consumers and reduce the cost of Net Zero. Therefore, we would encourage Ofgem to be extremely cautious and only implement changes if there is clear evidence that it will benefit consumers, in line with the stated priorities of this FWP, in both the short and long-term.

Long term priority: Developing and delivering market reforms

- **Wholesale market reforms and network charging arrangements**

Transmission Network Use of System (TNUoS): We welcome Ofgem's recognition of the issues with the unpredictability and volatility of TNUoS and support the implementation of the TNUoS Task Force and expected enduring review. We support generators' concerns that TNUoS charges in the north of Scotland are higher than the rest of GB, while in contrast, TO allowed revenue is stable and largely predictable. Therefore, we would advocate further that Net Zero must be a core principle and objective of the any reform to enable the renewable generation required from across GB to reach these targets.

However, we also urge that consideration of any future market reform must account for the implications of current TNUoS charging and how they interrelate with other policy areas including the future of CfD and the Offshore Transmission Network Review (OTNR). This must be a coordinated and collaborative approach by both Ofgem and BEIS to avoid unintended consequences and inefficiencies.

Locational Marginal Pricing (LMP): The consideration of implementing LMP in Great Britain causes concern and uncertainty for electricity generators and we advocate against this. Introducing further granular locational signals to the GB market would increase the uncertainty for future renewable growth which translates into uncertainty of critical network investment. In addition, LMP would unfairly skew the market and disincentivise renewable generation investment in the places with the best renewable resource. The introduction of LMP would diminish investor confidence and present further uncertainty and risk, which comes at a cost. Our position is supported by evidence-based analysis of international LMP markets that we have undertaken.

Long term priority - Reforming governance arrangements

- **Future System Operator (FSO) and local governance**

Specific ESO: We are supportive of Ofgem's inclusion of 'effective performance of the FSO' in the FWP and urge Ofgem to transfer existing responsibilities with minimal disruption to the sector. As outlined in our previous responses, the roles and responsibilities should be transparent and deliver the most cost-effective outcome for consumers. It is in the interest of the GB consumer for the FSO to expand the HND and CSNP policy to go beyond physical asset investment and consider how these systems will operate in the future. Whilst there may be benefits to the FSO holistically planning the network at a GB and cross sector level, this must be done alongside regional TOs given their experience in planning and operating these assets in conditions unique to their locations. Network systems do not neatly disaggregate; they are complex systems with complicated interdependencies. Therefore, we would urge Ofgem to consider GB national and cross-sector planning to be the main focus of the FSO policy development rather than a future consideration; this notion is also supported by the NIC.

DSO and Flexibility: We believe that significant parts of the current institutional framework and organisations are delivering well for our future challenges; however, we do recognise the need for coordination and definition of roles and responsibilities. To avoid unintended consequences across all DSO functions, we urge that a whole system approach is implemented. We highlight that communication and coordination are critical between all parties to ensure that the whole system remains resilient and flexible to support the changes to the use of the system at a subnational level, whilst maintaining high levels of resilience. We remain concerned that flexibility at a subnational level alone will not be enough to deliver Net Zero. Therefore, infrastructure development needs to be considered on an equal basis to ensure that short-term economic benefits of flexibility can be balanced against long-term environmental and socio-economic benefits of infrastructure development.

- **Energy code reform**

STC and SQSS panels: We welcome simplification and code consolidation. However, we are strongly against the abolishment of the STC and SQSS panels as these are unique in setting obligations on transmission licensees to ensure the safety, security, reliability, and economic operation of the transmission network. They successfully ensure this, without being diluted by commercial interests. If reforms proceed as proposed, we believe that duty holders, including network licensees, must have formal and codified involvement in the process of code change, in the approval of code change, and hold any code manager function to account where a change impacts upon the safety, security, reliability and economic operation of networks.