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Offshore Energies UK
1st Floor, Paternoster House
65 St Paul's Churchyard
London EC4M 8AB

Telephone +44 (0)20 7802 2400
Email info@OEUK.org.uk

www.OEUK.org.uk

Offshore Energies UK: Response to the open letter on future reform to the electricity connections process

Offshore Energies UK (OEUK) is the leading trade body for the UK's integrating offshore energies industry. Our membership includes over 400 organisations with an interest in offshore oil, gas, carbon capture use and storage (CCUS), hydrogen, and wind. From operators to the supply chain and across the lifecycle from production to decommissioning, they are safely providing cleaner fuel, power, and products to the UK. Working together with our members, we are a driving force supporting the UK in ensuring security of energy supply while helping to meet its net zero ambitions. We work on behalf of the sector and our members to inform understanding with facts, evidence, and data, engage on a range of key issues and support the broader value of this industry in a changing energy landscape.

OEUK is supportive of the objective laid out in the letter, particularly "to see electricity connection offers with shorter average connection dates which better meet customers' needs and enable a timely transition to net zero". Our members are already encountering major challenges with the electricity connection process. Delays arising from the current system are proving a barrier to investment in wind or major decarbonisation projects and are evidently a barrier to the UK meeting its renewables growth ambition.

We believe OFGEM, working in tandem with the UK government, should move to a robust long-lasting connection system capable of taking us through the energy transition and beyond. The new system should follow three key principles in its pursuit of net-zero energy system:-

- (i) Fairness to avoid market distortion,
- (ii) Project credibility and,
- (iii) Overall system efficiency.

In the meantime, there is a backlog of connection requests which needs to be urgently triaged against these principles. There should be an explicit aim of rationalising down to a list of credible projects which materially deliver the 2030 50GW offshore wind target, including 5GW of floating wind, assist in decarbonising the grid, and facilitate offshore decarbonisation of offshore oil and gas production.

Energy transition projects have a range of economic challenges, aggravated by the current cost inflation and tolerance to risk. Giving investors certainty on the pace of grid connections will be a critical step in managing realted investment risks. The risk reduction approach and schedule acceleration should be consistent across policies from lease award to project sanction. For instance, the acceleration of grid connections is ineffective if the permitting is not in place. In contrast, France has recently announced 10GW of offshore wind auction by 2027 with acreage fully permitted and with grid connections in place.

In the light of the US Inflation Reduction Act and the EU response, there is an increased competition for investment also placing increased pressure on the supply chain. Part of the UK's response should be for the UK to streamline its renewable project process from lease to sanction in a consistent manner. Currently, the process appears disjointed, increasing project risk, slowing execution and increasing costs. Furthermore, public acceptance of new infrastructure should not be taken for granted. Industry, government and regulators should work collectively to gain public support for crucial new infrastructure whioch will be needed to support the transition.

In line with the recommendations in the Independent Review of Net Zero, OEUK supports the introduction of wide-ranging planning reform to ensure that the planning system facilitates, rather than provides a barrier to Net Zero and the economic opportunities that accompany it. A holistic systems approach coordinated centrally is essential to fully unlock the UK's potential and guarantee the rapid integration of renewable energies in the grid.

To achieve a decarbonised grid in 2035, anticipatory investment in grid reinforcement and extension should be considered guided by the commonality between the different possibles scenarios. In many cases the opportunity costs from the anticipatory investment are limited compared with the opportunities they manifest.

A flexible energy vector is required to bridge the gap between intermittent energy generation and variable demand in a net zero scenario. Hydrogen and its derivatives are likely to provide this flexibility as they can be carried and stored on a large scale. As recognised by OFGEM, the grid development shouldn't be considered in isolation as a dual system (electricity and hydrogen product) will (as now) be required to satisfy demand variation and hard to abate industries. A dual system may also help reduce the curtaining cost and avoid a drastic electricity market reform that would only increase uncertainty.

OEUK welcomes the OFGEM mandate extension to cover net zero. This should give OFGEM full legitimacy to support the North Sea Transition Deal (NSTD). The NSTD is an agreement between the government and the offshore energy industry to support the energy transition whilst making the most of our skills and capabilities in offshore energy. The NSTD has five pillars: decarbonisation of oil and gas production, CCUS development, hydrogen development, supply chain transformation and people and skills. One of the major drivers for oil and gas decarbonisation is via platform electrification which will require timely access to the grid, to meet 2030 emissions reduction targets. This will only be achieved if OFGEM facilitates grid connection for electrification projects to meet the decarbonisation objective.

Grid connection reform should be part of a large cohesive set of policy aiming at reducing renewable projects risk and maintaining investment flow in the UK energy system. Reducing projects risks will ultimately lead to a reduction of consumers' cost as it reduces projects cost of capital.

We look forward to hearing more from Ofgem on this matter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Tholen', with a long horizontal flourish extending to the right.

Michael Tholen
Sustainability Director,
OEUK