

FAO: Jonathan Brearley

By email: FWP@Ofgem.gov.uk

9 February 2024

Dear Jonathan,

Ofgem's Forward Work Programme – 2024/25

Transmission Investment (TI) is a leading independent electricity transmission business in the UK, with over ten years of experience developing, acquiring and managing large complex infrastructure projects. TI manages one of the largest offshore electricity transmission portfolios in Great Britain (GB), in total we currently manage a portfolio of approximately 4GW and £3billion in capital employed. TI is also leading the development of two electricity interconnector projects in support of the UK's Net Zero ambition. This includes a proposed 700MW link between Northern Ireland and Scotland known as "LirIC", as well as the FAB interconnector between GB and France. We have successfully participated in the NG ESO Pathfinder programme, securing contracts to provide stability services at four sites in the two recent stability tenders. We are a strong advocate of introducing competition to deliver electricity transmission faster and cheaper.

We welcome the acknowledgement in the Forward Work Programme (FWP) (paragraph 1.11) of the change in Ofgem's principal objective, creating the explicit link to the UK targets set out in the Climate Change Act, and would wish to highlight that interconnection also contribute to carbon emission reductions and the net zero target.

We are pleased to offer our views on the priorities in your FWP 2024/25. Our response centres on three areas: Ofgem's commitment to provide sufficient resources to support effective onshore transmission competition to enable the expansion of electricity networks needed to deliver Net Zero; supporting the continued benefit the OFTO regime brings; and progressing with the need for further interconnection and offshore hybrid assets.

Expand electricity networks – Early onshore competition model

We welcome the inclusion of the commitment to continue working with the ESO and DESNZ "to finalise an 'early competition model' for the electricity transmission network", and the "launch of a competitive process once a suitable model for competition has been finalised with ESO". There is substantial work to be done at pace if the target dates indicated in Ofgem's 'Update on competition in onshore electricity transmission'¹ are to be met. We would like to see Ofgem committing the resources early in this process to enable the expected hundreds of millions of pounds of benefits to be realised at pace and ensure consumers no longer pay more than is needed for the network infrastructure.

Ofgem has a key leadership role in developing a framework to enable an effective and efficient competition tender, including identifying projects suitable for early competition, developing the

¹ [Early Competition Onshore Transmission Update \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/publications/early-competition-onshore-transmission-update)

commercial model, developing the legislative arrangements, and necessary licence changes to support. We would encourage Ofgem to ensure that the changes required to implement competition are done so in a way which ensures the voice of the new entrant is well represented.

Expand electricity networks – Offshore Transmission Owner regime

As an experienced OFTO, we welcome that Ofgem is seeking to maintain the value-for-money principle of the OFTO regime. To date the OFTO regime has been a successful route to deliver offshore wind. To ensure that value-for-money is retained, Ofgem needs to establish clear and proportionate regulatory and policy provisions for the revenue extension process, confirming the incumbent-OFTO legitimate expectations of residual value. Ofgem has published the second decision on the end of Tender Revenue Stream (TRS), however at this stage the principles are high-level and require further development. We would encourage Ofgem to engage further with industry to develop the detail of these proposals to ensure they are fit for purpose and continue to deliver benefits for GB consumers.

Would also like to highlight the need for Ofgem to work with parties to help provide clarity and certainty in relation to decommissioning requirements and costs. Exogenous changes in costs, such as decommissioning from the updates to the decommissioning guidance, risks a loss of investor and equity confidence in the sustainability of the OFTO regime as a long-term low risk investment. This will impact on investors and bidders into future OFTO/CATO/coordinated offshore regimes. In our view the regime should be flexible and enable exogenously driven costs to be factored into revenues and allow for adjustments. This reflects policy adopted by Ofgem allowing adjustments for Cyber-Security resilience costs, following the implementation of the National Information Security (NIS) directive to other transmission licensees, which were not factored into original OFTO bids for the assets but may be required to maintain legislative compliance. We seek clarity from Ofgem on the deployment of the NIS regulations to offshore transmission infrastructure and the potential associated compliance costs.

We note that the FWP contains no mention of the need to develop a ‘Late OFTO-build model’, which was an outcome of Decision on Pathway to 2030 (published 31 March 2023) regarding the delivery models following the Holistic Network Design process. As a market leader in OFTOs we would be keen to see the ‘Late OFTO tender model’ developed in readiness for use when coordinated offshore projects emerge.

We would like to highlight the linkages between the ongoing work Ofgem is doing in both the onshore and offshore transmission space. In particular, that the principles being applied to the ‘Late OFTO tender model’ could also be applied to onshore late competition, allowing onshore projects to move forward without the risk of delay due to the need to develop the framework – a consistent reason for ruling out onshore competition that has meant consumers missing out on hundreds of millions of pounds of benefits from lower cost infrastructure.

Expand electricity networks – Interconnector Projects and Offshore Hybrid Assets

It is not clear how the work outlined in Interconnector Projects to “continue to assess and decide the need for new interconnector projects through our ‘Cap and Floor’ regime” fits with the work outlined in the Offshore Hybrid Assets to “conclude an ‘initial project assessment’ for new interconnectors and the pilot project for ‘offshore hybrid assets’, to support the Government’s ambition of 18GW of interconnector capacity by 2030 to be met.” It would be expected that the work to assess new interconnector projects through the cap and floor regime would also be supportive of the Government’s ambition for 18GW of interconnector capacity by 2030, and would suggest these work packages are considered together.

We welcome the commitment to continue and assess the need for new interconnector projects through Ofgem's Cap and Floor regime, however we note there is no mention of the implementation of the policy principles decided during Ofgem's Interconnector Policy Review (ICPR), completed in 2021. At a minimum we would expect the currently ongoing window 3 cap and floor round to be implemented as per the recommendations of the ICPR. In addition, we seek clarity from Ofgem on the timing of future investment rounds, how this works in the context of strategic centralised planning, to support continued interest and investor certainty and enable Government ambition of 18GW of interconnector capacity by 2023 to be met.

It is well recognised that the development of multi-jurisdictional projects, such as interconnectors, are reliant upon there being the appropriate approvals at both ends of the interconnector. Challenges in securing these approvals, as a results of circumstances outside the developers' control, may delay such approvals. We seek commitment from Ofgem to continue to support those projects who have been granted cap and floor to be delivered.

As well as concluding the initial project assessment for the pilot offshore hybrid assets (OHAs) we would strongly encourage Ofgem to continue its engagement on a project specific basis, as it is not feasible at this time to generalise the approach to how projects are regulated until the market and connecting country approaches are understood for particular projects. We would suggest the overriding principle should be that for each asset compartment of an OHA it should be neither materially advantageous, nor detrimental, under a hybrid licence compared to the standard licence for the activities undertaken within the compartment. We would also impress that whatever policy is progressed, it is essential that it is agnostic and non-discriminatory between financing approaches and is flexible to apply to the current projects and for the future.

Finally, in light of the recent Innovation and Targeted Oil and Gas leasing round, and the concept of Power from Shore generally, we think it would be prudent for Ofgem to engage with industry to establish how different configurations of these assets may sit within the regulatory framework.

We hope the contents of the letter are helpful and we would be pleased discuss any points raised.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Mark', with a long, sweeping horizontal line extending to the right.

Mark Fitch
Corporate Development Director