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Jonathan Brearley
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Ofgem
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06 September 2024

Dear Jonathan,

I welcome the opportunity to respond to the consultation on the proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 (tCSNP2) projects and set out the Scottish Government's views.

We recognise Ofgem's critical role in setting the frameworks that will ensure our electricity networks are fit for the future, resilient and provide value for money for consumers. It is important that the approval and funding framework delivers on these key aims and incentivise investment that will facilitate a decarbonised, increasingly decentralised and dynamic system in the years ahead.

The Scottish Government is focused on delivering a just transition to net zero by 2045. Our draft Energy Strategy and Just Transition Plan (ESJTP) sets out our vision for the future energy system in Scotland, which will deliver affordable, secure and clean energy, and benefit communities across the country by providing high quality jobs and economic opportunities. It takes a whole systems approach and sets out an ambitious suite of actions for the Scottish Government, along with actions for industry, Ofgem and the UK Government.

It is clear that in order to deliver on our collective ambitions, significant investment in electricity networks will be required to ensure they do not become a barrier to progress. A critical element of the regulatory funding and approval framework is to deliver a good deal for consumers whilst bringing forward the investment needed to support the energy transition. This includes identifying the key areas for anticipatory spending to allow for uncertainty and provide flexibility, whilst also identifying and mitigating risks.

Given Scotland and the UK's offshore wind deployment ambitions, it is essential that Ofgem's proposed regulatory framework effectively supports the integration of offshore wind projects, which are crucial for achieving our collective energy goals. The success of ScotWind, the world's largest commercial leasing round for floating offshore wind, depends on timely and efficient upgrades to GB transmission infrastructure, as outlined in the tCNSP2. It is crucial

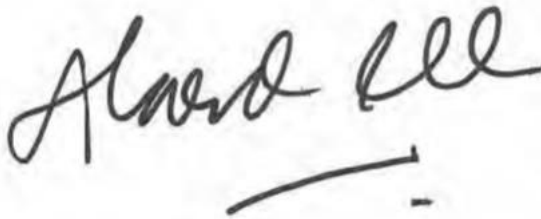
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that the framework addresses any current uncertainties to prevent any delays or disruptions to offshore wind connections. The timely connection of offshore wind projects to the grid will ensure that as the offshore wind sector thrives, we enhance energy security and ultimately drive down costs for consumers.

In applying the framework, it is important that Ofgem recognises the Scottish Government's ambitions and statutory targets (including on climate change and on fuel poverty). In line with this I have provided a more detailed response in the annex of this letter.

We are keen to continue to work closely with Ofgem, the networks companies and all relevant stakeholders, and my officials will be pleased to pick up on any of the points raised in the annex in the course of our regular engagement with you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alasdair Allan', with a horizontal line underneath.

Alasdair Allan

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ANNEX A – FEEDBACK ON OFGEM’S PROPOSED REGULATORY FUNDING AND APPROVAL FRAMEWORK FOR ONSHORE TRANSITIONAL CENTRALISED STRATEGIC NETWORK PLAN 2 PROJECTS

Provisional assessment of the ESO’s tCSNP2 recommendations

Electricity networks are a central part of Scotland’s infrastructure and are critical for ensuring the uninterrupted supply of power to homes, businesses and communities across Scotland. Sustainable development of these networks helps to build our resilience to climate change and will be fundamental to the transition to a net zero economy.

With an abundance of renewable energy sources, Scotland is well placed to be at the forefront of the energy transition across GB. However, we need an electricity system that is fit for the demands of the future so that the power that is generated, from increasingly renewable sources, can be transported to where it is needed.

As noted in the consultation document it is important that the regulatory funding and approval frameworks align with accelerating the deployment of electricity transmission infrastructure and speeding up the connections process. We agree and recognise that there are a number of projects with low maturity in the ESO’s tCSNP2 recommendations and that further development is needed to ensure there is sufficient confidence in their design, routes, delivery timings and approximate costs. We agree that the new UK Government’s mission to accelerate the decarbonisation of our energy system by 5 years requires an updated transmission network plan to support it, but expect and agree with Ofgem that this would not impact the need for many of the tCSNP2 recommended projects.

While further work is needed on the individual projects (particularly those with low maturity), we are unsure of the benefits of undertaking a full refresh and are concerned this will introduce unnecessary delays and uncertainty. If the network is highly likely to be needed irrespective of the 2030 decarbonisation target then we think there should be an alternative way of confirming project need. Delaying project certainty, as proposed by the refresh, will have a knock on effect and will cause system level delays and increased costs, ultimately delaying our ability to get to net zero (which is 5 years ahead of the UK Government’s net zero target).

Proposed regulatory framework for tCSNP2 projects and its application

We welcome the multi-track proposal and the level of funding to enable TOs to continue to undertaken development of designs where there may still be uncertainty. However, it is unclear how projects can progress beyond the proposed tCSNP2 refresh date. As set out

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above we are concerned this could introduce unnecessary delays and uncertainty to those projects in both the development and delivery tracks.

Identifying suitable projects for early competition

We support competition where it results in a better outcome for the consumer, and agree that lessons are learnt and the methodology may evolve over time.

Expectations of the Transmission Owners and the Electricity System Operator

We generally agree with expectations set out for the TOs and the ESO, however, as noted above we are unsure of the benefits of undertaking a full refresh and are concerned this will introduce unnecessary delays and uncertainty.

Scope change governance

We agree with the proposals to introduce a scope change governance process for onshore transmission projects.

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