

Hitachi Energy's response to Ofgem's consultation on the proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 projects

Introducing Hitachi Energy

Hitachi Energy is an exciting global business with a ground-breaking heritage of innovation in pioneering technologies. As a global technology leader, we serve the energy, industrial, mobility, IT, and smart cities sectors. We are a major investor in the UK, with a turnover of £1 billion.

We are advancing the world's energy system to be more sustainable, flexible, and secure. As a technology leader, we collaborate with customers and partners to enable a sustainable energy future – for today's generations and those to come. In the UK, we are already helping to bring clean energy to 4.5 million homes by connecting the world's largest offshore windfarm at Dogger Bank to the grid. We strongly believe that the UK can lead the world in creating a secure, Net Zero-ready energy system through investing in technologies to make the energy system more sustainable, flexible, and secure.

Our response

Q1. Do you agree with our assessment of the tCSNP2 and the risks that we have identified?

Overall, Hitachi Energy agrees with Ofgem's assessment of tCSNP2. However, we note Ofgem's stated uncertainty around the UK's future offshore wind generation pipeline, primarily due to the Government's CPP2030 plan. From a supply chain perspective, we believe that a more realistic scenario will be the UK boasting more, not less, capacity in 2030 and beyond. This is linked to the new Government's plans for the introduction of Great British Energy and the partnership with the Crown Estate.

The context around the timely delivery of a net zero power system will likely continue to be viewed as extremely challenging by industry, but our main concern is the risk of potential delays that could be created by some of the proposals under consultation. As we note in the sections below, any adjustment to the regulatory funding and approval framework must avoid delaying the delivery of a net zero power system. As such, we urge Ofgem to carefully balance its approach to minimise this risk and consider further development of projects beyond those referred to in tCSNP2.

Q2. Do you agree with our proposals for the "Development track"?

Please see below our combined answer to questions 2, 3 and 4.

Q3. Do you agree with our proposals for the "Delivery track"?

Please see below our combined answer to questions 2, 3, and 4.

Q4. Do you agree with our proposals for the "Small / Medium Sized Project Delivery track"?

Hitachi Energy believes that the design principles distinguishing the three separate tracks are sound, and it will be important that the tracks operate according to these principles in practice. We are not in a position to comment on the expectations for delivery under each of these tracks or the appropriate timescales for milestones within these tracks. However, the tracks should offer appropriate solutions

that can be delivered at pace. Furthermore, it is vital that the expectations and delivery dates outlined in these tracks can feasibly be met by the various projects, which is why Ofgem will need to engage with Transmission Owners (TOs) as quickly as possible.

Q5. Do you agree with our categorisation of tCSNP2 projects?

Please see below our combined answer to questions 5 and 6.

Q6. Do you agree with our proposed approach for the tCSNP2 asset classification projects?

Although Hitachi Energy does not have enough information about the state of the projects to comment, it is our view that the process of moving between stages does not introduce or create delays to projects, given the urgency of meeting the UK's net zero targets.

Q7. Do you agree with our approach to identifying a project for early competition?

Please see below our combined answer to questions 7 and 8.

Q8. Do you agree with our approach to identifying a first project for early competition?

With regards to early competition, Hitachi Energy believes it is critical that no delays are introduced that would undermine the deliverability of projects. From a global supply chain perspective, there are multiple benefits for multi-project procurement. These include reduced project delivery times, more efficient delivery of projects, and easier standardisation of solutions and equipment. This, in turn, ensures greater attractiveness of projects to global supply chains, which have a wide choice of where to focus limited resources, thereby reducing perceived investment risks.

As a result, we are concerned that procuring a single project for early competition would lead to difficulties in engaging with the supply chain and may not provide appropriate solutions for future tenders. Therefore, a cost-benefit analysis must include a robust consideration of the supply chain landscape and ensure that suppliers have the clarity and interest they need to support individual projects.

There are considerable costs on the supply chain when engaging with new and unknown transmission infrastructure developers, such as costs around tendering and those generated by inefficiencies. There has to be a robust process for assessing the capability of potential bidders to ensure that they can deliver projects on time. This process must consider potential bidders' resources, including human capital, experience, and existing relationships with the supply chain.

Hitachi Energy believes that there needs to be greater consideration of the consequences of project failure, as part of the criteria for identifying projects for early competition.

Q9. Do you agree with our expectations for the TOs and ESO?

Hitachi Energy believes that these expectations are high and idealistic. Although it is an admirable set of expectations, they would be extremely challenging to achieve. For instance, requiring TOs to understand the implications of the Review of Electricity Market Arrangements' (REMA) reforms at short notice would be difficult because, after several years of analysing REMA, the sector as a whole is unclear and uncertain about its impact on the sector.

Additionally, if Ofgem was to postpone certain decisions in order to wait for TOs to gain greater understanding of the implications of REMA, this could lead to unnecessary delays. Given the urgency

of the UK's net zero targets, it is important to set realistic expectations and adopt a pragmatic approach for the TOs and the ESO.

Q10. Do you agree with our proposals to introduce a scope change governance process for onshore transmission projects?

Hitachi Energy recognises the need for a process to handle significant changes in scope or delivery parameters of projects. However, it is crucial that this process is as efficient as possible and does not add unnecessary costs or delays to onshore transmission projects.
