

FAO: Jon Sharvill, Head of ET Investment Strategy

By email: RIIOElectricityTransmission@ofgem.gov.uk

30 August 2024

Dear Jon Sharvill,

Consultation on the proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 projects

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 approximately 4GW of transmission 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 are a strong advocate of introducing competition to deliver electricity transmission faster and cheaper, and we continue to support the development of the required arrangements for these competitive processes.

We welcome the opportunity to respond to Ofgem's consultation on the proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 (tCSNP2) projects (the consultation). It is widely accepted that successfully meeting Net Zero objectives requires substantial investment in electricity transmission infrastructure to be delivered at an unprecedented pace. Competition encourages innovation and the delivery of benefits to consumers more quickly and cheaply, with strong incentives for parties to deliver on time and on budget. Utilising both competitive and incumbent approaches is the most sensible way forward to ensure greater delivery resilience for such a large capital programme of transmission infrastructure, opening up the market to support accelerated delivery beyond only the incumbent approaches.

Supporting opportunities for accelerated delivery

Overall the consultation supports the well-founded principles, however, there appears to be a gap in the proposed "multi-track funding route" in that it continues to assume only one option for delivery. The consultation, as drafted, appears to focus on the identification of the first project eligible for competitive tender. Given the need to push forward the acceleration of transmission infrastructure, rather than limit the potential to accelerate to a single project, Ofgem should ensure that option is offered to as many projects as possible, otherwise there is potential for market enthusiasm to be undermined, which risks damaging the attractiveness of the enduring end-to-end process.

The enduring framework needs to comply with the revised *Criteria Regulations*¹, which state that competition processes should be used for all projects unless there is no realistic scenario where consumers can benefit². This default to competition approach, once applied consistently across all

¹ The Electricity (Criteria for Relevant Electricity Projects) (Transmission) Regulations 2024, 7.—(1) *A cost-benefit analysis in respect of a project must demonstrate that the non-tendered consumer impact does not outweigh the tendered consumer impact.*

² This is a change in comparison to the draft Criteria Regulations, which required the CBA for the tendered solution to be "better" before running a competition. The emphasis of the final Criteria Regulation is for tendering to take place unless it is shown that incumbent delivery CBA is "better".

policy thinking, will better ensure the pipeline is strong and will build confidence for investors and the supply chain that CATOs are an additional and reliable alternative route for the delivery of transmission network infrastructure.

We note Ofgem suggests that in future it expects to identify a pipeline of projects suitable for competition. Competition benefits are best realised when there is a large and stable pipeline of projects to be competed, where learnings and efficiencies can be rapidly built on by all involved. This is evidenced by the success of the OFTO regime and the offshore wind CfD auction rounds, supporting investor confidence, interest, and over the years reducing the transaction costs associated with the process. Therefore we would stress the importance of ensuring the certainty of a project pipeline to allow learnings to be built upon, as well as providing the confidence to bidders to invest in the opportunity to deliver benefits to GB consumers.

Incentives on transmission owners

The proposals in the consultation lack focus on enabling the NESO competition process by ensuring the TO does the work needed to enable accelerated delivery through the competitive tendering of projects.

Where Ofgem is proposing to provide funding for the further development of immature projects, such as those in the Development track, this should be contingent on the TOs developing projects in a timely manner to support the ECP process. The consultation recognises that the majority of projects are at a low level of maturity, and outlines the need for more work to be done by TOs to undertake further development and detailed design of projects to provide greater certainty. Ofgem also notes that TOs have suggested that in some cases, *“there could also be alternative options that have not been considered in tCSNP2, that could address the identified network needs.”* We are concerned that the consultation fails to recognise that the TOs are inherently incentivised to delay completion of project development, and assessment of alternative options, to avoid competition. As such, there should be clear incentives, supported by milestones, to ensure that where the TOs are funded to develop projects, this is completed on time. If milestones are missed resulting in competition being limited, then penalties should be applied. Ofgem should be cautious not to limit the potential for innovation, in the identification design and delivery of solutions, through an unconscious bias assumption towards the RIIO arrangements. As noted by Ofgem, *“the largest benefits under early competition [are expected] to be unlocked through innovation in the design, delivery and operation of electricity transmission infrastructure”*³.

To ensure the fair and unbiased identification of projects eligible for competition, the NESO should have the responsibility and funding to develop the capability for progressing project development. This will ensure that all projects reach an appropriate level of maturity such that the optimal delivery route can be decided (rather than lack of maturity of the project forcing a decision on the incumbent delivery route). Where there is a need for the TO's to take on project development activities, these should be carefully considered to ensure there is no conflict of interest where TO's can influence when or which projects are able to be tendered.

The identification of projects for competition

The consultation includes an initial prioritisation of projects for competition (table 14). We note Ofgem shares some additional factors for consideration in identifying appropriate projects, including the level of maturity, linkages with other key projects, and speed of delivery. We are of the view that the concerns identified should not unnecessarily limit the eligibility of projects for competitive tendering.

As discussed, to support the necessary levels of project maturity it is essential to ensure that those involved in the development of projects are appropriately incentivised to do so quickly, so as not to limit projects abilities to be tendered, whilst also recognising early competition supports innovation in design and delivery. Whether a project is delivered by a third party or the incumbent, the linkages,

³ [Ofgem \(2022\) Early Competition Impact Assessment](#)

interfaces and engineering risks are, in essence, the same. Such challenges exist today, and are effectively managed through a consistent set of requirements in industry codes, such as the System Operator and Transmission Owner Code (STC), which, for example, includes requirements on transmission planning and construction as part of *Section D – Planning and Co-ordination*.

We note in the consultation that Ofgem voices a concern with respect to third parties' ability to secure slots or contracts with the supply chain. However, we would remind Ofgem that all parties are exposed to the same global market, and the delivery times for potential competed projects are sufficiently long to be able to secure future production slots, even with the current elongated supply chain horizons. The formalisation of a competitive tender process will provide greater certainty of when the pipeline of projects will come forward. Together this will support and encourage investment in the supply chain. In addition, it is essential that a level playing field is maintained for either competed or RIIO delivered projects and this will require all to have equal opportunities to access initiatives such as Government backed mass procurement.

Enabling the NESO to engage a more diversified group of transmission companies will bring new ideas, delivery approaches and access to new capital outside of the RIIO companies. A competitive delivery model incentivises a greater focus on delivery. A competitively appointed transmission owner is likely to be almost entirely focussed on delivering the new transmission asset on time and to cost. This is supported by the fact that they will not receive revenue until the asset is operational. Ofgem has been consistent in its view that a competitive process is not expected to lead to delivery delays. In addition, independent analysis of the timelines, in combination with the incentives on parties to deliver on time and the actual historical delivery performance, suggests it is unlikely there is any substantial risk of delay versus incumbent delivery. Where there is an assumption that incumbent delivery would be faster in comparison to competitive tender, this needs to be explicitly explained and justified, to ensure that Ofgem is treating parties fairly and not inadvertently applying an unconscious bias.

For the accepted benefits of competition to be delivered, the NESO must be given the opportunity and support to switch the process on. By switching on the Early Competition process the NESO opens up additional options, tapping into greater capacity, increasing resilience by adding diversity into the delivery of the centralised strategic plan. The NESO competition process will not introduce additional delay in delivery (provided the network development work to inform projects is not delayed) and has stronger incentives for on-time delivery than the RIIO framework. Given we are in an important period of transition in the global race to Net Zero, there is no better time than now.

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

Yours faithfully,



Chris Veal
Director