

RIO-T2 Ofgem Draft Determination Consultation Response

Community Energy Scotland

Community Energy Scotland (CES) is a registered charity and membership organisation with around 400 non-profit community group members across Scotland. Our **vision** is of strong, well-informed and capable communities across Scotland, able to take advantage of their renewable energy resources and address their energy issues in a way that builds a more localised, democratic and sustainable energy system. Our **mission** is to strengthen and empower local communities by helping them to own, control and benefit from their local renewable energy resources, control and reduce their energy costs, regenerate their communities and play their part in the low carbon transition. We aim to work in partnership with community groups and any others who share these aims and wish to build their understanding and capacity to create a more democratic and resilient energy system.

Summary

We have significant concerns that the decisions outlined in Ofgem's draft proposals for RIO-T2 do not strike a safe balance between current and future consumer costs and the climate emergency. Furthermore, we are concerned that the assumptions about consumer costs, which have been used in forming these proposals are too narrow and focus solely on one aspect of consumer bills, rather than considering the impact of energy in wider consumer spending. In our view, there is a real danger that medium- and long-term consumer costs could in fact be higher under these proposals as a result of delays and cuts in infrastructure projects, and Ofgem's draft decisions are failing both current or future consumers. We are worried that Ofgem's approach is short-sighted, risks national and therefore local energy investment and associated job creation, and will further increase the challenges of meeting urgent Scottish and GB net zero targets.

General observations

Owing to the complex and interwoven process for consenting and approving large electricity transmission upgrades, it can take many years or even decades for these to be commissioned after their need is first identified. This has beyond question delayed the deployment of many gigawatts of new renewable energy in the past decade, something which generation developers have reluctantly had to accept. In one case (TORI-137), a relatively simple upgrade, ultimately just involving the installation of new transformers, and requiring no planning consents or wayleaves, has so far taken over 8 years to deliver, and is still not commissioned. Risking further regulatory delay to an already lengthy process is not acceptable. During the next decade the real driver for change will not be from new generation but from new demand – the electrification of transport and heat. Consumers looking to switch to electric vehicles or heat pumps will not be understanding or forgiving if they are told that they cannot do so because the grid – which they already financially contribute to – is not strong enough.

It has long been recognised (since the Stern Report of 2006) that the cost of inaction on climate change will be greater in the long-term than the cost of decisive early action. In the 14 years since

then, action has not been taken at a rapid enough pace. Progress on renewable heat lags well behind and even in areas where there has been substantial change, such as electricity generation, far more could have been delivered had it not been for delays in grid upgrades.

This is entirely material to consumer costs, as renewable energy is increasingly [cheaper than fossil fuels](#). We are concerned this may not have been factored in to the calculations by Ofgem or well communicated to consumer representatives.

Furthermore, the proposals outlined in Ofgem's draft determination risk lumbering consumers with higher energy costs well into the future if transmission upgrades and investment are delayed. If someone is unable to buy an electric car because they can't get a home charger installed, they will be stuck with the higher cost of petrol or diesel for longer. If they don't have connection capacity to install a heat pump, they might be forced to remain on oil heating.

The same issues could also affect those without the ability to invest directly in more efficient equipment. We are already aware of examples of housing associations being unable to roll-out PV or heat pumps across large developments they own due to the cumulative grid impact. This in turn reduces the energy savings their tenants could otherwise have benefited from. These are the unquantified current and future consumer costs apparently not taken into consideration by Ofgem in the narrow review of direct infrastructure costs.

We are also concerned that the level of blanket cuts imposed on the network operators means they are less likely to be able to maintain the more proactive or enhanced stakeholder engagement with consumers, community groups and generators. There has been a notable improvement in their engagement efforts during the RIIO-1 period, but we are concerned that under the Ofgem budget proposals, they may no longer have the same level of resource to maintain and further develop more nuanced or tailored support needed for an increasingly decentralised, locally-balanced energy system, or to deliver important customer-requested tools, such as Customer Hubs and online capacity maps. This is of significant concern; at a time when we need to be enhancing linkages and moving forward strategically to net zero, this seems like a retrograde step.

Another area which gives rise to concern is that the proposed cuts to repair and maintenance budgets are likely to negatively impact on system resilience. During the pandemic, we have already seen the system under strain, requiring new emergency measures such as ODFM to be implemented; much planned maintenance work has also been cancelled to ensure system integrity.

SHET for example has flagged up significant concerns with the methodology used by Ofgem to calculate future R&M costs, indicating that the proposals do not take into account the projected growth in the size of their network – meaning they would have less money to inspect, maintain and repair more infrastructure. By reducing preventative maintenance and stretching the life of key assets, Ofgem must accept responsibility for the likelihood of damaging outages in future. As consumers increasingly electrify their heating and transport, the impact of prolonged outages will increase in the next decade. Refusing critical investment for rare black-start assets such as Sloy is a dangerous move and hence we do not think Ofgem is acting in the best interest of current or future consumers.

The impact of prolonged outages can also severely impact generators, including community-owned assets. SHET have claimed that the Ofgem draft proposals refuse the replacement of assets including transformers over 60 years old which have reached the end of their operational life. If a GSP transformer fails, then even if there is a parallel circuit to enable supply to be maintained for

customers, this will leave connected generators at single-circuit risk. In many cases generators are now connected through ANM schemes or inter-trips and as such they may end up partially or fully curtailed until the failed transformer can be replaced. This type of activity could easily take a year or more. This kind of event risks putting generators out of business and, at best, drastically reduces the revenue which community generators receive for their social aims.

Specific responses

Core Questions

Q21. Do you agree with our overall approach to meeting Net Zero at lowest cost to consumers? Specifically, do you agree with our approach to fund known and justified Net Zero investment needs in the baseline, and to use uncertainty mechanisms to provide funding in-period for Net Zero investment when the need becomes clearer?

We do not entirely agree with this approach, partly for the reasons outlined in our general observations above; the Ofgem interpretation of ‘lowest cost to consumers’ doesn’t fully consider wider energy-related costs to consumers now or in the future, and in our view there is a clear financial (as well as environmental) imperative to act quickly on Net Zero.

There is a real problem with the uncertainty mechanism and in using ‘reopeners’; this will take up time – even if Ofgem propose to simplify the process - which we simply don’t have, both to meet our climate obligations and to meet rapidly-changing consumer demand. It also risks difficulties in securing the timely additional private investment which will need to go alongside the public funding proposed by Ofgem. This in turn could jeopardise connection dates for community and private generators with CfD or planning deadlines to meet.

This is well exemplified by the ongoing uncertainty over the Western Isles Interconnector. It has been recognised since the turn of the century that a new link is required here, and yet there is still not approval for the upgrade to go ahead. A 600MW link was proposed by SHET on the basis of contracted and likely future demand, but Ofgem rejected this, instead suggesting they might support a 450MW link. The difference in cost between the two options is just 5%. This kind of cost-cutting is short-sighted for a number of reasons; firstly, it further delays the roll-out of new renewable generation, and the resultant cost benefits for consumers; secondly, it fails to future-proof the link, exposing customers to the far higher potential costs of building a further link in the future to allow for generation in excess of 450MW; and thirdly, extending the uncertainty and delaying the link further greatly increases the likelihood of the whole project being cancelled as developers are forced to pull out. In the period since the Western Isles Interconnector was first proposed, generators have seen the ROC and FIT schemes come and go; the CfD scheme materialise, then be withdrawn for onshore wind, then return under the Remote Island Wind pot; many are now at risk of missing their CfD deadlines due to the ongoing stalemate with Ofgem. There is no clear joined-up thinking around the support and regulatory systems – a strategic and coordinated approach is desperately required. Whilst the Western Isles Interconnector is subject to a separate approval process to RIIO-T2, it provides a clear example of why timely and strategic investment is required and will save consumers money in the long-term. Building capacity ahead of contracted demand is highly likely to be a ‘no-regrets’ or ‘low-regrets’ investment; if capacity is available, it will attract development.

Q23. Do you have any views on our proposed approach to a Net Zero reopener?

We are concerned that the design of the uncertainty mechanisms is likely to result in onerous processes which will cause further delay to vital infrastructure needed on both the generation and demand sides to meet our net zero commitments. Flexibility is welcome given the ever-evolving policy context, but more clarity is required on the design of the specific Net Zero reopener. We would echo the views of Scottish Renewables in calling for more frequent meetings of the Net Zero Advisory Group.

Electricity System Operator Questions

ESQ30. Do you agree with the level of proposed NIA funding for ESO? If not please outline why.

No; this is a very substantial cut in the funding requested, at a time when innovation in our transmission system is vital to meeting our net zero targets. We also believe that the 2-year period indicated is too short for (often complex) initiatives to be trialled; 5-year funding periods, in line with those available to other network companies, would be more appropriate.

ESQ31. Do you agree that ESO's NIA funding should be subject to the condition that all projects must involve partnership with other network companies, third party innovators and/or academics?

Yes, this is sensible. We are also very keen for community-based organisations to participate wherever possible, as their role in the electricity system is likely to be key in the future, both in provision of aggregated flexibility services, and in acting as a trusted local intermediary between energy system participants and consumers.

Electricity Transmission Questions

ETQ10. Do you agree with our proposed eligibility criteria for the LOTI re-opener and do you agree with the assessment stages, and their associated timings?

We have serious concerns about this process; the LOTI reopener is proposed to replace the current Strategic Wider Works process, which at present allows for TOs to apply at any time, with a decision potentially within 6 months. Under the LOTI proposals, decision making could take up to 30 months; this is an unacceptable delay in the current climate. As highlighted in our response to Core Question 21, in relation to new investment such as the Western Isle Interconnector, these timings would not align well with the CfD timescales and could jeopardise the whole link from going ahead, and with it significant new generation – including 84MW of potential community-owned projects currently in the pipeline.

NGET Questions

Q3. Do you agree with our proposal to reject the Accelerating Low Carbon Connections ODI-F?

We understand the concerns Ofgem has with this proposal by NGET, since they should be prioritising the timely connection of new renewable generation in any case; however, there could be ways to avoid gaming of the system, for instance by gaining agreement for any genuine acceleration with the connecting customer, and/or through validation by a 3rd party. In principle, incentives to accelerate new connections should be supported.

Q4. Do you agree with our consultation position to reject the 'RIIO-T2 System Outage Management Proposals to Reduce Constraint Costs'?

No, we have concerns about this, which also apply to the proposals made by all TOs and the ESO. Outages for existing generators are extremely costly both in carbon and economic terms. They disproportionately affect community generators in the Western Isles and other areas of weak network where the failure of one link can result in generation being switched off for months. Effective incentives could for instance encourage SSEN to prioritise finding a way to enable the local generators to remain operating, running in parallel with their diesel power stations whilst the Western Isles network is islanded. This already happens in other parts of their network (such as Islay) but is not permitted in the Western Isles. An effective incentive would not only reduce losses for the embedded generators, but would also disproportionately save carbon, by displacing highly polluting diesel generation during these periods.

SPT Questions

SPTQ3. Do you agree with our proposal to reject SPT's bespoke ODI-F at this time? Reject: Additional contribution to the low carbon transition ODI-F

We are concerned at this rejection, because it may impact specifically on engagement with community groups. We note the view from Ofgem that engagement with local energy groups should be considered business as usual in RIIO-T2, but ultimately if there is not funding to carry out this engagement, it may not happen (or not to the same degree). In our view, community groups are going to have a pivotal role in the energy system during the next decade, and having strong links between the network operators and local groups is therefore essential.

We are also disappointed that the ODI-F proposed for Black Start Resilience of Communities in Vulnerable Circumstances has been rejected. As heat and transport become increasingly electrified over the next decade, network resilience will become even more important as the social and health impacts of prolonged blackouts will be even more significant than at present. This is an area which needs investment.

SPTQ5. Do you agree with our consultation position to reject the "RIIO-T2 System Outage Management Proposals to Reduce Constraint Costs"?

No – see response to Q4 in relation to the NGET proposals for the same.

SPTQ7. Do you agree that SPT's bespoke Net Zero Fund should be included in RIIO-ET2?

We strongly support this proposal; the Green Economy Fund has been a great success and has provided a very valuable source of non-public match funding for community energy initiatives, including our own Community Energy Futures training programme. However, we are disappointed that an equivalent funding pot was not approved for SHET; this geographic disparity is not in the spirit of a just transition to a net zero future.

SPTQ10. Do you agree with our consultation position to accept the maximise benefit from non-operational land CVP?

Yes, this is very welcome and a valuable opportunity, especially for community groups in urban areas which have traditionally been less likely to own local land and assets. We strongly support the proposal, and suggest that the land could also be made available for local community EV charging hubs (which will particularly make sense where the land is adjacent to substations).

SHET Questions

We are disappointed at the rejection of the CVPs for local and community energy policy, and the Science Based Target. Electricity networks have a key role to play in the development of Local Area Energy Plans to ensure a timely, coordinated and strategic approach is taken; this should be encouraged. It is vital that all networks move towards implementation of the Science Based Target; the exact means by which this is funded is for SHET and Ofgem to agree, but action should be supported.

Q3. Do you agree with our consultation position to accept the proposed SHET subsea cable reopener?

Yes, this is important for network resilience, and could help minimise the losses suffered by community generators that suffer outages due to unforeseen subsea cable faults.

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