

By e-mail: RIIO2@ofgem.gov.uk

1 October 2020

Dear Sir / Madam,

RIIO-ED2 METHODOLOGY – SOUTH OF SCOTLAND CONSULTATION RESPONSE

I write in response to the above consultation, on behalf of South of Scotland Enterprise. The opportunity to comment on Ofgem's proposed methodology for the RIIO-ED2 period is welcomed, recognising that it will have a significant bearing on our ability to implement a just and economic transition for our region.

South of Scotland Enterprise Agency

South of Scotland Enterprise (SOSE) is the new, dedicated economic development agency for the South of Scotland. Our aim, as enshrined in statute, is to further the sustainable economic and social development of the South of Scotland, and to improve the amenity and environment of the region.

Energy – a Strategic Priority for the South of Scotland

Whilst development of SOSE's first strategic 'Action Plan' is ongoing, energy has already been singled out as a key strategic opportunity for the region. This reflects that the South of Scotland has substantial land and energy resources of national as well as regional interest, with significant potential to be a catalyst for green growth and green jobs.

Of note is that the region, along with the adjoining English regions of Cumbria and Northumberland, has a collective vision via the Borderlands Partnership and associated Borderlands Inclusive Growth Deal to have a strategic whole systems approach to energy and to be the first zero carbon region of the UK. UK Government will be investing up to £31 million within the region, subject to business case approval, on local feasibility and demonstrator energy projects to be delivered by a Borderlands Energy Investment Company across the coming decade.

Similarly, the Indicative South of Scotland Regional Spatial Strategy, in looking ahead to 2050, recognises that the region is a significant generator of renewable energy and establishes Energy as one of five strategic themes. The strategy highlights that increased renewable energy generation, storage and transmission would benefit the region and Scotland and could be a significant catalyst for wider investment and supply chain growth. The emerging Regional Economic Strategy is equally likely to recognise investment in energy and the transition to net zero as a major and catalytic growth opportunity.

South of Scotland Energy Transition Group

To ensure a proactive and co-ordinated approach to maximising energy related opportunities and to better understand, respond to and accelerate key aspects of the required net zero transition response, SOSE established, in June 2020, a South of Scotland Energy Transition Group. Chaired by Jeremy Sainsbury OBE, as a SOSE Board Member, the group brings together:

- Dumfries and Galloway Council
- Dumfries and Galloway College
- Local Energy Scotland
- National Grid (ESO)
- Nature Scot
- Scottish Borders College
- Scottish Borders Council
- Scottish Government – Just Transition expertise
- Scottish Government – Grid expertise
- Scottish Power Energy Networks
- Skills Development Scotland
- South of Scotland Enterprise Agency

The Group also calls on expertise from contributors on specific specialist topics, for example the Strathclyde University modelling used to map demand scenarios in the South of Scotland.

The Group has been tasked with looking ahead to 2045 and making recommendations on a strategy to enable energy related ambitions to be realised. A key focus of the Group is on exploring the practicalities of a just transition for consumers in rural Scotland, with a specific emphasis on the South of Scotland region and hence the administrative areas of Dumfries and Galloway and Scottish Borders Councils. This has entailed looking at what needs to be achieved to allow for the roll out of Electric Vehicles across the region and the electrification and decarbonisation of heating homes and premises (noting there is no gas option across the majority of rural Scotland). Understanding how the required just transition can be delivered in the most efficient and cost effective way is at the fore of the Groups thinking.

The Group has attracted the attention of Scottish Ministers including Fergus Ewing, the Cabinet Secretary for Rural Economy and Tourism. It also has support from key Scottish Government departments.

Early Conclusions of the Energy Transition Group

The Group would very much welcome the opportunity to meet and more meaningfully engage with Ofgem to share its findings and the emerging evidence which underpins them. In the interim however, the Groups early conclusions can be summarised as follows:

1. An incremental approach to enhancing the network is likely to be inefficient and costly and not deliver consumer satisfaction. Consumers are for example likely to grow frustrated if they have to wait and postpone embracing electric vehicles or in decarbonised heating solutions. An incremental approach would also be unlikely to result in reasonable supply chain growth and jobs, given the absence of certainty and hence market confidence to train people, invest in equipment and efficiency.

In contrast, a strategic approach guided by an overarching vision, with the network designed by the DNO\DSO, is likely to lead to a much smoother transition. Importantly it would create strong investment signals to support the development of a strong and potentially local supply chain, creating jobs and delivering a more efficient final outcome.

2. A strategic decision needs to be taken (nationally as opposed to just for the South of Scotland) to decide if we should be creating a distribution network to satisfy demand for Electric Vehicles and the electrification of heat combined, or whether a system which will only facilitate both Electric Vehicles and heat if managed on a constraint basis. From work the Group has done, in concert with Strathclyde University and Scottish Government, the difference in Dumfries and Galloway alone would lead to an additional peak demand of several hundred MW.

The former has the benefit of allowing consumers to choose when they consume and hence following price signals. In addition, it also allows for the widespread deployment of smart and disruptive technologies to allow the DSO and ESO to manage peak flows, leading to a reduced need and therefore build out of the transmission network. Enabling investment in the right networks now has the added advantage of affording long term flexibility, providing infrastructure which would enable not stifle innovative and disruptive technology to deploy enabling maximum consumer choice. This approach does mean more investment in the Distribution network, but if structured properly it would be easier to do at shorter notice and therefore be more responsive to need, than developing more transmission capacity.

A lower capacity network would lead to the DNO/DSO controlling the network to manage demand and only supply consumers when the network was available regardless of price. This will lead to long term inefficiency of price signals, as network constraint would dominate time of use. In addition, the network would not be able to absorb as much capacity from the transmission network at times of peak generation and be less capable of accommodating smart and disruptive technologies, leading to a need to build more transmission network at potentially greater cost, with longer lead times.

It must also be recognised that the roll out of Electric Vehicles and decarbonised heating are on two different timescales and whilst it will therefore be difficult to coordinate the two, the network and associated systems need to be fit for purpose for both when initially upgraded. This will need intelligent solutions and some anticipatory investment.

3. The network of the future is one of three main key pre-requisites to economic development in rural areas. It therefore needs to be recognised that the just transition to a greener economy will entail looking differently at the electricity network; understanding that cheap reliable electricity is one of the corner stones to economic growth and job creation in the future economy. Rural Scotland does not want to be left behind. Cheap electricity and a stable secure network are key to any future industrial strategies, capitalising on locations which offer ease of access to green and cheap electricity.
4. The timing of this review does not exactly help the strategic planning needed to deliver the most efficient outcome. The Scottish Government is currently working with Local authorities on National Planning Policy Framework 4 (NPF4). This combines the Councils 10 year spatial strategies with the Governments core needs case, to set the structure for planning and development up to 2030. The plans will not be published until early 2022, but the consultations and planning have started now. A major part of this planning is around meeting climate change goals efficiently and creating a just transition for communities and consumers in rural areas and cities.

It is clear that one size does not fit all, and different solutions are required in rural Scotland compared with the city. Local authorities are working with SP networks to produce logical strategic plans. Examples are allowing the upgrading of 11kv networks to 33kv where needed, and the conversion of pole mounted sub stations to a more suitable ground mounted alternatives to deal with the new increase in demand. Can Ofgem please allow SP the expenditure needed to complete this planning and then the flexibility to look again at the needs' cases for investment in RIIO ED2? This process will lead to a more comprehensive plan of what is needed where and when. The current re opening of RIIO ED 2 is too restrictive and slow to facilitate an efficient least cost solution to the scale of the change needed.

5. As a solution to the practical issues of a just transition, it would seem prudent for Ofgem to allow SPEN to work with regional Councils in their respective areas for the electrification of rural Scotland. Importantly allowing anticipatory expenditure to permit enhancements and upgrades to happen where EV and heat pump roll out are out of sync but clearly needed.

One of the benefits of working with regional Councils is they are prepared to create a structure plan approach to the development of the new network. This would support a properly resourced and streamlined planning process which would be hugely beneficial in terms of the time and costs associated with getting consent. SPEN could then efficiently and quickly consent new infrastructure and deploy assets. This would be both flexible and lead to reduced consumer frustration. It is highly likely that the Governments will prevent the buying of fossil fuel heating systems by 2025 and bring forward the end of new diesel and petrol car purchases to 2030. These will clearly start tipping points, where large numbers of consumers

will change behaviour quickly. The RIIO ED2 system has to be able to respond to these changes and be dynamic enough to allow needs cases to evolve.

The group believe (as recognised by Ofgem) that transitioning to net zero will lead to an increased demand for electricity as people switch to a cleaner source of energy and act to decarbonise heating their homes and premises. They further concur that the electricity distribution networks will be at the forefront of the changes needed to support Net Zero, and a failure to get this right now, particularly for rural areas, will see them disproportionately disadvantaged and left behind for some years given the RIIO ED2 period runs until 2027. Specifically, it will create barriers to the uptake of Net Zero technologies, result in supply chain and skills shortages consequently resulting in longer lead-in times for network investment, and risk widespread grid constraints with consequential risk of supply interruption, and or additional costs in managing the problem before a solution can be designed and funded.

It is not considered that the transition to a greener economy in rural Scotland (although the point is equally applicable to much of the rural UK) has been properly analysed from the point of view of the practicalities of creating a just and economic transmission for consumers. In response, and building on modelling work already undertaken, the Energy Transition Group is looking to take forward a small number of strategic practical examples, as demonstrators, for a range of typologies of different settlements across the South of Scotland. We would welcome Ofgem's input in the implementation of these demonstrators to ensure everyone gets the most value from the findings.

In conclusion we trust that the above is of value to Ofgem and alongside other responses helps inform future thinking and the next steps of the process. Individual members of the Energy Transition Group are keen to submit letters in due course, corroborating the work of the Group and reaffirming the emerging conclusions. Partners across the Group would welcome the opportunity to meet with Ofgem as part of the process and are confident Ofgem would find the work of the Group useful in understanding the real and practical differences/ challenges faced in rural energy networks, as they transition to a clean energy future.

We look forward to hearing from you regarding future engagement.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Russel Griggs', enclosed within a hand-drawn oval.

Professor Russel Griggs OBE
Chair
South of Scotland Enterprise