

Email to:
FutureNetworkRegulation@ofgem.gov.uk



31 October 2022

To whom it may concern,

Scottish Renewables response to the open letter on the next network price control review process

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change. Our members work across all renewable energy technologies in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

Scottish Renewables welcomes the opportunity to provide our view on this letter. We have responded to your individual consultation questions further below, but in summary, we would like to draw your attention to the following points:

- We agree with the need for an updated network price control and believe that the new approach needs to support strategic anticipatory network investment, in line with the pace of renewable deployment needed to meet the UK's legislated net-zero target. Speedy and strategic anticipatory investments in networks are essential to support the electrification of heat and transport and the unprecedented level of renewables the system will require in the coming years.
- An updated regulatory framework needs to support the delivery of net-zero at the best value for customers, with a process that shares the risk with all market participants.
- An updated regulatory framework also needs decisions to be made in a faster and more coordinated manner. It should allow innovation and encourage the use of flexibility in the system.
- Finally, we have identified that supply chain uncertainty would become a major risk for the deployment of infrastructure in the coming years. Therefore, it would be important to devise an approach that accelerates network build and gives Transmission Owners (TOs) upfront certainty to deliver investments on time.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Angeles Sandoval".

Angeles Sandoval
Policy Manager | Grid & Systems

6th Floor, Tara House, 46 Bath Street,
Glasgow, G2 1HG
☎ 0141 353 4980 📧 @ScotRenew
www.scottishrenewables.com

Scottish Renewables Forum Limited.
A company limited by guarantee in Scotland No.200074
Registered office: c/o Harper Macleod,
The Ca'd'oro, 45 Gordon Street, Glasgow G1 3PE

Questions

- 1. Do you have any views on the strategic issues we must consider in the development of the next price control review process?**
- 2. Do you have any views on the case for change we have outlined?**

We address these two questions collectively:

We believe the main challenge to consider is that the current methodology used to assess which infrastructure projects should go ahead is not keeping pace with the deployment of renewable generation needed to meet the UK's legislated net-zero target. Electricity networks are already experiencing a lack of anticipatory investments, which is leaving low-carbon projects without enough access to the grid, with a queue management problem difficult to overcome in the short term. This issue also leads to significant increases in network constraint costs, which are borne directly by consumers.

Constraint costs are expected to increase significantly in the next decade. According to NGENO forecast, constraint costs are expected to rise from £0.5bn/year today to between £1bn and £2.5bn/year at a maximum before they reduce again at the end of the decade when new major transmission investments come online. This would not have been a problem if enough investment in networks were made in the last 10 years. The transmission and distribution network price controls represent only around 4% and 16% of a consumer's electricity bill¹. Therefore, there is a lack of a strategic approach to balance network investment with the increased level of constraint costs. The UK committed to reducing greenhouse gas emissions in the 2008 Climate Change Act, 14 years ago, so the growing number of low-carbon technologies that demand electrification is not a surprise.

The future energy system needs to become smarter and more flexible, but it also needs to deliver the infrastructure required for the increasing pace of transformational change. We agree with Ofgem about the need for whole-system optimisation and believe that an updated network price control is necessary. The growing proportion of investment activity requires decisions to be made in a faster and more coordinated manner.

In this context, we believe that a more strategic approach to Anticipatory Investments (AI) is essential, and an updated regulatory framework should promote this. Strategic AI is important to meet our carbon reduction commitments and provide a reliable and sustainable grid infrastructure at the best value for customers. In the recent RIIO-ED2 draft determinations, we identified that the current proposal puts the speed of connections required for low-carbon generation at risk. This needs to change to enable the speedy connection of low-carbon technologies such as renewables, heat pumps, and EVs, in line with our energy decarbonisation goals.

In the case of Scotland, the nation has the target to achieve net-zero by 2045 and phase out new petrol and diesel cars by 2030. Additionally, the Scottish Government has the ambition to increase the zero carbon heating system installations up to 200,000 new systems per annum in the late 2020s. This means that the country will experience significant demand for electricity, but there is

¹ Ofgem. Price Control explained. [online] 2013. Available at: https://www.ofgem.gov.uk/sites/default/files/docs/2013/03/price_control_explained_march13_web.pdf

also an opportunity to accelerate electrification and optimise the use of the existing renewable energy surplus. A strategic approach is essential for whole system optimisation.

We also agree with Ofgem on other issues mentioned in the letter, such as supply chain uncertainty. Stakeholders have identified that supply chain uncertainty would become a major risk for the deployment of infrastructure in the coming years. Therefore, it would be important to devise an approach that accelerates the speed of network build and gives the Transmission Owners (TOs) upfront certainty to deliver the investment needed by 2030. Otherwise, they will face difficulties mobilising the supply chain to deliver the work on time.

Another issue is that new sources of power will be developed in different locations and there is regulatory uncertainty on the future of market arrangements. i.e. the potential implementation of Locational Marginal Pricing (LMP) would require considerable changes to the electricity wholesale market arrangements, and to how market participants interact with one another. This could potentially threaten transmission build in GB.

Finally, changes in decisions on the price control process are important for setting TNUoS tariffs. Currently, there is little notice of changes in the tariffs due to modifications in the RIIO process, and developers would welcome advanced notice on how tariffs will be affected. We understand that this may be considered a developer-specific issue, however, given the growing regulatory uncertainty in the whole energy system, “certainty” is essential to ensure the optimal function of all market participants.

- 3. Do you have views on whether the changes to the electricity or gas sectors mean we should consider alternatives to the approach taken in the RIIO-2 price control?**
- 4. Are there any broad frameworks or options that you think we should consider, including variants and alternatives to those we set out?**

We address these two questions collectively:

We would like to note that studies suggest that the current RIIO framework represents an improvement of the previous RPI-X regime. Great Britain was one of the first countries to implement a high-powered regulatory regime for its energy networks, and over time other European countries have adopted similar approaches²³. The current RIIO sets an ex-ante revenue control that provides incentives to minimise costs and contains elements to sharpen incentives to deliver network services and outputs.

Given the quality of the current RIIO framework, we think it is worth keeping some of its principles, such as the incentives to minimise costs and the elements that encourage the delivery of network services and outputs. However, we also believe it needs updating and strengthening as we are facing challenges we did not have 9 years ago when it was implemented. This includes net-zero, an increasing level of digitalisation, and the need for a smarter and more flexible system.

² NERA ECONOMIC CONSULTING. Reflections On the Successes of RIIO And the Scope for Future Improvement. [online] 2016. Available at: https://www.nera.com/content/dam/nera/publications/newsletters/energy-regulation-insights/NL_ERI_Issue_42_0116.pdf

³ Frontier Energy Economics. The Regulation of Energy Networks. [online]. <https://www.frontier-economics.com/media/3261/out-of-step-energy.pdf>

The letter proposes 4 possible high-level options for the development of an updated framework, and we do not favour any of these as we believe more information is required to assess each proposal in more detail. Instead, we propose a 5th alternative option:

Updated network price control

We believe that an updated RIIO regulatory framework should be simpler, as currently, it is resource-intensive for all parties. It may be worth keeping some of the principles of the current ex-ante process, but more importantly, it should be updated to address the challenges we described in our answer to Q1 and Q2.

Some of the elements that an updated RIIO framework should consider are:

- Strategic anticipatory investments ahead of need.
- A process that supports the delivery of net-zero at the best value for customers.
- A faster and more coordinated process.
- An approach that accelerates the speed of network build and gives the TOs upfront certainty to mobilise the supply chain and deliver the investment needed on time.
- A process that allows innovation and encourages the use of flexibility in the system.
- A process that shares the risk with all market participants. Mirroring the allocation of AI risk that is being taken under the early opportunities work stream of the Offshore Network Transmission Review (OTNR).

Furthermore, we think Ofgem would benefit from a change to its legal remit to formally include net zero. This change to Ofgem's legal duties will better enable Ofgem to make long-term strategic decisions regarding the delivery of net zero at the best value for customers.