

Email to:

Thomas.Johns@ofgem.gov.uk

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Dear Thomas,

Response to the Early Competition in onshore electricity transmission networks: policy update consultation

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 360-plus 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 respond to Ofgem's consultation on its policy update on Early Competition in onshore electricity transmission networks. While we support competition when it benefits the consumer, we are urging Ofgem to consider the longer-term risks that could conflict with the current national direction of urgently moving towards a strategic and holistic energy system.

Bearing in mind Ofgem's statutory duties to protect consumers, the benefits of early competition must be weighed against the risks to achieving net-zero and sustainable growth. The Electricity System Operator's (ESO) recent publication of 'Beyond 2030'¹, also known as the Transitional Centralised Strategic Network Plan (TCSNP) reiterates the scale and urgency of the challenge of timely transmission development. We would highlight the misalignment between the closing date of this consultation and ESO's publication. Undertaking a competitive process to select a preferred bidder (PB) is a naturally longer method, regardless of additional timescales required for changing relevant legislation and eventual contract negotiation. With the first round of Competitively Appointed Transmission Owner (CATO) projects due to be appointed this year, there remain numerous unanswered questions. If ultimately considered appropriate, any process changes to competition must prioritise avoiding delays in scheduled transmission delivery.

¹ [Beyond 2030 | ESO \(nationalgrideso.com\)](https://www.nationalgrideso.com/beyond-2030)

Alongside delivery is the question of longer-term security of national transmission assets. Compared to Offshore Transmission Operators (OFTOs) that can be localised to a single wind farm generator, the maintained operability of onshore transmission has a far wider reaching effect on the system, and thus, presents a greater integral risk to the security of the network. The early competition process needs to ensure those competitively awarded transmission asset contracts have the expertise and financial capital to operate and maintain the asset over the long term, likewise for initial delivery. Failure to do so could result in higher costs for consumers than with the incumbent transmission owners (TOs) and a significant threat to the network with, at worst, outages. Ofgem should take heed of the lessons learned through the process of early competition within the OFTO regime (OFTO Build) but also recognise the significantly different contexts within which these bodies operate in its design for onshore networks.

Introducing a process by which the development, operation and maintenance of national infrastructure becomes more fragmented seems counterintuitive to the national shift towards holistic planning on the energy system. However, there may be added value in admitting additional capacity to the current TOs to allow the latter to focus on major connecting projects, while smaller operators tackle niche and small-scale projects, if executed with greater efficiency. To avoid risking the system's operability as a whole, strategic oversight of the network must be maintained, ideally through organised coordination between CATOs and incumbent TOs. However, what is unclear when considering the national outlook is that the early competition process is set to explicitly misalign with the national 'Beyond 2030' 2026 start date as the first CATO auction is to be held during 2024. Scottish Renewables is looking to Ofgem for a more comprehensive and detailed justification of their decision to continue with this course of action.

Scottish Renewables is however interested in exploring all options which support the timely delivery of essential national infrastructure. The TOs have an unprecedented and extremely challenging job ahead of them and will need to work collaboratively and find new ways of delivering. This might include new contracting structures, expansion of the contestable regime at transmission, and other options that allow efficiencies to be introduced without the wholesale reform and fragmentation of the network that CATO could represent.

Please find further details on our concerns and objections to specifics within the consultation below.

Entry and licensing requirements for the Competitively Appointed Transmission Owner (CATO) regime

Ensuring CATOs are robustly equipped to deliver not only the construction of an asset but its continued maintenance and operation is of national importance for the purposes of energy security and net-zero. Scottish Renewables supports the idea of Ofgem introducing rigorous financial viability checks, as well as requiring CATOs to evidence demonstrable capacity to deliver and their relevant expertise. Screening should be conducted before the eventual bidding process to avoid delays and should recur throughout the asset's operating lifetime. CATOs should be held to the same Good Industry Practice standards as the incumbent TOs if Ofgem is to fulfil its consumer protection obligations.

With regards to licensing of the new CATOs, it is within Ofgem's remit to consider how new entrants will be assessed as meeting the standards of criteria for a relevant licence and how they will be robustly regulated and supervised by Ofgem. Designing appropriate regulation for successful bidders is vital to ensuring the network is held to certain standards. However, affording the necessary amount of time required to develop sound and considered regulation adds to the cumulative risk of delays to eventual network delivery with the implementation of early competition.

A further consideration that needs to be clarified will be bidding costs, or the true cost to compete for new entrants and how this can be incentivised to ensure that sufficient bidders are attracted. The cost to compete for a CATO project compared to an OFTO will be substantial and the OFTO regime has struggled to maintain a significant number of active bidders for these very reasons. One suggestion would be a very clear pipeline of projects to show the benefit of developing a team of people with the correct skills wrapped in the correct governance and funded to the correct level.

CATO of last resort and end-of-life processes

Furthering the point of safeguarding energy security, Scottish Renewables is supportive of Ofgem's requirements for successful bidders to have thorough intervention plans in the case of unavoidable performance and/or financial issues jeopardising an asset. However, the idea of introducing competition to a CATO of last resort (CATO OLR) could prove inappropriate considering the time and financial resources required to undertake such a process. The partial or entire failure of a CATO presents a significant threat to and reduction in energy security, with likely financial repercussions. As such, the situation would call for an urgent replacement, the swift appointment of which would not be complemented by a competitive process. Ofgem should reconsider its stance on this bearing in mind the risk of wider detriment to the consumer.

Another suggestion is the pool of CATOs of last resort should be extended to OFTO owners who are also 'Transmission Owners' and have a track record of operating transmission assets in a competitive environment.

Assuming the CATO does not encounter any asset-threatening issues during its lifetime, the process assumes a fixed-term revenue period of thirty-five years. Necessary regulation is needed to ensure that infrastructure is designed to be long-term and that CATOs maintain assets to a serviceable standard up until the end of their licensing agreement, which would allow for future return on the asset, should it be taken over. An assessment of due diligence prior to recovering an asset would also incur costs, which should be considered. Adequate financing that accounts for the maintenance or decommissioning of an asset should be included within a competitive bid offer. Ultimately, Ofgem should install mechanisms that prioritise the security and resilience of the network with consumer cost being a key consideration informing this.

Cost recovery for CATO assets

It does appear to make sense to recover CATO revenues through TNUoS, but we need to carefully consider how to treat CATO assets in TNUoS charging. There are concerns about allowing organisations with low capitalisation to operate critical infrastructure for the energy security of Great Britain and if we decide to go ahead with this, it would be essential to ensure that these companies remain financially viable. This can be done by allowing them to recover their entire annual revenue requirement, regardless of whether they over- or under-recover in TNUoS.

However, it should be noted that TOs are exposed to volume risk with no control over the assumptions used in setting the tariffs that will underpin TNUoS collection. It would seem inappropriate to set tariffs for CATOs by the same means as under the OFTO regime – to do so would result in radically different treatment of CATO assets in charging compared to their TO-owned counterparts. This would likely create a secondary locational signal that would distort the signal achieved through the wider TNUoS charge.

At present, much of the annuitized cost of an OFTO asset is collected through the local offshore TNUoS charges from the specific offshore generator that is connected to the asset. Local onshore charges are calculated very differently – based on historic average network construction costs, rather than ones specific to the line in question.

If CATO assets were to be charged on the same basis as OFTO assets, with charges relating to the specific costs of the asset, this could create an uneven playing field. Where CATO assets cost more to construct than the historical average (and so charges for CATO

assets were higher than their TO-owned counterparts), generators would be driven away from a location, and conversely, where CATO assets were less expensive than the historical average, generators would be incentivised to locate there. Charging CATO assets on the same basis as their TO counterparts is a logical solution to this risk.

Ofgem's impact assessment

The concept of a draft Impact Assessment informing whether to progress the process for Early Competition is key. However, the substance within Ofgem's assessment is inadequate to accurately inform and justify the continued pursuit of work in this area and ultimately the added benefit to consumers. The ESO's updated Cost Benefit Analysis (CBA) methodology remains flawed through the continued use of unrealistic assumptions informed by inappropriate benchmarks. Scottish Renewables would like to see a revised version of the document that goes significantly further in providing substantive evidence to support the decision to expend further time and resources developing early competition.

In summary, the introduction of early competition may have a place alongside the current context of energy and network reform, but the current timeframes do not allow for lengthy processes of appointment that require new regulation. Therefore, a well-designed and structured process, for unique or specific transmission projects only could provide additional financial and resource capacity to the existing constraint onshore transmission owners to ensure the overall timely delivery of the CSNP. The next output from this consultation should therefore be a detailed delivery plan and regulatory framework which all key stakeholders can agree is the most optimal way to foster co-existence of CATOs and existing TOs.

As Ofgem seeks to streamline the energy system elsewhere, e.g., code modification, it seems illogical to continue exploring early competition in onshore electricity transmission networks. If early competition is to be pursued further, significantly more high-quality evidence needs to be brought forward to illustrate substantial benefits outweighing the high potential for risk to climate targets and national energy security.

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

Yours sincerely,

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Scottish Renewables