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Citizens Advice's response to Ofgem's consultation 'Accelerating onshore electricity transmission investment'

Dear Ofgem,

Thank you for the opportunity to respond to the consultation on accelerating onshore electricity transmission investment to support the target of 50GW of offshore wind by 2030.

We welcome the intentions of the proposals and the initial quantitative analysis that indicates that the net benefits to consumers would be between £0.5bn and £2bn.

The proposed activity will highly depend on having a well-integrated approach from Transmission Operators (TOs), Ofgem and the government to coordinate efficient development processes with clear signals to supply chains and network users. If this is not achieved the new renewable generation expected to be connected in 2030 *"will not be able to do so in a full and safe manner"*. Then *"even if some generation can be safely connected to the onshore transmission network, there may be boundary transfer capability constraints elsewhere on the system which means that the electricity cannot be safely transmitted to where it is needed. This could lead to a substantial increase in constraint costs being paid to generators and passed on to consumers' energy bills."*

We think this is correct and as a result, it is vital that Ofgem view net zero objectives as firm, legally binding targets and it does what is within its purview to deliver on the best view of necessary infrastructure at a reasonable cost to consumers. This means prioritising the avoidance of the most significant system costs consumers are exposed. We do not see Ofgem's approach as cautious to consumer risk, there appears to be a significant risk of delay to transmission projects that deliver a clear benefits case.

We recognise that Ofgem is waiting for BEIS to facilitate planning and market reforms that will provide greater confidence in transmission delivery and utilisation, however, we think it will not be feasible for Ofgem to wait for or second guess these deliverables.

Planning regulation and market reform

The scale of constraint costs caused by insufficient transmission capacity is a huge risk to consumers, which will continue to add many billions of pounds to energy bills as the GB energy system struggles to adapt to ambitious offshore wind targets. The scale of build and current barriers means that there appears to be low confidence on if and how the 10 transmission projects (with a combined cost of £10.6bn) that are perceived as required for 2030 can actually be delivered with the proposed expedition process in this consultation.

Achieving the stated aims will likely require a joined-up approach between planning and regulatory approval and a strong Ofgem commitment to a less restrictive development approach for a clearly defined range of developments.

Many of the delays facing transmission projects are at the planning stage and we expect to see significant reforms from the Government to facilitate transmission development and manage the stated generation targets. The proposals that Ofgem are considering have a larger benefits case with this reform because the transmission investments will be well utilised and less likely to be subject to external delays. As Ofgem state: *“progress made on reforms to planning regimes in GB will have a material impact on the TOs’ ability to deliver on time”*.

We are aware that the Review of Electricity Market Arrangements (REMA) has the potential to reduce the necessary spending on network reinforcement and generation capacity. Yet we think that the timescale for such a recommendation will be at a late stage to significantly alter energy scenarios in the late 2020s and therefore transmission development plan requirements.

Incentives

We want to see the activity outlined in this consultation as divorced from the standard approach to transmission network approval and funding. It represents a discreet scope. It is an opportunity for transmission networks to significantly grow their RAV. As outlined in our response to the ED2 Draft Determinations consultation: this growth opportunity does not itself represent a risk to returns¹.

What will represent additional risk is the necessity for *“clear and binding commitments”* and the exposure to penalties for non-delivery particularly if these are reflective of constraint liabilities. It does not seem sensible to apply a large scale of risk on TOs. The determinants of an investment's worthiness and focus from a network's perspective is claimed by network companies to be impacted by small shifts in allowed returns. Above a level at which an incentive delivers sustainable investment it is inefficient and costs consumers unnecessarily through reward or company exposure to penalties. As a result, we favour setting incentives whether linked to constraints or not, that are

¹ [Citizens Advice \(2022\) response to the Ofgem RIIO-ED2 Draft Determinations Consultation - Finance Questions](#)

proportionate to existing network incentives. We support Ofgem's approach not to remove all risk of stranded assets or wasted expenditure.

Urgency of approach

Given the urgency and the scale of the issue of transmission delivery speed we question whether Ofgem has taken *"a relatively cautious approach to implementation, so that consumers are protected against exposure to unnecessary costs"*. We would see reducing consumer exposure to constraint costs as a sensible cautionary measure.

We agree with: *"(i) Providing early certainty on regulatory funding to enable TOs to speed up construction, (ii) Reducing the number of regulatory approval gates to reduce the time taken to secure regulatory approvals and funding, and (iii) Providing targeted, programmatic exemptions from onshore network competition"*. Yet Ofgem appears to plan on hedging its proposal based on uncertainty around planning reform.

We would expect Ofgem to operate as if a suitable planning reform emerges to better ensure that planning is not a blocker to the realisation of prompt large project delivery then its proposed *"relatively cautious approach"* is the wrong balance of risk. Consumers are not being adequately protected from failure to reach net zero and to avoid constraint costs.

We would expect the location and cost of transmission will highly likely be ultimately well-utilised even if delivered late - meaning the stranding risk is very low. However, the ability to avoid constraint costs may be missed through late delivery. This means that the downside risk to consumers is largely on the inefficiency of additional cost allowances to attempt to provide accelerated delivery by 2030. The scale of the downside risk, therefore, appears to be a different order of magnitude from the potential benefits of rapid advancement of transmission investment.

We accept that renewable generation development is a key consumer risk but the development risk appears to largely depend also on planned changes to the planning regime.

We encourage Ofgem to view planning reform as de-risking the ability of TOs to deliver a number of projects by 2030 and a proportionate balance of incentives for timely delivery. Ofgem then needs to receive *"clear and binding commitments from the TOs that these projects will be delivered on time"* by taking the necessary steps to accelerate transmission development.

Please do get in touch if you would like to discuss the answers provided further.

Kind regards

Ed Rees
Senior Policy Researcher

Q1: Do you agree with our criteria for identifying projects in scope for the application of the proposed accelerated delivery framework?

We support the proposed criteria and that they are open to additions as required.

Q2: Are the 26 projects identified the correct ones to initially focus on?

We agree with the proposed approach of including the LOTI projects needed to meet the 2030 target. As proposed, the projects that are not required to meet the Government's 2030 ambitions should not follow the expedited process. The necessity of projects that do not meet the criteria is likely to be less certain because they are not part of the Government backed commitment for delivering the necessary generation infrastructure by 2030.

Q3: Do you agree that it is in the consumer interest to consider exempting projects from competition?

Yes. The likely benefits of competition are exceeded by the costs of constraints from delayed delivery of key transmission infrastructure in most cases.

Q4: Which of our options for exempting projects from competition do you favour?

Option 2 suggests a positive benefits case for allowing competition for the 6 projects in Table 7 and this is our preferred approach. However, we recognise the supply chain challenge that Transmission Operators see with this approach and this is a delicate balance of risk. If it enables TO's to provide Ofgem assurances on delivery dates then a compromise might be a challenge gate to these projects that looks to assess savings missed. We think this may help capture some savings in this process and also provide evidence of the value that competition will play.

Q5: Do you agree that without upfront certainty that they will be delivering enough of the investment needed for 2030, TOs will face significant difficulties mobilising the supply chain to deliver the works on time?

We think this is a reasonable assumption.

Q6: Do you agree that it is in the consumer interest to consider streamlining our regulatory processes?

We agree and support Ofgem's view on the balance of risk in favour of taking the streamlined approach.

Q7: Which of our options for streamlining our regulatory processes do you favour?

We favour Approach 2. However, the planning pre and post-planning permission activity will need careful creation around planning processes to be efficient.

We question whether the full cost assessment as with a LOTI process would be consistent with the speed of transmission infrastructure to support the government's 2030 target. We are open to a faster assessment if Ofgem is able to mitigate the incentive and discount planning risks as set out in the introduction.

We do not support Approach 3 or 4.

Q8: Do you agree with the costs and benefits methodology we have established?

We think Ofgem needs to work with BEIS to understand to what extent the consumer risk from planning permission failures impact of risk of delay and abandonment costs. These will need to be reevaluated and proportionate mitigants considered once there is a clear view of planning reform.

Q9: Do you agree with the conclusions of our cost and benefits analysis?

We agree - with the only caveat outlined in Q8.

Q10: What are your views on introducing a package of regulatory measures which Ofgem may apply to protect consumers?

We welcome the strength of the protections outlined with concurrent licence obligations and price control deliverables.

Q11: What are your views on the design of each of regulatory measure? (Please clearly reference which measure(s) your comments relate to e.g. Accelerated delivery Output Delivery Incentive, Ex post efficiency review, etc)

We support the incentive design principles for the Accelerated Delivery Output Delivery Incentive.

We agree that the *"risk exposure... to the TOs should be set at the level of individual projects and be proportionate to the expected detriment/benefit from delivering that project later/earlier than the delivery deadline"*. By proportionate we mean relative to other incentives in place on TO's to influence their prioritisation strategy, this should not create an unnecessary scale of risk or return for companies. The incentive should be set at an efficient level. If this is *"a proportion of the estimated consumer detriment from delivering late and estimated benefit from delivering earlier"* then it should be scaled to

existing network incentives. We think being able to set the TIM down to 15% does mitigate this issue to some extent.

As outlined in relation to ED2 Draft Determinations we think that a group of network user representatives can have an active role in supporting the monitoring and reporting obligations on network companies². These users can provide Ofgem valuable guidance on the “*monitoring of the factors that could materially alter the need, scope and costs of the project*”. This would require access to annual reports that Ofgem propose in order to provide a view.

We welcome the ex post efficiency review proposed.

Q12: Do our you think our proposals raise any financeability concerns or create excessive financial risk for the network companies? If so, how could they be addressed?

We agree with Ofgem and the CMA that financing arrangements are at a level that allows for the TOs to finance the necessary net zero investments.

We think efficient incentives with upside and down side risk proportionate to other TO activity will create a stable risk environment, particularly if reasonable allowances are made for uncontrollable delays. However, this risk profile is created by creating two tier priority levels for TO’s in which unaccelerated projects are more likely to be delayed or incomplete. We would expect proportionate de-prioritisation which should be reflected in RIIO-2 and the NOA.

Q13: Is any further guidance, or additional specific information, needed as part of the TOs’ project delivery plans?

We would like to join the industry working group.

Q14: Are there any additional timetable issues that need to be considered?

No response provided

² [Citizens Advice response to the Ofgem RIIO-ED2 Draft Determinations Consultation - Overview and Core Methodology Questions](#)