



RESPONSE TO OFGEM CONSULTATION ON CHANGES INTENDED TO BRING ABOUT GREATER COORDINATION IN THE DEVELOPMENT OF OFFSHORE ENERGY NETWORKS.

7 SEPTEMBER 2021

INTRODUCTION

1. SASES and SEAS are community groups which have been formed to challenge a number of offshore energy projects, none of which have development consent, which are planned to (or which are likely to) make landfall on the Suffolk Coasts and Heaths AONB, whose cables will then traverse the AONB along a series of routes. The first three of these projects all of which are NSIPs are:
 - A new National Grid Offshore Transmission Connection Hub being promoted by Scottish Power on behalf of NGET
 - East Anglia ONE North being promoted by Scottish Power
 - East Anglia TWO being promoted by Scottish Power
2. It should be noted that originally the EA1N and EA2 offshore transmission networks and connection points were coordinated with Scottish Power's EA1 and EA3 projects with the same landfall, cable route and connection point at Bramford, an existing National Grid Connection Hub.
3. For reasons which have never been entirely clear National Grid and Scottish Power abandoned a coordinated approach and have promoted these projects involving another landfall in the Suffolk Coasts and Heaths AONB, a new cable route across the AONB and Suffolk countryside to a greenfield location next to the historic rural village of Friston. There could not be a better example of:
 - lack of coordination
 - lack of efficiency
 - potentially wasted costs
 - unnecessary environmental damage
 - unnecessary disruption to coastal communities
 - unnecessary damage to the local economy and employment given tourism is dependent on the area's environmental quality and is a key part of the local economy,particularly when a coordinated approach was previously proposed based on the connection offers originally made by National Grid.
4. We welcome the Offshore Transmission Network Review and this associated consultation by Ofgem. For obvious reasons our particular focus is Early Opportunities given the current status of these projects notwithstanding that, so far, neither National Grid or Scottish Power have opted in to the Pathfinder programme. We believe that these projects could easily become Pathfinder projects given these projects were previously coordinated with

EA1 and EA3 promoted by the same developer. A submission in relation to that will be made to the OTNR.

5. Further the interaction of Early Opportunities with later workstreams needs to be considered given the impact and benefit which they may have for future projects. Accordingly it is in the interests of all stakeholders that as many projects which could fall within the Early Opportunities workstream become Pathfinder projects. In that context we welcome OFGEM's and BEIS's recent letter containing this statement,

*"We would strongly encourage developers to proactively consider opportunities for coordination **with others in the same region** where they have not already done so",*

and National Grid should also be strongly encouraged.

COMMENTS ON OFGEMS APPROACH TO POLICY ASSESSMENT

Narrowness of Ofgem's Remit

6. Ofgem (in paragraph 1.23) refers to its principal objective which "is to protect the interests of existing and future consumers". However it is submitted that this hampers effective policy assessment particularly when the issues which have prompted the offshore transmission network review go beyond consumers' interest.
7. Policy assessment should be conducted in the context of existing statutory obligations:
 - Section 9 of the Electricity Act 1989 which imposes general duties on persons engaged in electricity transmission to develop and maintain an efficient, coordinated and economical system of transmission.
 - Schedule 9 which requires such persons to have regard to the desirability of preserving natural beauty and heritage.
8. SASES has received correspondence from Ofgem which demonstrates a lack of focus on coordination and efficiency, given Ofgem's lack of supervision of National Grid's CION process, and no supervision in relation to environmental matters – see letters from Ofgem dated 28 May 2019 and 30 January 2020 attached at Appendix A.
9. Focusing on the interests of consumers risks only addressing "economical" issues. It should be remembered that "economical" and "efficient" have different meanings, and as a matter of interpretation are required to have different meanings. Arguably this limited focus has in part led to an uncoordinated and inefficient system which has not had regard to environmental matters.
10. Further the narrowness of Ofgem's remit runs contrary to the Policy Assessment Criteria referred to in paragraph 1.22 where the theme of "Environmental and Societal Impact" is

referred to. How can this theme/impact¹ be given at least equal weight as the other themes/criteria given Ofgem's remit?

11. Accordingly if Ofgem's remit is not widened the resulting policy options will be flawed.

The Role of National Grid ET/ESO

12. The consultation document indicates that National Grid is regarded as a facilitator/enabler both of the OTNR and the Ofgem consultation. However effective coordination of offshore transmission requires coordination onshore and the coordination of onshore and offshore transmission with each other as well as in isolation. By not addressing these issues the policy options resulting from the consultation will be flawed.
13. Further National Grid is a developer in its own right. Its SCD1 project connecting East Suffolk to East Kent will cut across a number of current and future cables connecting OFWs to the shore. It could be regarded as form of domestic interconnector and might be capable of being a TO owned bootstrap as illustrated in Figure 8.
14. The respective roles of NGET and NGESO are not entirely clear and there is the possibility of an actual or perceived conflict of interest. National Grid's divisions' roles need to be clarified in the context of this consultation and the OTNR and the possibility of a conflict of interest analysed and addressed.
15. Ultimately a holistic transmission strategy offshore and onshore can only be designed by a completely objective party whose primary interest is the national interest not the interests of shareholders.

Anticipatory Investment – the need to assess risks relative to benefits

16. Ofgem is rightly concerned about the risk inherent in anticipatory investment and stranded assets however the degree of concern is excessive for the following reasons.
17. There is a substantial "prize" on offer, namely the delivery of £6 billion in consumer savings – see paragraph 1.13. Not taking the steps necessary to secure the savings is a risk in itself. Put simply not taking a risk on anticipatory investment will cost the consumer £6 billion.
18. There needs to be some assessment of the relative quantum of risks as the level of anticipatory investment may be low compared to the potential of £6 billion of consumer savings.

¹ It should be clarified that these are two separate albeit related impacts, not one. There needs to be greater clarity as to what environmental and societal impacts mean. It should for example include damage to wellbeing and the risk of damage to key sectors of existing local economies, recognising that "consumers" may well be affected by these impacts. Consumers are people whose interests go beyond simple cost.

19. In terms of assessing the real risk of stranded assets there should be some consideration of geography. Looking at the coastline of East Anglia and the need for power to be transmitted to London and the South East, given the small areas involved onshore how likely is it that assets will be stranded? This geographical proximity should also give comfort to developers who currently lack sufficient entrepreneurial vision to engage in anticipatory investment.

Behavioural Issues

20. Policy and regulatory changes need to be effective in changing behaviour i.e. moving developers and National Grid away from inefficient, uncoordinated and environmentally damaging transmission systems. Changes were made in 2015 – see paragraph 2.11 – and yet developers, including National Grid did not take advantage of these. Therefore are there commercial/behavioural factors other than the regulatory regime which are acting against greater efficiency and coordination? If such factors are not investigated and understood then any further regulatory changes could be equally as ineffective as those introduced in 2015.

EARLY OPPORTUNITIES QUESTIONS

1. *Are there any concepts we have not identified developers (as defined in this chapter) may wish to progress?*

The observation we would make is that these concepts may need offshore generation to be consented separately from the offshore network transmission system sometimes referred to as a “split decision”. This would allow the windfarm itself to be developed and provide time for coordination of the offshore transmission system and onshore connection.

Further these concepts should be tested against approaches used by other national transmission operators. For example do these concepts accommodate the Modular Offshore Grid (MOG) approach pioneered by ELIA, the Belgian national transmission operator? The UK should seek to benefit from the experience and knowledge of other countries.

2. *Should anticipatory investment risk be shared with consumers? If it should, what level of risk is it appropriate for consumers to bear?*

In answer to the first question yes given the substantial benefits/savings to the consumer which may result. Further as Ofgem acknowledge (see paragraph 2.23) “a significant proportion of all network investment is anticipatory” and therefore by definition anticipatory risk is already shared with the consumer.

In terms of the second question both (i) magnitude of the risk in financial terms and (ii) the likelihood of the risk transpiring needs to be considered. In terms of magnitude of risk this should be considered in the context of how the benefits/savings arising from the anticipatory investment are likely to be shared.

In terms of likelihood the higher the likelihood of the anticipatory investment delivering benefits the lower the level of risk the consumer should bear.

Given climate change and the UK's need for renewable energy as reflected in the Government's targets, it seems unlikely that an offshore wind project with a seabed lease will not progress. In fact it should be assumed that it will progress unless there is a clear reason why it might not. Further practical factors should be taken into account. For example as referred to above if there are windfarms and transmission systems in relatively close geographical proximity, in reality there is a small risk that anticipatory investment will be wasted.

In answering this question substantial weight needs to be taken of the substantial reduction in environmental damage.

3. For concepts that [are] intended to provide a wider system benefit, e.g. by mitigating an onshore constraint, how should the need for investment be demonstrated by the developer?

No comment

4. What options are available to developers in demonstrating a reasonable expectation they intend to connect to the system?

It is really a matter of how it can be demonstrated that there is a reasonable expectation that a potential generation project will connect to the system. As indicated above there is a factual matrix which can inform the degree of expectation including for example:

- agreements with the Crown Estate, whether this be of an agreement to lease or the arrangements whereby investigatory works on the suitability of the seabed for a OFW can be determined
- the demand for renewable generation capacity and where that demand is located
- the geographical proximity of other OFW projects offshore
- the number and geographical proximity of connection points onshore
- the timetable for development

Such a factual matrix needs to be further developed to determine degrees of expectation.

5. To what extent do you agree with our proposals to remove barriers to the early opportunity concepts? Please explain your answer.

Ofgem's proposals are a big step in the right direction however the following additional issues needs to be considered:

- effective enforcement of Section 9 and Schedule 9 of the Electricity Act against transmission system operators and in particular National Grid
- treating National Grid as a developer
- there needs to be an understanding of why previous changes to the regulatory environment were not effective to ensure that further changes have the desired result - see paragraph concerning behavioural issues above.



6. *Do you believe a Significant Code Review is required to give effective potential decision to “share” AI risk between consumers and developers?*

No comment

7. *Do you agree with Ofgem’s proposed approach to deliver the objectives of Early Opportunities work stream?*

To an extent but Ofgem’s remit is not enabling a complete approach. National Grid’s pivotal role in coordination and efficiency and in reducing environmental damage is not being directly addressed by Ofgem – see “Narrowness of Ofgem’s Remit”.

Ofgem needs to take proactive role beyond “strong encouragement” to ensure that every potential opportunity is explored recognising the vacuum in addressing coordination, efficiency and environmental impacts which National Grid has allowed to develop despite its statutory obligations.

APPENDIX A

Letters from Ofgem dated 28 May 2019 and 30 January 2020

(see attached)