Suffolk Energy Action Solutions (SEAS)
Response to Ofgem consultation:
"The development of an Economic Evaluation Strategy"

Deadline: 22 November 2024
Attn: Daire McCoy
By email: evaluationstrategy@ofgem.gov.uk

Suffolk Energy Action Solutions (SEAS) welcomes this consultation by Ofgem. In essence, the motivation behind it is a desire to be better at learning from past experience. Much of the work of the regulator involves anticipating future impacts. As Nobel Laureate Niels Bohr is supposed to have said 'prediction is easy, especially if it is about the future'. It would be very valuable to strengthen Ofgem's ability to evaluate past interventions and inject that learning into future decision-making.

The consultation paper tells us that the intention is to achieve

"…robust evaluations to help to build a stronger evidence base for future policy interventions and helps us better assess whether Ofgem is delivering on its objectives and complying with our statutory duties."

In its introduction to the consultation Ofgem says

"We also welcome views from other interested stakeholders, including charities and members of the public."

SEAS is a community-initiated, solutions-focused body of stakeholders and experts which was created to ensure that more economically and socially rational solutions can be found in our region to meet the urgent need to accelerate the energy transition and meet the Net Zero targets. SEAS is part of a growing body of like-minded groups which have come together across the country under the name Offshore4sure. It is in this capacity that we are submitting evidence.

The key points we would emphasise are these:

1) Evaluation should be designed to assess whether Ofgem's work has struck the right balance between existing and future consumers. This point relates to Ofgem's principal duty which is

to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. In our own experience there does not seem to be a clear methodology for assessing impacts on future generations of consumers. Nor is it clear to us whether Ofgem has defined clearly what it means by value for consumers. We start from the premise that value comprises a bundle of different elements.

2) Evaluation should start from a clear concept of what is meant by value, and how value is perceived by the consumers of today and (to the extent that we can imagine this) tomorrow. We would ask Ofgem to reassess its definition of value. In our view what current and future consumers consider to be value goes much further than price. As former Bank of England Governor Mark Carney has put it 'great minds from Plato to Adam Smith have pondered why water – which is essential for life- is virtually free, and diamonds – which have limited utility beyond their beauty - are so expensive'[i]. In this context intangibles such as peace, tranquility, the continuity of a family farm, biodiversity, social and natural capital should be valued in themselves, and not merely through their very real importance to the economy. Assessing value is difficult but the problem is not solved by sticking only to how value is measured in a marketplace.

3) This becomes even more important when one looks at the potentially conflicting set of objectives and priorities set for Ofgem. On the one side are the narrower financial/market criteria such as prices and 'low-cost transition' and (conventionally defined) economic growth. On the other are, for example, quality and standards, bio-diversity, and equality of opportunity and good relations. Evaluation can only usefully proceed once Ofgem has developed an integrated concept of value – one which strikes a balance between the claims of today and those of tomorrow, the financial and the non-financial, the tangible and the intangible; the economic and the social. Perhaps this is a task that should be jointly attempted by several of the regulators. For example, Ofwat presumably faces the same challenge.

4) A holistic and systemic view is required if impact is to be assessed – both ex ante and ex post. We would alert Ofgem in particular to a current defect in its assessment of impact. Currently little or no consideration is given to cumulative impact. We would like to ask those designing evaluation in Ofgem what account they have taken of Systems Theory. A Systems perspective would mean seeing a physical place as a system and taking account of all the potential impacts within that system. To take the local geography as an example, SEAS has repeatedly raised concerns with Ofgem about the lack of scrutiny of the cumulative effect of multiple proposed energy projects on the Suffolk Coast including Sea Link (SCD1), but those concerns remain unaddressed.

Case Study - SCD1 - Suffolk-Kent offshore HVDC link.

You asked for advice about how to evaluate your work. In order to prompt fresh thinking about evaluation, here is a current example. We suggest that a rigorous evaluation of the Ofgem approach in this case would reveal significant discrepancies between its terms of reference and priorities and its actions.

1. We have looked particularly at SCD1- Suffolk-Kent offshore HVDC link, aka SEA LINK. We would commend this to the evaluation team as a case study for ex-ante and ex-post evaluation. It comes under Ofgem's ASTI framework (Accelerated Strategic Transmission Investment), which fits within the remit of the consultation's Evaluation Selection Criteria. Here is how the example satisfies the criteria set. The project in question is:

   1.1. Of strategic importance. ASTI is noted by Ofgem to be a 'vital part of the work to upgrade the energy system', and sitting within the **Multi-Year Strategy**[ii] and therefore within the remit of this consultation.

   1.2. Of great potential harm and cost - to the environment, communities, businesses and consumers.

   1.3. With potential to improve policy and learn. For the reasons explained in points 1 to 4 above there is enormous potential to learn and improve,

   1.4. It is feasible and there is plenty of evidence to evaluate. The data is available. Impacts can be attributed robustly. In fact, this is exactly what we and other community groups have been calling for since 2020.

2. It is imperative that the speed of delivery afforded by ASTI does not reduce scrutiny of transmission operators' proposals.

3. We note in 2.2 and 2.3 that Ofgem must adhere to the following frameworks/duties but, when it comes to the ASTI programme, rigorous evaluation of the kind described in the paper would bring out the following shortcomings.

3.1. <u>A Consumer Interest Framework which aims to ensure that Ofgem acts for (i) fair prices, (ii) quality and standards (iii) low-cost transition and (iv) resilience</u>

3.1.1. Consumers are being failed by the lack of insistence to adhere to the **HM Treasury Green Book 2022**. The Green Book sets out processes for proper evaluation of alternatives which quantifies external impacts such as socio-economic or natural capital impacts.

"The role of appraisal and evaluation is to provide objective analysis to support decision making. Where the use of significant new and existing public resources is required the proportionate employment of the Green book and its supplementary business case guidance is mandatory"

3.1.2. Consumers are failed by Ofgem's refusal to look at cheaper and better alternatives to a proposal put forward by a transmission operator (in Sea Link's case, National Grid) and by Ofgem's refusal to scrutinise the evidence presented by the TO. We welcome NESO's Holistic Network Design (HND) criteria which has been neglected for the last decade and should now be applied alongside the Green Book. Ofgem's commitment to these principles is essential for best outcomes thereby enabling Ofgem to meets its

3.1.3. **A meshed offshore grid is more efficient and economic.** It is cheaper for consumers in the medium to long term. National Grid ESO's reports have consistently shown significant overall transmission network cost savings (Capex) from greater offshore coordination sooner, e.g. its December 2020 report (<u>Offshore Coordination Phase 1 Final Report</u>**)**[iii] showed a c.£2 billion saving for East Anglia alone with greater offshore integration. For Britain as a whole, the same report suggests a saving of c.£6 billion and this would be available if we pivot now to a solution involving an offshore grid.

3.1.4. Cost savings come from the sharing of infrastructure resulting from the pooling of wind farm energy offshore and also from transporting energy offshore and connecting it to the onshore AC grid closer to demand, saving on curtailment payments and grid constraint costs (associated with the need for fossil fuel-based power plants as backup for renewable energy oversupply). Taking power offshore closer to demand can also reduce the need for infrastructure required to achieve the same result (e.g. taking power from wind farms directly to London and the South East as opposed to via Suffolk would negate the need for Sea Link saving c.£1.8bn). For more details see SEAS latest report **<u>Great British Offshore Grid</u>**[iv] and **<u>SEAS open letter to Chris Stark</u>**[v]**.**

3.2 Biodiversity Duty

Ofgem is failing its Biodiversity Duty to examine alternatives to the preferred option presented to it by National Grid and by refusing to take on board evidence supplied by SEAS and other interested parties on the destruction of the Suffolk Coast's unique biodiversity which will be blighted for 12-15 years. The RSPB and others have collected hard evidence that birds and wildlife take closer to 25 years to return and for endangered species such as otters, water voles, hairy dragonflies and nightingales there is grave concern that they may never return to these threatened areas. This region is typified by its vital wetlands, described as our tropical rain forest equivalent. They are irreplaceable.

3.3 Growth Duty – promoting economic growth

Ofgem has failed in its duty to take into account the cumulative impact and inevitable destruction of Suffolk Coast's 40-year thriving nature-based tourist economy. Sea Link adds to the cumulative impact of proposed offshore windfarms, interconnectors, subsequent substations and a Twin nuclear reactor in a 10 square mile radius, construction of which will lead to over 15 years of economic decline.

The cumulative impact on tourism has been estimated at a loss of £1bn over 12 years of construction, estimated by the Destination Management Organisation (DMO)[vi]. The jobs impact would be severe in this area - the tourism and hospitality industry employ people of all skills and experience and provides a mix of full-time and part-time opportunities. It is the principal economic sector for Suffolk Coast and Heaths. The infrastructure projects, on the other hand, will use predominantly outside labour during construction and result in very few permanent, local positions.

3.4 Net Zero Duty – helping UK Government to meet its net zero 2050 target

Ofgem is failing in this duty by refusing to examine alternatives to the proposal presented by National Grid which might lead to a faster achievement of the 2050 target. See Great British Offshore Grid and SEAS open letter to Chris Stark links below.

This consultation offers the opportunity for Ofgem to do things better, taking on board community input and ensuring a robust process of scrutiny and evaluation of evidence. The risk is that refusal of Ofgem to heed community warnings over the past years will simply lead to legal challenges and prolonged delays. There is a chance to get things right now and the ASTI programme meets all of the criteria set out.

SEAS supports the great onshore/offshore integrated grid upgrade and the growth of offshore wind but it is crucial that this is done with a proper appraisal of alternatives and evidence. Transmission operators' submissions must not be taken at face value if there are warnings raised by 3rd parties.

When Clean Power 30 was originally announced it gave the impression that Communities would be involved, but so far this has not been the case. To enable a swifter transition, community buy-in is paramount to avoid long delays from judicial reviews. With this in mind, we ask Ofgem to call for a Community Representative to sit on the CP30 Commission. There is a risk that the CP30 appears to be another cynical PR exercise and has no real muscle.

We would be very pleased to discuss this further and to assist you in this process in whatever way we can.

Thank you

Suffolk Energy Action Solutions

info@suffolkenergyactionsolutions.co.uk
www.suffolkenergyactionsolutions.co.uk

[ii] Mark Carney Value(s) William Collins 2021 p 15
[ii] https://www.ofgem.gov.uk/press-release/multiyear-strategy-sets-out-ofgems-vision-delivering-clean-affordable-and-secure-energy-system
[iii] https://www.suffolkenergyactionsolutions.co.uk/wp-content/uploads/2024/07/ESO_Offshore-Wind_CBA-Dec-2020-Final-Phase-1-Report.pdf
[iv] https://www.suffolkenergyactionsolutions.co.uk/wp-content/uploads/2024/09/Great-British-Offshore-Grid.pdf
[v] https://www.suffolkenergyactionsolutions.co.uk/wp-content/uploads/2024/10/Offshore4sure_Letter_to_Chris_Stark_and_Fintan_Slye_Final_11.10.24.pdf
[vi] https://www.thesuffolkcoast.co.uk/tourism-research-and-reports