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Dear Aliabbas,

## **Re: Consultation on the Early-Stage Assessment for Anticipatory Investment**

### ***About RenewableUK***

RenewableUK members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and access markets to export all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

### ***About Scottish Renewables***

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 330-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.

### ***Overview***

RenewableUK and Scottish Renewables welcome the opportunity to respond to this consultation on the early-stage assessment for anticipatory investment (AI) as well as Ofgem's willingness to discuss the best way to deliver the necessary coordinated infrastructure as set out in the Offshore Transmission Network Review (OTNR) and designed in the Holistic Network Design (HND) and Follow Up Exercise (HND FUE).

We support the principle of delivering coordinated infrastructure as delivering the best long-term solution for electricity customers and communities hosting electricity infrastructure. We welcome Ofgem's intent to tackle barriers to delivery of offshore coordinated infrastructure.

However, we see several challenges with the approach as currently set out by Ofgem and we do not feel that the proposal for early-stage assessment for AI is workable for developers in its current form. The consultation underplays the complexity of transferring responsibility for construction to a later user, let alone instances when there could be more than one later user. Furthermore, developers are seeing costs change by more than the 5/10% bands after taking FID, given the early stage of the review period, as well as current market volatility the proposal creates significant commercial risk for developers.

RenewableUK and Scottish Renewables are happy to facilitate further discussion between Ofgem and developers to try and find a workable solution to the issues raised in our response.

Please find our full response to the questions set out in the consultation below.

Yours sincerely,

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## Consultation Questions:

### 1. Do you agree that the later user should assume responsibility for the construction of the coordinated solution should the initial user become delayed?

In principle, RenewableUK and Scottish Renewables agree that the later user should be able to assume responsibility for the construction of the coordinated solution should the initial user become delayed. However, we see a number of issues that will cause this to be very challenging to do in practice:

- **Trigger for later user:** while the trigger for transfer to the later user would be clear if the early user were to 'fail' and leave the project, it is much less clear when delivery is subject to delay. Ofgem should clarify what level of delay could constitute a replacement of the early user.
- **Number of users:** in this consultation and guidance document, Ofgem does not address that there may be more than one later user that is reliant on infrastructure delivered by the initial user. This could be multiple additional developers, or developers and TOs in conjunction. Ofgem should provide greater clarity as to how the later user that would assume responsibility for construction in this instance would be selected.
- **Permits and land rights:** it is not clear how the later user could take on the requisite permits and land rights that would initially have been held by the early user. Developers are very unlikely to be comfortable sharing with competitors the large amounts of commercially sensitive information and permitting expertise necessary to facilitate a smooth transition to the later user. It is likely that after the transfer from the initial user to the later user, there will also need to be a period of further engagement with local stakeholders in order to establish relationships.
- **Project delivery:** it will likely prove very challenging for a later user to pick up project delivery mid-way through the process. Elements such as contracting, procurement and engineering design would have to be reviewed by the later user to ensure that they meet their own governance standards. There may also be issues in transferring contracts that are already in place from the early to later user. The necessity to take on the role of the early user could also affect the viability of the later user against the CfD strike price that they had agreed.

Due to the reasons above, we believe that there are significant barriers that would prevent the later user from taking responsibility for the coordinated solution in practice.

### 2. Do you have any views on the Draft Early-Stage Assessment Guidance Document?

We agree with the intent for the timing of the assessment to be at the discretion of the initial user, with sign-off from the later user(s).

Given the requirement for delivery at pace to meet the ambitious 50GW offshore wind target, Ofgem should consider if they are able to reduce any of the timelines they set out within the assessment process.

The high-level co-ordinated design of the offshore network is not driven by developers, but rather by National Grid ESO as part of the HND process (soon to become the Centralised Strategic Network Plan). We note that Ofgem will not require a CBA for projects within the HND or HND FUE. While this is welcome, we believe the guidance should clearly state that this will be extended to the future CSNP. It should also clearly define when any forms of options analysis is required, as in many instances this will have already been done by NGENSO in the network plan. Where final designs differ from the original HND recommendation, NGENSO is currently consulting on an Impact Assessment process, in which design changes would be assessed and approved. We recommend that Ofgem refer to this process when undertaking any further CBA/options appraisal and use it for the basis of their approval.

We note that Ofgem is intending to benchmark costs against historical transmission projects and cost data held by Ofgem. However, as these coordinated projects are different to those previously delivered in their complexity and scale, often using newer technology such as HVDC, we believe that historical cost data may be of limited use in assessing these projects. We also note that market and supply chain volatility will also mean that historical data may not accurately inform a current cost assessment phase. Ofgem will need to undertake benchmarking of current and future prices through market engagement.

### **3. Do you have any views on what should constitute material change for projects?**

We agree with Ofgem's view that the threshold for materiality of change should be judged on a project-by-project basis.

Ofgem should be very clear about what constitutes a material change. Projects often experience change during their development due to many factors, including technology advancement, changes due to geographical factors or availability of equipment. We do not believe that these should constitute a 'material' change to the project triggering a reopening of the ESA.

We believe the following should be considered material change:

- One or more of the parties in the coordinated infrastructure changing, dropping out or joining. (NB we do not believe a change in ownership of a developer should constitute material change, providing the organisation remains the same)
- Significant change to the design that is not in line with the HND (or CSNP) e.g. a different connection point, different number of cables

#### **4. Do you agree with Ofgem's proposed approach to projects which experience material change?**

The proposed approach seems fair. However, Ofgem should ensure that the process is as efficient as possible to reduce delay, and would encourage the resubmission to be targeted to only the elements which have experienced change and reuse as much of the original submission as possible.

#### **5. Do you agree with Ofgem's proposed approach to cost disallowances in Anticipatory Investment?**

The current proposed approach to cost disallowances in Anticipatory Investment will not provide the confidence to developers to sign off on delivering coordinated infrastructure. The Early Stage Assessment is at a very early stage of the development process for a project and as such, cost variation is highly likely to place at a higher level than the 5/10% thresholds currently proposed by Ofgem. Our members have indicated that with current market and supply chain volatility, they are often seeing variation above those levels after they have taken Final Investment Decision (FID) – a much later stage in the project development process.

RenewableUK and Scottish Renewables believe that this would be best addressed by replacing the current ex-post cost disallowance process with an ex-ante assessment. This would align with how costs are assessed within the RIIO framework and allow developers certainty in their risk when developing co-ordinated infrastructure on behalf of a competitor.

However, bearing the time constraints to delivering this infrastructure in mind, there are some other ways to structure the cost disallowance process within the current ex-post framework that could help developers sign off on delivering coordinated infrastructure:

- **Increase the tolerance threshold:** the current 5/10% threshold for ringfenced costs is likely to be breached in most cases. Ofgem could consider raising this threshold, however current price volatility means that even an increased threshold may not be sufficient.
- **Submission gates:** Ofgem could consider adding in a number of gates or checkpoints for cost submission. Developers could present a high level overview of AI costs at the beginning of the ESA process, followed by a number gates where costs could be assessed again and in greater detail as they become clearer. We are happy to facilitate discussions with our members as to when these gates would be best placed.

RenewableUK and Scottish Renewables are happy to facilitate discussions between Ofgem and our members to discuss the practicalities of the above suggestions, as well as any other potential solutions our members may be able to provide.