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Dear Ms Barnett and Ms Camey,

Increasing the level of coordination in offshore electricity infrastructure

We write in response to the letter dated 24 August 2020 published as part of the Offshore Transmission Network Review. The letter seeks views from the industry and other interested parties, as to what has prevented the development of coordinated transmission assets to date, particularly seeking views of stakeholders who are already pursuing some level of coordination, or have identified an opportunity to do so. Although it is understood that significant information can be gained from developers and electricity transmission licensees regarding the barriers they face, local Councils can also provide a useful perspective, based on their experience to shape the future policy and regulatory framework.

The need for whole system change

It is likely that a technical solution to the development of an offshore transmission network can be developed. Given the very large amount of new connection and generation infrastructure required to deliver net zero and the resources and conditions in East Suffolk and East Anglia for fixed foundation offshore wind and interconnectors, we anticipate that a great deal of that power may need to be connected in this locality.

Therefore, it is not adequate only to address the technical issues and modify the regulatory and competition regimes accordingly. We consider that it is necessary to make far reaching changes to the delivery of these projects and the relationship between the promoters of the schemes and the communities in which they are located. The promoters include not only the specific energy businesses, but also the Crown Estate and the Government, who seek to deliver a revenue stream from their assets and achieve net zero.

The Councils consider that there are significant barriers to overcome in relation to:

- Regulation
- Process and procedure
- Promoter risk aversion
- Community opposition

Offshore Transmission Owner (OFTO) Regime

A fundamental change needed in order to meet the net zero targets and associated energy infrastructure needs, is a revision to the existing OFTO regime. At present, although it is understood the option for a third party OFTO is available, this option has not been taken up. Instead, the connection infrastructure is provided by the developer. This is the favoured option as it provides the developer greater confidence and control over the delivery of the infrastructure. Although the preferred route for delivery, developer-led OFTO impedes coordination, as a developer's sole focus is the delivery of their own project and not on the best coordinated outcome for communities and the environment. There needs to be clear policy changes which result in the default position for the delivery of onshore connection infrastructure being through a third party OFTO. Market mechanisms could then be utilised to ensure the best value through competition. A by-product would be the natural consolidation and coordination of projects which does not occur when each developer is responsible for their own connection infrastructure.

As stated, a barrier to the use of third party OFTO's is the perceived risk regarding the security in the delivery of the infrastructure. It is important to find a way to de-risk this for developers. This barrier needs to be tackled from both sides, firstly making a third party OFTO the default position and secondly through the provision of measures to de-risk the delivery of the required infrastructure.

Onshore Connections

It is essential that opportunities for coordination need to be identified at the earliest possible stage of any project. There is currently a lack of coordination being delivered by National Grid Electricity Systems Operator (NGESO). The current regime where the connections process allows developers to request and NGESO to grant connection offers to projects without consideration of whether there are any opportunities for coordination is a significant barrier to providing coordinated infrastructure. Greater coordination at the connections stage would go hand in hand with the presumption in favour of third party OFTOs. If a coordinated option is identified, however, this should be considered in terms of its environmental impacts (at the plan level rather than solely the project level) prior to any collective connection offers being granted.

Anticipatory Investment

Directly associated with the issue regarding the connections process is the risks involving anticipatory investment. It is essential that greater certainty and clarity in relation to recovering costs for this work is provided. The Councils have experienced developers advising that there is a lack of certainty over how the costs of anticipatory investment can be recovered, this has

implications for project funding and a potential Contract for Difference bid. Our experience is that this is significant a barrier for greater coordination between related projects.

The reluctance for developers to undertake anticipatory investment is also mirrored by National Grid and their unwillingness to design a substation, which is capable of providing a point of connection for multiple projects rather than on the individual project basis currently being designed. We understand that National Grid's reluctance to provide infrastructure with future capacity also relates to the risk involved in recovering the costs.

Incentives

It is considered that there are insufficient incentives available to encourage developers to seek coordination. If the perceived risks are considered too high, further consideration should be given to measures which could be made available to help to de-risk projects and reduce the unease to provide greater coordination, which generally reduces costs and impacts.

Consenting Process - Flexibility

We see that there is potential for the option of greater coordination and consolidation of projects post consent with the Development Consent Order process. The 'Rochdale Envelope' in theory provides flexibility for consolidation of related and adjacent projects post consent, providing the impacts and order limits do exceed that of the consented project or projects.

This flexibility is especially important at present, with regulatory and technological change occurring as projects are brought forward and consented. Further advice and clarification is required as to how this apparent flexibility could be used to co-ordinated and consolidate connections post consent.

Consenting Process - Communities

Lastly, it is recognised that the delivery of a coordinated and integrated offshore network is likely to require connection infrastructure for multiple projects to be provided onshore in strategic locations. The Councils recognise that one barrier to the delivery of the coordinated network is likely to come from the local communities affected by the proposals. It is essential it is understood that the delivery of net zero targets and the associated infrastructure, even with optimum coordination, cannot be provided without contentious and often significant impacts. It is, therefore, essential that associated with any solution should be a community benefit scheme which recognises local impacts and provides appropriate compensation.

Broadly, we consider there should be clear requirements for developers on how and when to engage with communities and local Councils on community benefit, mitigation, and compensation funding. This is necessary both to ensure that communities receive appropriate mitigation and compensation, and so that they also have the confidence to engage early enough with developers to be properly effective.

These requirements should consist of minimum tariffs for community benefit schemes, that can be adjusted for inflation. Likewise, it is essential that economic growth, employment, supply chain and skills growth and educational inspiration, deliver tangible benefits to the locality.

Together these outcomes would constitute a new settlement for communities which would recognise the magnitude of change they will be asked to undergo to deliver generation and connection infrastructure. This comprehensive approach is necessary because the unprecedented scale and extent of infrastructure that is required to achieve net zero, notwithstanding any coordination and consolidation of infrastructure.¹²

Summary

The development of energy projects to deliver net zero will play an important part in the post Covid-19 economic regeneration, both nationally and locally. This can only be achieved if accompanied by a suite of far-reaching changes to the processes for project coordination and delivery, and a new settlement with tangible and wide-ranging benefits for host communities.

We consider that there may be short term opportunities to modify the implementation of current regulations. There is also an opportunity to make more substantial changes to current regulations, using Ofgem's sandbox approach.³ This flexibility could also be applied also to other regulatory frameworks, as a prelude and pathfinder for more comprehensive changes to the enduring regime. We consider such a flexible and adaptive approach would help to expedite a pathfinder project, or projects, for coordinated transmission in East Anglia.

Yours sincerely



James Cutting
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¹ SCC response to BEIS Contract for Difference Consultation - <https://www.suffolk.gov.uk/assets/planning-waste-and-environment/major-infrastructure-projects/Response-to-CfD-Consultation-270520.pdf>

² SCC ESC and Partners evidence to the Environmental Audit Committee – May 2020
<https://committees.parliament.uk/writtenevidence/5069/pdf/>

³ <https://www.ofgem.gov.uk/news-blog/our-blog/ofgem-launches-new-enhanced-energy-regulation-sandbox-service>