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Citizens Advice's response to Ofgem's Eastern HVDC – Consultation on the project's Final Needs Case

Dear Ofgem,

Thank you for the opportunity to respond to this consultation on the final needs case for the Eastern HVDC.

We are responding to this consultation because we think there is urgency and significant risk in delivering the infrastructure critical to support net zero at an affordable cost to consumers.

The impact assessment on the Eastern HVDC shows a positive value proposition for consumers due to the scale of avoided constraint costs that can be achieved by a number of Eastern HVDC options. This creates a clear positive case for a number of design options, even with likely time and cost overruns.

We are however concerned that local planning processes haven't been completed and that the proposed 'conditional' decision by Ofgem does not have any weight in the planning process. We are aware of the Energy Transmission Network Review and the recent Energy Security Strategy which seek to support the delivery of infrastructure critical to achieving Net-Zero. Yet, the forthcoming changes appear unlikely in the short term to de-risk the delivery of urgently needed developments such as the Eastern HVDC. Based on the impact assessment there is a strong case for national energy planning and local impact processes that will support an affordable transition.

We would expect Ofgem as the regulator and Government, in lieu of an FSO in place, to be highly cognizant of the delivery risks and look at the short term options to support the integration with net-zero projects and local planning. We appreciate this is beyond the scope of the consultation questions, however, it represents a potential delivery risk and by providing a 'conditional' decision, Ofgem has clearly set out why it is consumers'

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interests to influence local planning options. Ofgem's decision, and the benefit to consumers, should be taken into account when making planning decisions.

The E2DC and E4D3 connection locations present the best value proposition even with additional costs and delays, but without considering the environmental and local impacts. The current planning process now has an 'all or nothing' based on Ofgem's preferred decision. Yet the specific choice location choices don't seem to matter as much as that they are completed. The combined options assessment approach of joining the two projects together helps make this clear. To reflect this, Ofgem might consider permitting further options in case any environmental and local issues risk significant delay.

Another key challenge in delivery will be transmission operator delays. We expect rebaselining to reflect the time value of money and remove any incentive to delay. We would also expect a clear incentive to reduce delay. Consumers are exposed to the risk of delay and non-delivery and it is only fair that this is shared with networks. We are aware that this could represent a higher risk factor for networks if they are not confident in competently delivering requisite services. However, we do not think this should be the case for an efficient network company where external project delivery risks are properly accounted for.

Please do get in contact if you have any queries

Kind regards

Ed Rees

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Citizens Advice

Question 1: Do you agree that meeting the technical requirement with the two proposed HVDC links is appropriate?

The approach taken appears to consider the necessary technical requirements.

Question 2: Do you agree with our conclusions on the appropriateness of the options considered?

We support the conclusions on the preferred options but Ofgem should be seeking to provide an options range than can mitigate the risk of localised geographic and community planning factors affecting the permissions and analysis.

Question 3: Do you agree with our conclusions on the technical design and the costs of the proposed E2DC and E4D3 projects?

We support the conclusions on the E2DC and E4D3 projects, however, there may also be other suitable options with a positive benefits case that should not be discarded until there is confirmed permission to develop the necessary projects.

Question 4: Do you agree with our conclusions on the cost benefit assessment and the appropriateness of taking forward the E2DC and E4D3 options?

We are unclear as to the reasons for the potential delay for E2DC Torness to Hawthorn Pit which is said to have a 40% probability of achieving the earliest in service date of 2027, rising to 50% in February 2028 and 80% in July 2028. Given the costs involved in this delay and without a view of confidence in other completion dates, it is hard to have confidence in the level of value this choice provides.

Question 5: Do you agree that considering the proposed investment reinforcements in the context of wider network reinforcements (reinforcement pathways) is an appropriate approach?

Yes, this is a sensible approach that supports the optimal choice for the whole system value.

Question 6: Are there any additional factors that we should consider as part of our Final Needs Case assessment?

Operational and maintenance costs are not included in the National Grid CBA and their impact on the value assessment should be considered to provide a more accurate representation of the value of the project to the energy system.

Question 7: Do you agree with our minded-to decision to retain the two Eastern HVDC projects within the LOTI arrangements under RIIO?

Yes - the risk to consumers of delay will likely exceed the value from competition given the clear urgency of delivery.

Question 8: Do you agree with our approach to LPD?

There needs to be incentives to encourage prompt delivery. Currently, only consumers and network users will lose out from delays to the HVDC connections. Given the scale of constraint costs attached to delays, we think it is appropriate that there are penalties to

delay related to the totex margin a company is allowed. This means that networks are proportionately incentivised without significantly distorting the risk profile on capital investment costs based on a view of an efficient company's performance. We support a Project Delivery Charge (PDC) proposed that ensures there is the requisite incentive for prompt delivery. However, we do not support a link to capacity payment values for this charge as it will create additional risk for network company investment that will ultimately be paid for by consumers. The charge needs to drive behaviour and not reflect the actual value of delay.

Question 9: Do you agree that reprofiling (rather than a milestone-based approach) is an appropriate mechanism for the Eastern HVDC project?

We support reprofiling that ensures that there aren't incentives on the time value of money to delay delivery. Given the impact on