

All interested parties

Direct Dial: 020 7901 7000  
Email: Kersti.Berge@ofgem.gov.uk

Date: 18 November 2013

Dear Colleagues

**Open Letter: Update on the Integrated Transmission Planning and Regulation (ITPR) project following our June 2013 consultation**

This letter provides an update on the ITPR project following our emerging thinking consultation in June 2013 and sets out the priorities and next steps over the coming months. It is published alongside our consultation on the regulation of transmission connecting non-Great Britain (GB) generation to the GB system and, specifically, explains how this work relates to our wider ITPR project, including our work on interconnection.

*Background*

The ITPR project is a review of the GB electricity transmission arrangements for system planning and asset delivery to ensure the regulatory framework can continue to facilitate efficient, coordinated and economic development of the overall network in the longer-term.

We launched ITPR in March 2012 with an open letter that explained the drivers for the project. We published a second open letter in November 2012 that asked for feedback on the potential issues. In our June 2013 emerging thinking consultation, we set out our initial analysis of the options to address the issues and suggested that an evolutionary approach to changes was needed given the uncertainty over future network needs.<sup>1</sup>

Our emerging thinking included the following:

- 1) There may be merit in enhancing National Grid Electricity Transmission (NGET's) role as system operator to include new responsibilities for coordination of system planning, which could include identifying strategic system needs and working with relevant parties to identify potential coordination opportunities; and
- 2) We consider that having more flexibility to determine whether a competitive approach or incumbent delivery should be used has the potential to provide for improved delivery of assets in the interests of consumers. This, we argued, could be particularly valuable if technology develops to allow for new types of investment in an integrated network.

*Respondents' views*

Stakeholders appear broadly supportive of our emerging thinking.<sup>2</sup> Most respondents agree that the current arrangements need to be considered now given potential future challenges. The majority also favour a more coordinated approach to system planning by enhancing

---

<sup>1</sup> Further information on the ITPR project, including the relevant publications, is available [here](#).

<sup>2</sup> The non-confidential responses and the workshop material are available [here](#).

NGET's system operator role and, similarly, support a more flexible approach to determine who develops what transmission assets. See Appendix A for further details.

However, there are some notable exceptions and qualifications in support of our emerging thinking. Many respondents highlight potentially significant conflicts of interest within the National Grid group that would need to be managed. On this, most suggest it is best-done through more stringent ring-fencing, though alternative suggestions range from more transparent processes to introducing an independent system operator. On asset delivery, some respondents express concern about the use of competition for onshore or integrated assets. In having a more flexible approach to determining who develops what transmission assets, many also ask for more clarity on how the process would work.

Furthermore, most respondents prefer a more coordinated approach to identifying interconnection. Many also suggest that interconnection requires further consideration.

### *Next steps*

In the June 2013 consultation our thinking on how best to identify and develop future onshore and offshore investments was more developed compared with our thinking on interconnection. We also recognise that there may be challenges associated with the existing merchant approach to the development of interconnection.

To address the above, a key focus of our work on the ITPR project over the coming months will be further consideration of the regulatory options for future interconnection investment. We will consider the merits of the various approaches to identifying and developing interconnection, such as the developer-led Cap and Floor option and a more centrally-determined approach. Building on our work done to date on the regulation of new interconnectors, we intend to consult on this matter in spring 2014.<sup>3</sup>

We are conscious of the interactions between this work and the other on-going work on interconnection, including the development of a Cap and Floor approach for Project NEMO (the proposed interconnector with Belgium) and our assessment of the exemption request from the Eleclink project (the proposed interconnector via the Channel Tunnel). This work is also closely related to the consultation published today on the regulatory options for connecting non-GB generation.<sup>4</sup>

We are continuing to develop and assess the wider system planning and asset delivery options. We will undertake any necessary impact assessments to cover system planning, delivery and interconnection. We will take account of stakeholders' views received to date and in response to the spring 2014 consultation on interconnection. Given our decision to hold this additional consultation on interconnection, we now intend to consult on initial conclusions on ITPR, together with an initial draft Impact Assessment, in summer 2014.

**We very much welcome discussions with interested parties, on both the regulatory options for interconnection and the wider system planning and delivery options. If you would like to talk to us, please email [ITPRMailbox@ofgem.gov.uk](mailto:ITPRMailbox@ofgem.gov.uk).**

Yours faithfully,

Kersti Berge  
Partner, Electricity Transmission

<sup>3</sup> Work done to date on the regulation of interconnection includes, for example, our 2010 consultation on the regulatory options for interconnection (available [here](#)).

<sup>4</sup> Our consultation on the regulation of transmission assets connecting non-GB generation to the GB electricity transmission system is available [here](#)

## **Appendix A: Stakeholders' view on our ITPR emerging thinking (June 2013)**

We received 15 non-confidential responses to the emerging thinking consultation. We also hosted a workshop in June 2013 that was attended by almost 80 industry representatives.

While variations and qualifications of views can be seen in the detailed responses, our high-level understanding of stakeholders' views is that:

- In response to our question about the case for change and the need to consider the appropriateness of the current regime, most respondents are supportive of the need to review the arrangements and agree that now is the right time to do so. There are some exceptions. One stakeholder, for example, said that, at least with respect to onshore, the arrangements work well and should be continued with. Another stakeholder said the case for change was not currently material.
- A significant majority of respondents favour having a more coordinated approach to system planning, mainly supporting the enhancing of NGET's system operator role. They suggest it could add value in terms of NGET understanding stakeholder needs in assessing optimal transmission solutions and in providing more information to transmission owners and developers about wider system needs. Some stakeholders also suggest that it could have a role in providing input to support Ofgem decision-making in, for example, cost assessment or anticipatory investment. However, one stakeholder notes that a more coordinated approach not be at the expense of developers losing control over their projects.
- Support for enhancing NGET's role was highly qualified in most cases. Stakeholders recognise the potential for conflicts of interest within the National Grid group, and note that even the perception of conflicts could have consequences. For example, one stakeholder suggests that under an enhanced role, NGET may have a perverse incentive to be biased towards transmission investment that favours its transmission business. Another stakeholder says that conflicts could arise whenever a network company has related interests in another role.
- To address the potential for conflicts, many stakeholders call for sufficiently stringent business separation arrangements so that NGET is shielded from commercial influence. One stakeholder, for example, suggests that this include formal managerial, physical and information separation. Others also call for a focus on information flows and increased transparency. However, a small number of respondents prefer an independent system operator model. One stakeholder describes it as the "ideal solution", while another suggests that it would be simpler than the current arrangements. There also appeared to be reasonable support for the ISO model at our June workshop.
- With respect to having more flexibility where either a competitive approach or incumbent delivery is used for investment in new transmission assets, the majority of respondents are generally supportive. For example, one stakeholder argues that greater flexibility could provide for more innovation and progressive solutions in the connection of generation. However, respondents are not universally supportive. For example, one stakeholder argues against a situation whereby competition was replaced with a monopoly where there is no "natural monopoly" in the delivery of that asset.
- On the principle of using competition to develop transmission assets, views are also mixed. While some suggest it should be the default position given its advantages, others are more sceptical, arguing it could give rise to delays and be difficult to implement. Some stakeholders point out that the onshore transmission owners already use competition in selecting the supply chain for delivery of their projects.

- Respondents also call for more clarity on how additional flexibility in delivery would work, with many citing clarity and early certainty as important. Views are mixed about whether there should be a rules-based or discretionary approach in applying the criteria for determining who can develop an asset.
- The longer-term approach to interconnection was a priority area for many stakeholders. Most prefer a more coordinated approach to developing interconnection. While some see merit in a centrally-determined approach, others discuss the benefits of a developer-led approach or argue that central identification would be too directive.
- Other issues raised by respondents relate to landscape impacts and local planning issues, risk-sharing methodologies for multiple-purpose projects, the use of a single transmission licence, and the interaction with “Projects of Common Interest” designated under the EU Energy Infrastructure Package.