

National Grid Electricity Transmission Plc
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National Grid Electricity System Operator Limited
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Cc: Transmission Owners, System Operator,
Distributors, Generators, Suppliers, Traders,
Consumers and Other Interested Parties

Email: David.Beaumont@ofgem.gov.uk

Date: 3 September 2021

Direction to relieve National Grid Electricity Transmission Plc and National Grid Electricity System Operator Limited of the obligation to comply with Section D Part 2 of the SO-TO Code for Pathfinder connections

Background

In accordance with Standard Licence Condition ("SLC")¹ B12(9) of their Electricity Transmission Licences, both National Grid Electricity Transmission Plc ("NGET") and National Grid Electricity System Operator Limited ("NGESO") are required to comply with the System Operator – Transmission Owner Code ("STC")². This obligation applies to all parties to the STC. Parties to the STC are NGESO (as the System Operator), the Offshore Transmission Owners ("OFTOs") and the Onshore Transmission Owners ("TOs"), which include NGET.

NGESO has started running competitive tender processes for system services (providing solutions to network stability, voltage, and constraint problems) known as Pathfinders.³ In previous Pathfinder tenders, participants have sought to secure a connection to the system independently. Once a party submitted a request, NGESO and the TOs followed the process set out in the STC (and associated STC Procedures ("STCPs")) to assign a connection to the party, including a date and cost for that connection. Due to the large number of Pathfinder parties tendering for few contract awards, this has caused several issues including:

- causing an artificial increase in future network requirements, lengthening the connections queue and impacting the dates and costs associated with connection offers (affecting those seeking connections both within and without the Pathfinder);

¹ Transmission Standard Licence Conditions can be found at:

<https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

² The SO-TO Code and Procedures can be found at: <https://www.nationalgrideso.com/industry-information/codes/system-operator-transmission-owner-code-stc/code-documents>

³ Details on NGESO's Pathfinders can be found at: <https://www.nationalgrideso.com/future-energy/projects/pathfinders>

- submissions into the Pathfinder tenders being made on unequal basis⁴; and
- adding workload and costs to TOs, and, ultimately, costs to consumers.

NGESO is due to announce opening of the tender for its Phase 3 Stability Pathfinder in summer 2021. To avoid the problems identified from previous Pathfinder tenders, NGESO and NGET have developed an alternative process which they intend to trial whereby connections for Pathfinders can be issued on conclusion of the Pathfinder tender to the successful party/ies. However, this process differs from the process currently in the STC (found under Section D, Part 2) and as such would cause NGET and NGESO to be non-compliant with their licence obligations.

We⁵ received submissions from NGET on 26 July 2021 and from NGESO on 23 August 2021 requesting to be relieved of their obligation to comply with the STC for the connection process associated with the Phase 3 Stability Pathfinder.

Alternative process to be followed

The trial process developed by NGESO and NGET for connection applications in the Phase 3 Stability Pathfinder will be as follows:

- NGESO shall inform NGET of the substations which fall in-scope of the Pathfinder and instruct NGET to reserve capacity at those locations in accordance with paragraph 4.3 of STCP 16-1.⁶
- NGET shall reserve⁷ that capacity at each substation (subject to a positive outcome from feasibility studies conducted for each substation by NGET) for the duration of the Pathfinder tender. The feasibility study for suitable sites shall output costs and timeline associated with connecting capacity at the reserved location which NGESO can then factor into the Pathfinder tender process and share with tendering parties.
- NGESO shall update the construction planning assumptions based on the reserved capacity at each substation (using best estimates of fault levels and amount of connected active and reactive power).
- Once the successful party/ies of the Pathfinder tender have been notified, they shall make an application following the standard connection process⁸ and the relevant reserved capacity shall be made available to them. All other reserved capacity shall revert to being available to the wider market at this point.

Reasons for our decision

We have received supporting information from both NGET and NGESO which explains why they consider the proposed process to be beneficial. We agree with their assessment that the proposed process is more likely to provide an efficient and equitable tender, with subsequent benefits to Pathfinder parties, the wider industry, and consumers. We therefore believe there are overall benefits to consumers from NGESO and NGET trialling this approach in the Phase 3 Stability Pathfinder whilst an enduring solution is developed.

We consider that the efficiency gains in holding the tender following this process should avoid a delay to the Pathfinder, which NGESO has shown has the potential to save in the order of tens of millions of pounds to the consumer. Further, we understand that the issues in previous Pathfinders, such as those listed above, will be avoided, and thus it is more

⁴ Parties entering the pathfinder with a connection date later than the intended contracted service start date were at a significant commercial disadvantage. Additionally, any party who received a connection offer which included additional works for the TO (for example, expansion works) as a result of the apparent high volume of connection applications through the Pathfinder could expect a higher cost estimate for their connection, making them less attractive than other tenderers.

⁵ The terms “we”, “us”, “our”, “Ofgem” and “the Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

⁶ STCP 16-1 is titled Investment Planning.

⁷ By ‘reserving’ this capacity, NGET shall treat it as an agreed connection. Hence, any subsequent connection applications by parties outside of the Pathfinder would be agreed for dates after the Pathfinder connection.

⁸ The standard connection process follows Section D Part 2 of the STC and STCP 18-1 – Connection and Modification Application.

likely that the most economic solution to the Pathfinder will be found. We also expect this approach will benefit other parties subsequently seeking to connect to the system, as it should lead to connection offers that do not factor in an artificially high number of connections as a result of the Pathfinder.

While we normally expect that a change in process such as this should be progressed through changes to the STC, we understand that the time-bound nature of the Phase 3 Stability Pathfinder means that a change process would not be possible before opening of the tender. Through our engagement with NGET and NGESO, we have established that trialling this process for Phase 3 Stability Pathfinder will ensure that changes made to the STC for an enduring solution will be optimised, capturing the learning from this process and participant feedback.

As the geographical scope of the Phase 3 Stability Pathfinder is limited to England and Wales, we consider that the main affected STC parties are NGESO and NGET. We consulted with them, and both parties are happy to proceed with this trial using the process as outlined in this letter. We expect NGESO to now engage further with the TOs and OFTOs as well as with other market parties in order to establish the best enduring approach to pathfinder connections.

Decision and next steps

Under our powers outlined in SLC B12(15), we direct that NGET and NGESO are relieved of their obligation to comply with the STC as per SLC B12(9), against the following constraints:

- This direction only applies in relation to the tender for the Phase 3 Stability Pathfinder. The direction expires when the connection application is made by the parties who are successful in the Pathfinder tender.
- This direction allows NGET and NGESO to follow a process which differs from that outlined in STC Section D Part 2.
- NGET and NGESO are only to follow the process detailed in this letter in place of the process outlined in STC Section D Part 2.
- This direction is made to alleviate the issues caused by Pathfinders in the short term, however it is not viewed as the enduring solution – we expect parties to the STC to work to update the STC and STCPs with an appropriate solution, as applicable.

We expect NGESO, the TOs and OFTOs to work together during the tender process to update the STC and STCPs to ensure that those documents properly reflect the connection application processes appropriate to Pathfinders for future tenders. We further expect that the Phase 3 Stability Pathfinder conducted under these rules be used to receive stakeholder feedback on the process to inform changes to the STC and STCPs.

Yours sincerely,

David Beaumont
Senior Economist – SO Regulation

Annex 1 – Direction on Condition B12 in relation to NGET’s compliance with SO-TO Code.

For and on behalf of the Gas and Electricity Markets Authority

DIRECTION PURSUANT TO PARAGRAPH 15 OF STANDARD LICENCE CONDITION B12 OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC’S ELECTRICITY TRANSMISSION LICENCE IN RELATION TO THE SO-TO CODE CONNECTION APPLICATION PROCESS FOR PATHFINDERS

Whereas:

1. National Grid Electricity Transmission Plc (“NGET”) is the holder of an electricity transmission licence (the “Licence”) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the “Act”).
2. Standard Licence Condition (“SLC”) B12 (System Operator – Transmission Operator Code), paragraph 15 allows the Authority to direct that NGET is relieved from its obligation to follow the System Operator – Transmission Owner Code (“STC”), following consultation with the affected STC parties.
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct that NGET is relieved of its obligation to follow STC Section D Part 2. The direction allows NGET to reserve capacity following instruction from National Grid Electricity System Operator Limited (“NGESO”) pursuant to paragraph 4.3 of STC Procedure 16-1, adhering to the process outlined in the letter to which this Direction is attached. The direction further allows NGET to put connection requests received subsequent to the instruction from NGESO later in the queue than the capacity reserved for the Pathfinder. This is valid only for the purposes of the NGESO Phase 3 Stability Pathfinder tender process.

Therefore:

In accordance with paragraph 15 of SLC B12, the Authority hereby directs NGET to follow the outlined process instead of the process described in STC Section D Part 2, effective immediately, with this Direction remaining in place until the parties successful in the Pathfinder tender submit connection requests.

This Direction and the letter to which it is attached constitutes notice of the reasons for the decision pursuant to section 49A of the Act.

David Beaumont

David Beaumont – Senior Economist – SO Regulation
For and on behalf of the Gas and Electricity Markets Authority
3 September 2021

Annex 2 – Direction on Condition B12 in relation to NGESO’s compliance with SO-TO Code.

For and on behalf of the Gas and Electricity Markets Authority

DIRECTION PURSUANT TO PARAGRAPH 15 OF STANDARD LICENCE CONDITION B12 OF NATIONAL GRID ELECTRICITY SYSTEM OPERATOR LIMITED’S ELECTRICITY TRANSMISSION LICENCE IN RELATION TO THE SO-TO CODE CONNECTION APPLICATION PROCESS FOR PATHFINDERS

Whereas:

1. National Grid Electricity System Operator Limited (“NGESO”) is the holder of an electricity transmission licence (the “Licence”) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the “Act”).
2. Standard Licence Condition (“SLC”) B12 (System Operator – Transmission Operator Code), paragraph 15 allows the Authority to direct that NGESO is relieved from its obligation to follow the System Operator – Transmission Owner Code (“STC”), following consultation with the affected STC parties.
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct that NGESO is relieved of its obligation to follow STC Section D Part 2. The direction allows NGESO to instruct National Grid Electricity Transmission Plc (“NGET”) to reserve capacity pursuant to paragraph 4.3 of STC Procedure 16-1, adhering to the process outlined in the letter to which this Direction is attached. This is valid only for the purposes of the NGESO Phase 3 Stability Pathfinder tender process.

Therefore:

In accordance with paragraph 15 of SLC B12, the Authority hereby directs NGESO to follow the outlined process instead of the process described in STC Section D Part 2, effective immediately, with this Direction remaining in place until the successful Pathfinder tender parties submit connection requests.

This Direction and the letter to which it is attached constitutes notice of the reasons for the decision pursuant to section 49A of the Act.

David Beaumont

**David Beaumont – Senior Economist – SO Regulation
For and on behalf of the Gas and Electricity Markets Authority
3 September 2021**