

Matthew Wright  
[matthew.wright3@nationalgrideso.com](mailto:matthew.wright3@nationalgrideso.com)  
[www.nationalgrideso.com](http://www.nationalgrideso.com)

8<sup>th</sup> June 2022

**National Grid ESO response to Minded-to Decision on Anticipatory Investment and Implementation of Policy Changes**

Dear Adam Heffill,

We welcome the opportunity to respond to your Minded-to Decision on Anticipatory Investment and Implementation of Policy Changes consultation.

National Grid ESO is the electricity system operator for Great Britain. We move electricity around the country second by second to ensure that the right amount of electricity is where it's needed, when it's needed – always keeping supply and demand in perfect balance. As Great Britain transitions towards a low-carbon future, our mission is to enable the sustainable transformation of the energy system and ensure the delivery of reliable, affordable energy for all consumers.

The ESO holds a unique position at the heart of the nation's energy system. We use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers.

**Please find below the key points of our response:**

- **We welcome the proposals and associated minded-to decisions set out within the consultation. We believe that this is a positive step towards unlocking the challenges of offshore coordination. The ability to proceed on an Anticipatory Investment (AI) basis is a key building block of an offshore industry that is more coordinated.**
- **We support the concept of consumer sharing for AI in order to facilitate greater coordination of in-flight projects within the Early Opportunities workstream.**
- **We agree with the proposed approach to recovery of AI costs as described in policy option 3. We suggest the proposed payment option could be broadened though.**
- **We welcome the introduction of an early stage assessment process. However, we would like clarity on the timeline and resources required. In addition, we see that the approved financial value of the AI should be included in the confirmation response from Ofgem.**
- **We support the request for an extension to the user commitment arrangements in the Connection and Use of System Code (CUSC) and suggest that the methodology for AI needs further consideration.**
- **We recognise the role of the ESO in raising any relevant code modifications. However, we would like clarity on whether the intention is to ring fence these to Early Opportunities.**
- **We look forward to continuing to work with Ofgem and the industry to develop the detail required to implement any changes. We believe that it is important that any changes made to policy, codes or methodologies are prescriptive and therefore, unambiguous.**

More information on these points can be seen in our response to your questions appended to this letter.

We welcome the opportunity to discuss any of the points raised within this response. Should you require further information or clarity on any of the points outlined in this paper then please contact Luke Wainwright in the first instance at [Luke.Wainwright@nationalgrideso.com](mailto:Luke.Wainwright@nationalgrideso.com). Our response is not confidential.

Yours sincerely



Matthew Wright  
Head of Strategy and Regulation

## Appendix 1 – Consultation Question Responses

We welcome the proposals and associated minded-to decisions set out within the consultation. We believe that this is a positive step towards unlocking the challenges of offshore coordination; the ability to proceed on an anticipatory investment basis is a key building block of an offshore industry that is more coordinated.

We recognise that CUSC modifications will need to be raised. For example, in relation to the user commitment arrangements. We intend to liaise with Ofgem and the industry to progress this work. We would expect that any CUSC modifications that are raised, and subsequently enshrined in the CUSC, are theoretically then applicable to all CUSC signatories and therefore, all Offshore Transmission Network Review (OTNR) workstreams. We would welcome clarity from Ofgem on whether this is the intention.

We also recognise that some projects will need to progress ahead of CUSC modifications being concluded. Therefore, in our view these projects will need to progress on a case by case and in-principle basis. To give certainty to developers this may make the requirements for standalone agreements between Ofgem, the ESO and relevant developers necessary.

We are aware that there is a lot to finalise in order to move to these new ways of working as an industry and as a result there is a level of uncertainty at present. It is important that any changes made whether they be to policy, codes or methodologies are prescriptive and therefore, unambiguous to avoid a lack of clarity for all industry participants. We look forward to working with Ofgem, BEIS and the industry to assist in providing clarity where we can.

### Section 2. Anticipatory Investment – Consumer Sharing

#### Question 1 - Do you agree that consumers should underwrite the risk of the AI Cost Gap by funding the AI Cost Gap until the later user starts paying TNUoS charges?

Yes, we agree. Of the three options described, we believe that this approach represents the fairest balance of risk between developers and consumers.

We welcome the change to the previous approach to AI, as described in Ofgem's July 2013 policy statement, which placed the sole responsibility for risk on the developer that was intending to make an anticipatory investment in offshore transmission infrastructure. This revised proposal will act as an enabler to achieving greater coordination within the Early Opportunities workstream and supports the overall aspirations of the OTNR.

#### Question 2 - Do you agree with the proposal to recover the AI Cost Gap from the later user if the later user connects? If so, do you agree that this should take place over the period of the relevant OFTO licence, starting from the date that the later user starts to pay TNUoS charges?

Yes, we agree with this proposal. This would seem appropriate as it is the later user that is the ultimate beneficiary of the AI.

Regarding the second question, we agree in principle and understand the logic of spreading the cost over a defined period. There may also be value in allowing developers to decide whether they may wish to make a lump sum one off payment or pay the amount via a staged payment arrangement. Offering these additional routes to settle the cost of the AI would be in keeping with existing payment methods that users can opt for in certain circumstances. For example, where a customer has requested that additional assets are installed for their connection that go above and beyond what would be deemed an economic and efficient design by the Transmission Owner (TO).

It is worth noting that any method of payment offered which is over an extended period will require further analysis to ensure that the risk to consumers is kept to a minimum.

**Question 3 - Do you agree that, save for any amounts recovered under user commitment arrangements, AI costs should be recovered from consumers if the later user fails to connect?**

Yes, we agree. The Early Opportunities workstream of the OTNR is based upon a “developer-led” approach. This means that developers have worked together to identify opportunities to coordinate known projects. Whilst we would hope that the possibility of the later user failing to connect for any project under this workstream is minimal, we recognise that this situation may arise and therefore, agree that it is entirely sensible that consideration is given to how any remaining costs could be recovered. In our view recovering said costs from the consumer would be a rational and proportionate response.

Having said that, we are conscious that there is the potential for a number of scenarios to occur, which could have an impact on the AI and from whom any associated cost is recovered. For example, where the later user decides to reduce the size of their project and the AI is no longer the most efficient and economic design solution, or where the later user is unable to proceed with their project, but a new user is able to utilise the AI assets. Therefore, we see value in working through the possible scenarios in more detail.

We would be happy to discuss this with Ofgem if it was felt that this would assist the development of the methodology.

**Question 4 - Do you agree with our assessment that policy option 3 better meets the aims of the Early Opportunities workstream of the OTNR?**

Yes, we agree. In line with the next steps described in 2.68 of the document, we acknowledge that any outcome of this consultation will result in the requirement for a code modification to be raised and progressed under open governance to apply the changes needed.

**Question 5 - Do you have views on the modelled assessment of capital cost savings? Please provide any additional quantitative analysis and any further information.**

As stated in our response to Question 4 above, we are supportive of the approach outlined in policy option 3. With regard to the quantitative analysis which has been provided, we believe that developers are better placed to comment, as it is based upon the use of capital expenditure values for offshore transmission infrastructure.

**Section 3. Anticipatory investment – Early Stage Assessment Process**

**Question 6 - Do you agree with the introduction of the proposed early stage assessment process?**

We support the approach that has been suggested. This is on the basis that its intent is to encourage coordination in offshore transmission infrastructure by providing a level of certainty to developers, specifically around the treatment of AI. Thus, enabling developers to make informed decisions and supporting the objectives of the Early Opportunities workstream of the OTNR.

In reviewing the proposed process, we have assumed that the output of any early stage assessment will provide the ESO with the information necessary for the user commitment process. For example, in order to determine the amount a developer would need to provide security for under the user commitment arrangements (once defined for AI) we would need to know the indicative final value of the approved AI, along with the associated spend profile during the period of construction until connection of the later user.

We welcome Ofgem’s intention to issue updated guidance documents in relation to both the early stage assessment process and approach to cost assessment in relation to AI.

**Question 7 - Do you think the information sought as part of the early stage assessment process is appropriate?**

In our view the information being sought for the early stage assessment process appears logical.

As voiced in Section 3, 3.10, we also recognise the challenges there may be for developers in meeting the desire to initiate the early stage assessment process as soon as possible, whilst providing the information Ofgem is asking for. In our response to Question 8, we explore the impact timing may have on the processes we will undertake with those developers who choose to participate in Early Opportunities projects.

### Question 8 - Do you have any views on the timing of the early stage assessment process?

For those developers that opt-in to the Early Opportunities workstream there will be a requirement to submit a Modification Application to amend their existing bilateral agreements with the ESO in order to reflect a coordinated design. Therefore, it is important that all parties understand the steps in the early stage assessment process and in particular, the timeline for the end-to-end process. We believe this will have an interaction with, and impact on, the timings of the developer submitting the Modification Application.

Based on our understanding, we would envisage a process whereby:

1. A new coordinated design is produced and agreed by the ESO and the relevant developers. This could be in the form of the existing Connections Infrastructure Options Note (CION) process, or an equivalent process which would need to be developed.
2. Based on this coordinated design, the first developer submits an application to Ofgem for an early stage assessment of AI.
3. Once Ofgem has completed the early stage assessment process in full and the final decision letter has been issued, each affected developer then submits their Modification Application to the ESO including the standard application information<sup>1</sup> and in addition, the Ofgem-approved AI early stage assessment output.
4. The ESO will then issue a Modification Offer to the developer within the current CUSC timescale of three months, which will include an obligation for the later user to secure the AI (on the basis that the methodology for this requirement is clearly documented and has been implemented).

It is worth noting that a further step would be required which recognises the situation where a developer goes back through the early stage assessment process where a material change to their project has occurred. This would result in the need for the developer to submit a further Modification Application to the ESO and for the CION (or equivalent process) to be revisited.

In order to facilitate increased coordination in the Early Opportunities workstream, clarity is needed on the timescales and resources required for the steps described above, and the expectation of the ESO's involvement in the end-to-end process. To make best use of the available resource of all industry participants and arrive at the most effective way to take this forward, we suggest that efforts are focused on those project proposals that are most developed.

We welcome the opportunity to discuss with both Ofgem and developers how we might explore the details, and associated timescales, of any such process.

### Question 9 - Is there any other information which you believe should be included in the confirmation to developers?

As explained in our response to Question 6, we would expect that any confirmation provided to developers by Ofgem as a result of an early-stage assessment, would include an explicit AI value that the developer could then provide to the ESO for the purposes of user commitment arrangements. In addition, we would need an AI spend profile for the period of construction through to when the later user connects. Developers will be expected to provide an updated version of the AI spend profile on a six-monthly basis up until the point that the later user connects, and the requirement to provide security under the bilateral agreement and the CUSC then falls away.

---

<sup>1</sup> <https://www.nationalgrideso.com/industry-information/connections/connecting-electricity-grid-process>

## Section 4. Minimising AI Risk with User Commitment

### Question 10 - Do you agree with the proposed extension of user commitment arrangements to the potential later user of offshore transmission infrastructure which has been funded by AI?

Yes, we agree. As the offshore transmission assets which are classed as AI are being built by the initial user to facilitate a potential later user, we would agree that it is appropriate for the later user to demonstrate their commitment to their project ahead of connection to the network by putting in place user commitment arrangements. This approach is in keeping with the principles which currently exist in relation to provision of security and liabilities in the event of failure to connect, or where there is a material change to a project. It also supports a desire to minimise the risk to consumers from oversized or stranded assets.

As referenced in Section 4, 4.9 of the consultation document, we recognise the requirement for the ESO to bring forward a code modification to extend the provision of user commitment arrangements to encompass new offshore transmission assets that serve multiple users. Further clarity from Ofgem on whether any changes to the user commitment requirements encompass both the Early Opportunities workstream and the other workstreams under the OTNR would be welcomed.

We will continue to work closely with Ofgem over the coming months in order to develop these proposals.

### Question 11 - Do you have any views on the manner in which the user commitment should be calculated?

In our view there are several considerations which will need more detailed scrutiny before a user commitment methodology specific to the treatment of AI can be determined.

At present offshore developers (under generator build arrangements) provide security relating to Transmission Owner (TO) expenditure which factors in the size of the developers' project. This uses Transmission Entry Capacity (TEC) as a proportion of the overall capacity of the assets built, along with a factor that takes into account the ability for those assets to be reused. Developers can then choose for the amount they would be liable for upon termination to be reconciled against actual spend by the TO, or "fix" the liability so that no reconciliation would occur. In the latter option any shortfall in the event of termination is ultimately picked up by consumers.

Another option to secure transmission asset works currently exists, which is commonly utilised for demand connections. This is based purely upon an estimate of expenditure by the TO, which is then reconciled upon termination. The value is not apportioned by TEC but there would be consideration of asset reuse in any reconciliation. This approach could be considered for AI as it may be clearer for parties to understand and easier to administer, whilst potentially affording better protection to consumers by avoiding the risk of any shortfall being passed on.

As mentioned in our response to Question 10 above, we intend to engage fully with the industry to explore in greater detail the options that may be available and plan to raise an associated code modification at an appropriate time.