

National Grid response to the consultation on Ofgem's forward work programme 2023/24

3 February 2023

This response is on behalf of National Grid Plc and includes the views of our business units National Grid Electricity Transmission (NGET), National Grid Electricity Distribution (NGED) and National Grid Ventures (NGV). It does not reflect input from National Grid Electricity System Operator (ESO).

We are grateful for the opportunity to provide views on Ofgem's forward work programme for 2023/24 (FWP). We have split our feedback into two parts – the first part sets out our overarching comments on the FWP, focusing on the strategic priorities, consumer interest framework and material workload, and the second part provides our feedback against the individual projects and programmes of work under each priority.

1. Overarching comments

Strategic priorities:

We very much agree with the remarks made in Jonathan Brearley's foreword, where he acknowledges that a low-carbon future is the best way to construct an efficient and secure low-carbon system:

"We know that the economics of energy have changed, with renewables and low-carbon generation becoming not only the most sustainable but also the cheapest and most secure option. This will also mean rapidly developing new market reforms and governance arrangements so that the energy system is optimised for a more flexible future, delivering new infrastructure at pace, and cost-effectively enabling customers to shift their demand over time, and adapt the system for more intermittent sources of renewable energy."

While the current challenges in the energy sector of course need to be managed and should remain a priority focus for Ofgem in 2023/24, it is also important that progress is made on items that will support delivery of the secure and lower-cost low-carbon system of the future. For National Grid, this includes:

- closing out the methodology and licence drafting for setting the ASTI allowances and the details of the ODIs in order to maintain the quick and positive progress that has been made on the ASTI projects including that seen in Ofgem's decision in December 2022;
- putting in place an appropriate regulatory framework for future price controls that takes a more output-focused, principles-based approach, allowing the network companies the ability to progress work flexibly and at pace, while ensuring efficient and effective delivery of the outcomes that matter most to consumers;
- providing early certainty on the need for critical infrastructure investment (as was done for the ASTI projects), including confirming who will deliver the offshore platform technology to connect certain offshore wind, and ensuring the right roles and responsibilities for developing the centralised strategic network plan (CSNP) are clarified and agreed. Alongside this, greater clarity is needed on which projects will be subject to competition and the point at which decisions will be taken;
- Ofgem working together with the TOs, the DNOs, the ESO and government to agree the changes necessary to the connections process to ensure customers wishing to connect to the network can do so in the timeframes they require. A crucial part of this will be ensuring that investment and systematic upgrades of the networks is done in anticipation of new connection requests, not in the incremental way it is done at the moment. This will also require prioritising generation and demand connections in line with government policy and moving away from the first come first served approach of today; and
- concluding the initial project assessments for interconnectors and multipurpose interconnectors (MPI) and developing the MPI pilot regulatory regime.

While most of these points are covered in the FWP, we are concerned that many of them are badged as 'longer-term priorities' and form part of a wider list of work. Though they contribute to achievement of longer-

term policy targets, it is crucial that they receive the focus needed this year to allow those long-term targets to remain on track and ensure energy prices are fair in the longer term.

Alongside this, it is unclear how Ofgem has determined the split of “short-term” and “longer-term” priorities and whether the use of these definitions is appropriate, without further clarification on what they mean. For example, the three short-term priorities might be better categorised as “enduring” priorities, given Ofgem must continually focus on these points. On the longer-term priorities, we are unclear on the rationale for linking them to 2030, as many of them will continue to have relevance beyond that point. We also question whether two of Ofgem’s longer-term priorities (developing and delivering market reforms; and reforming governance arrangements) are areas that BEIS/government should be leading on, with Ofgem taking a more supporting role.

Consumer Interest Framework:

We agree it is important for Ofgem to have a Consumer Interest Framework. As set out in NGED’s response to ED2 Draft Determinations (a copy of Chapter 5 of the response is attached with this submission), it is important that Ofgem takes a broad approach to measuring consumer value. We refer Ofgem to the detail set out NGED’s paper, in particular section 5.9, but note that it is important for Ofgem’s framework to view consumer interests as more than just cost savings and to focus on more than just the impact on the network element of the consumer bill. There will be circumstances where spending more money will lead to better overall outcomes for consumers, in terms of the impact on the total consumer bill for current and future generations, as well as broader societal and economic benefits. It is therefore important that the overall benefits to consumers today and in the future are considered over the life of the assets, not just in the year the investment is made or cost incurred, and take account of the broader consequences for those consumers if the investment was not made or cost not incurred.

We think Ofgem’s framework would benefit from a whole-system perspective that sits across the whole framework to ensure the interplay between the four-pillars is recognised and optimised. For example, timely delivery of the energy transition will support delivery of fair prices, and resilient industry participants will be better placed to both deliver efficiently and focus on quality and service.

While we welcome the framework, we would like to understand how Ofgem’s framework will work alongside the Strategy and Policy Statement (SPS) for Ofgem that we understand BEIS is expected to publish shortly. It will be important that the two documents are consistent and don’t lead to confusion over how decisions should or will be taken or the trade-offs that will be made.

Workload:

Given the significant workload already being placed on Ofgem and the sector, we are concerned at the volume of work Ofgem needs to focus on and deliver in the coming year. Ofgem’s priorities for this year are necessary, but they will be significant and, as the FWP notes, alongside those priorities Ofgem will also need to deliver its normal workload, which is itself increasing with additional uncertainty mechanisms under ED2 and additional roles in heat and nuclear.

We are conscious there are already delays in some of the re-opener decisions and think it is important for Ofgem to explain how it is planning to manage this increased workload, the approach it will take to avoid delays in decision-making and how the network companies can support it in meeting the increased demands.

2. Specific feedback on projects and programme of work:

The table sets out some specific comments we had on a number of the projects and programmes of work:

Project / programme of work	Commentary / feedback
Short-term priority: Ensuring prices are fair	
Government Bill Support	- Many of the schemes referenced come to an end in March 2023, so may be less relevant to Ofgem’s work from April 2023. May be worth adding an explicit reference to any successor schemes.

Project / programme of work	Commentary / feedback
Short-term priority: Creating resilience across the energy sector	
Security of supply	<ul style="list-style-type: none"> - We acknowledge this is a key immediate focus for Ofgem, but note that supporting and progressing the timely energy transition, including through investing in and ensuring safe, secure and reliable connections to and operations of the electricity networks, will also be critical in supporting enduring security of supply. - We question if it is for Ofgem to review the security of supply legislative framework to ensure roles and responsibilities are clear, or if this sits with government.
Cyber	<ul style="list-style-type: none"> - This is an area we support, but believe should be an ongoing priority for Ofgem, rather than described as a short-term priority.
Other	<ul style="list-style-type: none"> - We think it is important that industry participants start to think about how they ensure resilience and security of supply in the face of more extreme weather events and impacts from climate change. While less of a 'short-term' focus, we were surprised to see that climate adaptation measures is not part of the projects and programmes being considered as part of 'resilience'.
Short-term priority: Setting, monitoring and enforcing quality standards	
Other	<ul style="list-style-type: none"> - We were surprised to see preparations for the establishment of the FSO and respective roles/responsibilities not included as part of the projects and programmes of work in this section.
Longer-term priority: Facilitating infrastructure investment	
Enable time-critical investment in infrastructure	<ul style="list-style-type: none"> - We think this section would benefit from a more explicit link to enabling the path to net zero and the infrastructure required for 2030, 2035 and 2050 net zero targets. - It isn't clear why Ofgem only refers to "strategic transmission investment" in the description, yet recognises wider investment needs, including distribution, in the detailed objective. We recommend Ofgem just refers to "strategic investment" in the description. - We think the first bullet point in "objectives" would benefit from a more explicit reference to the finalisation of the ASTI framework in terms of setting allowances and the detail of the ODIs. - We welcome Ofgem's intention to conclude the initial project assessments for interconnectors and multipurpose interconnectors. - The final bullet point re improving connection times should make reference to the network companies and the ESO who are already closely involved in this area and Ofgem will need to continue to work in partnership with them. - Given the description of this priority includes coordinated infrastructure and networks, we think this section should also reference the need to finalise the roles and responsibilities for developing the future CSNPs.
Future network regulatory framework	<ul style="list-style-type: none"> - The 'description' of this priority could be read as only relating to the "gas grid" as it does not reference 'electricity networks'. Suggest re-wording to "Set policy direction for a new regulatory framework <u>for the electricity and gas network companies</u> and begin work to determine an optimal approach for the future of the gas grid." - Elements of this priority have a more short-term focus and this links to needing more clarity on why it is seen as a 'long-term priority', e.g. developing and confirming the price control frameworks needs to be done as soon as possible to ensure enough time to prepare for the next price control in 2026, which links to the second bullet point re implementation from 2026. - The objectives should also include finalising the framework for ASTI and developing the regulatory regime for the multipurpose interconnector pilot. - In the final bullet point, the link between increasing network capacity and enabling innovative solutions with competition suggests these things can only

Project / programme of work	Commentary / feedback
	be achieved via competition. It is important these themes are also part of the new regulatory price control framework for the network companies.
Longer-term priority: Developing and delivering market reforms	
Enabling markets for flexibility	<ul style="list-style-type: none"> - DSOs and local markets can provide a lot of benefit to consumers and the system by helping to manage the capacity of the distribution networks and can provide an economic and responsive route to managing capacity shortfalls either as an alternative to, or until the need is established for, reinforcement of the network. We think this is an area that should be included within the scope of this programme of work, alongside the objectives listed in the FWP.
Wholesale market and network charging arrangements	<ul style="list-style-type: none"> - As noted in our overarching comments, we believe Ofgem's role in this area is more to support the work being led by BEIS, so suggest clarifying that the recommendations being developed by Ofgem are to feed into the REMA work being led by BEIS.
Longer-term priority: Reforming governance arrangements	
FSO and local governance	<ul style="list-style-type: none"> - In terms of the objective on GB-wide planning for the ET network (which we assume references the CSNP), we would like this to more explicitly reference the CSNP and clarify that the roles, responsibilities and capabilities need to be "determined" as well as "delivered". It is important that the TOs (and other stakeholders) are given the appropriate opportunities to feed into the development of the plan, so the CSNP is agreed by all relevant parties and does not become a contentious plan, which would lead to delays. - We welcome Ofgem's plan to publish its 'minded-to' position on the future local institutions and governance and what this means for DSOs.