

Decision

Decision on the assessment of 2023 NGET's MSIP initial needs case submissions

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This document sets out our¹ initial decision following a consultation on the assessment of two of National Grid Electricity Transmission plc's (NGET's) initial needs case submissions under the Medium Sized Investment Projects (MSIP) re-opener mechanism. Although we accepted and assessed some initial needs case submissions during the 2022 and 2023 MSIP submission windows without cost assessment information, we expect that future MSIP submissions will include all the information necessary for us to assess both the needs case and the efficient costs for the relevant projects together.

We published a consultation on 24 July 2023, setting out our assessment and draft determinations concerning five initial needs case submissions submitted by NGET. The consultation closed on 21 August 2023. This document summarises the responses received and our initial decision after careful consideration of these responses. We have published non-confidential responses² to the consultation alongside this document.

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² <https://www.ofgem.gov.uk/publications/consultation-first-stage-assessment-ngets-msip-re-opener-applications>

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1. Introduction

Context and related publications

1.1. Network companies are natural monopolies. Effective regulation of privatised for-profit monopolies is essential to ensure they cannot unfairly exercise their monopoly power to the detriment of their customers. This is particularly important in the case of essential utilities, such as energy, where consumers have no choice on whether or not to pay what they are charged. It is therefore crucial that an effective regulator protects energy consumers by controlling how much network companies can charge their customers. Ofgem³ does this through periodic price controls that are designed to ensure network companies are properly incentivised to deliver the best possible outcomes for current and future gas and electricity consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.

1.2. 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).

1.3. Special Condition (SpC) 3.14 Medium Sized Investment Projects Re-opener and Price Control Deliverable (MSIPRE_t) (MSIP Re-opener) of the Licence is a mechanism that provides Electricity Transmission Owners (ETOs), such as NGET, with an opportunity to request additional funding on projects with a value of less than £100m. Applications may only be made on projects where Baseline Allowances have not already been provided, and subject to other qualifying criteria as set out in SpC 3.14 during the reopener windows specified in SpC 3.14.

1.4. In the January 2023 reopener window, NGET submitted two applications, which are both initial needs case submissions. On 24 July 2023, we published the consultation on the assessment and our draft determinations relating to the two initial needs case submissions as listed below.

- Leiston project
- Pathfinders project

1.5. This document is intended to be read alongside:

- Consultation on the assessment of initial needs case submissions of two 2023 Medium Sized Investment Projects from NGET⁴

³ The terms ‘the Authority’, ‘Ofgem’, ‘we’, ‘us’ and ‘our’ are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

⁴ <https://www.ofgem.gov.uk/publications/consultation-first-stage-assessment-ngets-msip-re-opener-applications>

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- NGET’s MSIP re-opener submission documents⁵ on NGET’s website

Our decision-making process

Responses to the consultation

1.6. We received two responses to the consultation from NGET and from National Grid Electricity System Operator (NGESO). We have carefully considered both of these responses and taken them into account in making our initial decision. A summary of the responses in relation to each MSIP project is provided in chapter 2 of this document.

Our decision-making

1.7. The decision-making stages are detailed below:

Date	Stage description
28/06/2023	Stage 1: Consultation opens
26/07/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
23/08/2023	Stage 3: Responses reviewed and published
04/10/2023	Stage 4: Initial decision published

General feedback

1.8. We believe that consultation is at the heart of good policy development. We would welcome your comments about this document. We’d also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Do you have any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

⁵ <https://www.nationalgrid.com/electricity-transmission/who-we-are/riio2-business-plan>

2. The two MSIP initial needs case submissions from NGET

Background

2.1. In the January 2023 MSIP Re-opener submission window, NGET set out its plan for carrying out the following projects:

- 1) Leiston project: construction of 2 x 132kV GIS (gas-insulated switchgear) Bays at Leiston 132kV Substation in Suffolk by August 2024.
- 2) Pathfinders project: construction of new shunt reactors connected to the NGET sites.

Our draft determination

2.2. Having considered the evidence given in NGET’s submissions, we have published the consultation in July 2023,⁶ setting out our assessment and initial view on each of the projects. Our initial view is that the initial needs case for each of the two projects put forward by NGET is valid. Based on the information in the initial needs case submission, we are satisfied that there is a need for each project, that NGET has considered all viable options, and that it has correctly rejected all options but one.

2.3. The reasons for our initial views are detailed in the consultation document and summarised below.

- 1) The Leiston project is designed to facilitate construction of the new Sizewell C Nuclear Power Station by providing electrical supplies for the new development during the construction phase. We consider the initial needs case is valid because NGET is obligated to provide a connection for the customer in accordance with the statutory and regulatory requirement under the terms of the Licence.
- 2) The Pathfinders project is designed to provide reactive compensation to the system, as required by NGESO’s Network Options Assessment (NOA) High Voltage Pathfinder in the Pennine region. We consider the initial needs case is valid because this project is based on the results of the NGESO tender exercise, in which the NGESO has selected the most cost-effective ways to

⁶ <https://www.ofgem.gov.uk/publications/consultation-first-stage-assessment-ngets-msip-re-opener-applications>

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address high voltage system issues created by the need to absorb more reactive power on the transmission network. It also enables significant reinforcement in reactive power compensation required to maintain system operability.

2.4. We therefore proposed in the consultation to accept the initial needs case for each project and the preferred option presented by NGET in addressing the needs case.

Consultation responses

2.5. We received two responses to the consultation. These were from NGET⁷ and from the NGESO⁸, and we have published them alongside this document.

2.6. Both NGET and the NGESO agreed with our views set out in the draft determination for each of the projects, which are summarised in paragraphs 2.2 to 2.4.

2.7. For the Pathfinders project, the NGESO commented that the costs requested by NGET in this MSIP need to align with the costs provided by NGET to the NGESO as part of the Pennines tender assessment to ensure that the NGET reactors remain the most economic solutions to meet the voltage needs.

Our views

2.8. Having considered both of the consultation responses, and as there are no views opposing our initial assessment set out in the consultation, our provisional decision is to confirm the acceptance of the initial needs case for each of the two projects, and the preferred option presented by NGET in addressing the needs case.

2.9. We have not determined the efficient costs of these projects at this stage because the costs which have been provided as part of the application are only indicative. Efficient costs will be determined following our review of the full applications (when they have been submitted) when there will be sufficient information to allow us to assess the final needs case, project costs, associated outputs, and delivery dates. The licensee’s full

⁷ <https://www.ofgem.gov.uk/sites/default/files/2023-09/NGET%20MSIP%20Jan%2023%20-%20Needs%20Case%20consultation%20response%20final%20-%2017.08.2023.pdf>

⁸ <https://www.ofgem.gov.uk/sites/default/files/2023-09/ESO%20Consultation%20Response%20NGET%20MSIP%20Leiston%20and%20Pathfinders.pdf>

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applications must include all the information and evidence as set out in Chapter 3 of the Reopener Guidance⁹.

2.10. We will take into account NGESO’s comment on the costs for the Pathfinders project in the assessment of the efficient costs of the project.

2.11. As mentioned in the consultation¹⁰, it should be noted that although we accepted and assessed some initial needs case submissions during the 2022 and 2023 MSIP submission windows without cost assessment information, we expect that future MSIP submissions will include all the information necessary for us to assess both the need for the projects and the efficient costs together.

⁹ Re-opener Guidance and Application Requirements Document (Version 3), 3rd April 2023: <https://www.ofgem.gov.uk/publications/re-opener-guidance-and-application-requirements-document-version-3>

¹⁰ <https://www.ofgem.gov.uk/sites/default/files/2023-07/Consultation%20on%20the%20assessment%20of%20initial%20needs%20case%20submissions%20of%20two%202023%20Medium%20Sized%20Investment%20Projects%20from%20NGET%20.pdf> (Paragraph 1.12 of the consultation)

3. Next Steps

3.1. We have taken full account of the consultation responses and made the provisional decisions as detailed in Chapter 2, subject to receipt of appropriate evidence regarding the project delivery and the associated costs.

3.2. Once the full applications including project costs with associated outputs, delivery dates and allowances to be detailed as Price Control Deliverables are submitted in January 2024, we will assess and consult on the final needs case and efficiency of the proposed costs accordingly.