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Ofgem

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ESO Response to Consultation on policy updates to Early Competition in onshore electricity transmission networks

Dear Tom,

Thank you for the opportunity to respond to your consultation on the policy updates to Early Competition in onshore electricity transmission networks.

Who we are

As the Electricity System Operator (ESO) for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. We play a central role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate market-based solutions to the challenges posed by the trilemma.

Our transformation to the National Energy System Operator (NESO) is set to build on the ESO's position at the heart of the energy industry, acting as an enabler for greater industry collaboration and alignment. This will unlock value for current and future consumers through more effective strategic planning, management, and coordination across the whole energy system.

Our key messages

- Alignment of an early competition technical specification with the indicative solution identified in the Centralised Strategic Network Plan (CSNP) supports planning and a reduced consenting risk. The more clearly defined scope provides greater clarity of the project and therefore certainty to bidders.
- The proposed revision to the early competition model is a positive development to support Transmission Owner (TO) conflict mitigation.
- The ESO agrees that an Information Sharing Framework is important to support the successful delivery of projects. As the procurement body for early competition, it is logical that the ESO acts as an intermediary.
- We support the proposal that the TNUoS revenue recovery model for a Competitively Appointed Transmission Owner (CATO) be similar to the Offshore Transmission Owner (OFTO) model. The revenue certainty helps manage some of the bidder risk in a manner that is in the interest of the end consumer.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Alana Collis, Network Competition Interim Policy and Stakeholder Manager, at alana.collis-dugmore@nationalgrideso.com.

Our response is not confidential.

Yours sincerely

Sally Thatcher

Interim Network Competition Senior Manager

Appendix 1 – Consultation Question Responses

ESO's proposed amendments to Early Competition Plan in the EC-I Update

Question 1: Do you agree that the proposed amendments by the ESO represent good value for money for consumers?

We have considered the changes to the overall landscape of the electricity network development and transmission infrastructure. The proposed changes use a greater level of information to better crystallise the solution so that there is greater confidence and reduced risk for bidders. This is also considered to reduce the time to run a tender, reduce risk of delays and therefore reduce the cost to the end consumer.

Question 2: Do you agree with the ESO's proposal of alignment of Early Competition with the Centralised Strategic Network Plan (CSNP)?

The CSNP provides a coordinated, long-term plan for network planning. The strategic options identified will support more effective development of infrastructure and drive down the cost to the consumer. It is our view that the alignment of Early Competition to the CSNP supports the overarching ambition of greater strategic energy planning and will provide greater clarity to bidders and market participants in their planning.

The CSNP will identify the most appropriate connection points and an overall indicative solution and it is appropriate to use this information.

Question 3: Do you agree with the ESO's proposal that only network solutions should be eligible for Early Competition?

The CSNP carries out significant work to identify network need and the most appropriate solution. The CSNP methodology considers not only the system need but also the available technologies available. This work means that if a non-network solution would be feasible, it would be identified as such and would be better procured through existing Network Services Procurement (NSP).

Conflict mitigation

Question 4: Do you have any material concerns with the conflict mitigation measures proposed by Ofgem for incumbent TOs and other bidders?

We consider that the proposed conflict mitigation measures are appropriate. We would welcome discussion with both Ofgem and the TOs regarding changes to licences to ensure the request of information by the NESO and the provision of this by TOs is conducted within appropriate timeframes to avoid delay to the tender process and ensure realistic expectations on the TOs.

The submission of the conflicts mitigation methodology ahead of bidding in to a tender and the business separation measures are appropriate. The alignment with any future late-model competition will reduce the risk of confusion.

Question 5: What are your views on our proposed modification to put in place timing requirements for when the TO must confirm its intention to bid and put in place conflict arrangements?

We support the proposal for the TO to submit a compliance methodology statement as soon as possible before a tender start. To ensure the processes run smoothly we would welcome discussion with TOs and Ofgem to agree a minimum time ahead of tender publication for this to be done.

Question 6: What are your views on our proposed modification to restrict the transfer of TO employees between the Bidding Unit and the team undertaking the Tender Support Activities and pre-construction activity?

We have no comment to make at this time.

Question 7: What are your views on the proposed information sharing framework and, on the roles, assigned therein?

Information sharing and appropriate handling of this is an important part of early competition. We will work closely with DESNZ and Ofgem to develop the Information Sharing Framework.

We agree that it is appropriate for the ESO to act as an intermediary for the sharing of queries and information in an efficient and confidential manner. We would welcome constructive collaboration with the TOs to ensure that the processes provide required information in a timely manner but in a way that is achievable for the TO that needs to collate and provide this.

Question 8: Do you have any material concerns with the company structure proposed for raising debt for Early Competition?

No.

Cost Benefit Analysis

Question 9: Do you have any material concerns with the ESO's proposed methodology of its CBA model and the elements considered therein?

We consider that the CBA has been developed in an appropriate manner and has been tested accordingly. We agree that there are likely to be some “unknown unknowns” and the methodology will evolve to factor these in. This will include the qualitative assessment considerations and adaptation in response to future network planning and government policy.

Transmission network use of system (TNUoS) revenue over/under recovery

Question 10: Do you have any material concerns with the proposed TNUoS revenue recovery model for a CATO similar to the OFTO model?

We support the proposal that the TNUoS revenue recovery model for a CATO be similar to the OFTO model. The competitively appointed transmission owner (CATO) will be project financed and ensuring revenue certainty is in the interest of the end consumer by managing one of the areas of risk for a bidder. We agree that as the CATO model becomes more widespread, it would be appropriate to revisit the position.

Options for dealing with CATO/tender failure

Question 11: Do you have any material concerns about the proposed approach and principles in dealing with a situation of CATO/tender failure?

We support the proposal set out by Ofgem.