

Energy UK response to Ofgem's consultation on extending competition in electricity transmission: arrangements to introduce onshore tenders

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1. About Energy UK

- 1.1. Energy UK is the trade association for the GB energy industry with a membership of over 80 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry, from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

2. Introduction

- 2.1. This response builds on the previous responses provided to consultations regarding the Integrated Transmission Planning and Regulation (ITPR) project. Our members are supportive of a move to provide a more integrated approach to system planning and delivery and, in general, we are of the opinion that there might be benefits in extending competitive tendering to some onshore assets provided it's clearly demonstrated that the potential benefits in terms of cost saving and innovation outweigh the potential costs. We are therefore pleased to see Ofgem set out more detailed proposals and welcome the opportunity to provide views on Ofgem's consultation.
- 2.2. This response does not focus on every question posed by Ofgem but highlights a number of areas which we see as vital and/or where we consider further clarification and analysis is needed and is without prejudice to individual responses provided by some of our members.

3. Key points and areas for future focus

- 3.1. *Projects to be tendered* - We continue to think that the criteria for determining the onshore assets which will be subject to competitive tendering needs to be clearly and unambiguously defined. We are pleased to see these proposals further developed:
 - a) However, we would like to underline that there must be an absolutely clear transition to a new approach and that projects which parties have begun taking forward, must not be delayed.
 - b) In addition, it may also be important to consider, as a criteria, the interrelationship between different assets owners. It would be inappropriate if the actions of one owner could materially influence the costs or risks of another.
- 3.2. *Role of the SO/TO* – Crystal clear delineations of responsibility for all parties seems to us to be crucial to the success of this approach:

- a) As we have already highlighted in our previous contributions, the SO seems to be well placed to identify strategic system needs and to coordinate the planning of transmission investment. We recognise that National Grid as SO is already taking steps towards playing a more active role in system planning, such as through the Electricity Ten Year Statement (ETYS), Future Energy Scenarios (FES) and System Operability Framework (SOF). We would also like to stress that the Network Option Assessment (NOA) process is relatively new and, while it has potential, it needs to develop and improve based on further consultation; particularly if it is to have a central role.
 - b) We are also concerned about the potential for the costs of project delivery increasing as a result of SO/TOS performing only part of a project delivery role.
- 3.3. *The differences in the onshore and offshore regimes* - While we appreciate the work that has been undertaken, Energy UK considers that it does not fully explore the differences between offshore and potential onshore competition. In our view, the proposed Competitively Appointed Transmission Owner (CATOs) regime does not sufficiently reflect the differences between the CATO approach and the Offshore Transmission Owner (OFTOs) framework. For example, we consider there may be greater challenges around building projects within a meshed network; and greater concerns about the delivery of programs of investment/ multi party projects.
- 3.4. *Putting the proposals in context* - We think it is vital to consider the proposals within the broader framework of the challenges the industry is facing. The sector has been through a prolonged period of frequent change, generation margins are low and investor confidence has been adversely affected. It is absolutely crucial that we find stable, long-term arrangements which bring investors from different backgrounds into the sector:
- a) The complexity of industry arrangements continues to be hailed as a potential barrier to entry. We are concerned that these proposals would further complicate those arrangements and introduce additional interfaces to be managed.
 - b) We also worry that the process to tender assets and the potential need to engage with additional parties may create an actual or perceived increase in the risk of building generation assets. Aligning generation and transmission investment is crucial to the delivery of projects and investors would be very concerned were there a sense that their assets were less likely to be provided on time (recognising no formal compensation is available) or to the expected standard. We must make sure that a saving on transmission assets is not offset by costs on the generation side.
- We urge Ofgem to build this wider context into their assessment of proposals.
- 3.5. *An appropriate division of responsibility* - We have a slight apprehension that creating proposals based to a large extent on the existing industry framework could be constraining the ability to find the ‘optimal’ solution for onshore competition. It appears that asking the SO to play a central role is not necessarily optimal given the wider interests of the National Grid business (as recognised in proposals for additional scrutiny, which we welcome), that having the regulator provide such a hands on role in tender administration is not necessarily cost efficient and that the proposals ask Ofgem to assume a technical role that it might not be best placed to perform. We also note that Government will be looking into an appropriate future framework for system operations. Without trying to prejudge the outcome of that analysis, this is something that we should not be losing sight of given the potential risk of broader changes in the institutional landscape.

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