EXTENDING THE SCOPE OF CONTESTIBLE WORKS IN RELATION TO COMPETITION IN ELECTRICITY CONNECTIONS

Response by National Grid

Introduction
1) National Grid welcomes this opportunity to respond to the initial consultation letter on “Proposal for Extending the Scope of Contestable Works in Relation to Competition in Electricity Connections”. In this response we address the questions asked in the consultation that might be relevant to National Grid's role as GB System Operator in the event that the proposals were to be extended to the transmission system.

2) As the transmission licensee authorised to co-ordinate and direct the flow of electricity onto and over the transmission system within Great Britain we have duties to develop and maintain an efficient, co-ordinated and economical transmission system and to facilitate competition in generation and supply. Along with these high level duties we are also required to have a charging methodology.

General Issues
3) Under National Grid’s Charging Methodology the building of Connection Assets is contestable and customers can, and in some cases do, opt to build such assets themselves. However, following a recent change the connection boundary under the current Charging Methodology is now very shallow and, in the case of generation connections, there are generally few, if any, Connection Assets. Consequently the self-build option, while available, only gives financial benefit if lower costs can be reflected through the Use of System tariff.

4) In the case of connection to Distribution Network Operators (DNOs) and Non-embedded Customers (e.g. steelworks) there are frequently significant Connection Assets. Usually these comprise the supergrid transformers and associated equipment that connect to the Users’ system. As a result of this some Users choose to exercise their right to self-build.

5) Currently diversion works are, by default, non-contestable. This is so that we can ensure the service provided to customers by the transmission system is maintained and not degraded as a result of a diversion. We have agreed, in some cases, subject to satisfactory functional specifications, for certain parts of diversion works (e.g. civil works) to be undertaken by the third party. The high relative cost of transmission assets compared to distribution system assets means that diversion of transmission assets occurs relatively infrequently.

Questions raised in the consultation
6) In this section we address the questions raised in the consultation that are of relevance to transmission licensees and their customers.

7) The proposals as they stand have no impact on the transmission system since they apply to DNOs. However, were the principles contained within the proposals to be extended to include transmission systems then we believe that the following points are pertinent.

8) Application of proposal to generator Connection Assets: We believe that the proposal is unlikely to have any impact on the current situation since under the Transmission Charging Methodology Connection Assets, where they exist, are already contestable. More extensive developments by a User (e.g. the building of assets remunerated by Transmission Network Use of System tariff such as a 400kV substation and connecting transmission lines) is possible but would only be of financial advantage to the customer to the extent that such
costs would be reflected in a revised tariff for that customer. Given the current Transmission Use of System Charging methodology, this is unlikely but may change as the methodology evolves.

9) **Application of proposal to DNO and Non-embedded Customer Connection Assets:** We believe that the proposal is unlikely to have any impact on the current situation since under the Transmission Charging Methodology these works are already contestable.

10) However where the User has the ability to pass on its costs to its customers then we believe there should be some form of economic test to ensure that such Users only choose to self-build where this is the most economic solution. A User’s ability to pass through its costs in relation to self-building of transmission Connection Assets does not otherwise guarantee that the end customer receives any benefit from the self-build. Indeed the end customer could bear the cost of an ill-considered decision by the User to undertake such work on a self-build basis.

11) **Application of proposal to diversion of transmission infrastructure:** We believe that the proposal is unlikely to have any significant impact on the current situation due to the relatively high cost of diverting transmission assets. However in cases where a third party requires a diversion then we do not see any reason in principle why such work should not be contestable subject to a number of conditions. We believe that the conditions suggested in Ofgem’s proposal are generally appropriate. Namely that:
   a) There is no element of “live” working;
   b) The works should be undertaken “off-line”,
   c) The works are entirely funded by the third party.

   In addition we would add the requirement that the works be undertaken to the appropriate standards, to an agreed programme, design and route.

12) We believe that transmission licensees would need to be protected from a User not completing the works on programme, or not completing them at all, or not completing them to the required standards. A significant level of protection is probably afforded by the requirement for the works to be undertaken off-line. The transmission licensee would then have the ability to ensure that they had been completed to the necessary requirements prior to the decommissioning of the existing transmission assets and connection of the diversion. This should be underpinned by a robust contractual interface between the User/ third party and the transmission licensee.

13) In some cases Users (e.g. certain DNOs) are already recognised by National Grid as approved contractors, and so are able to compete for such works in the normal way. Where they are not approved contractors themselves then we would expect that any works associated with a diversion would be build by an approved contractor. National Grid has established processes to approval of contractors that complies with EU procurement requirements and so we do not believe that if the proposal A1 were to be extended to the transmission sphere that this would present a problem.

14) Finally, with regard to proposal A2 we agree with Ofgem that this is a more complex area but have no further comment at this stage.

15) If you have any questions concerning this response please contact Andy Balkwill, 01926 65 59 88 / andy.balkwill@uk.ngrid.com or Stuart Easterbrook on 01926 65 62 13 / stuart.easterbrook@uk.ngrid.com.