

Martin Crouch
Partner, European Wholesale
Ofgem
9 Millbank
London
SW1P 3GE

Paul Whittaker
UK Director of Regulation

paul.whittaker2@nationalgrid.com
Direct tel +44 (0)1926 653190
Direct fax +44 (0)1926 656520

www.nationalgrid.com

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Dear Martin

Planning for an integrated electricity transmission system – request for views

This response is provided on behalf of National Grid Electricity Transmission plc (“NGET”), which owns and operates the high voltage electricity transmission system in England and Wales and, as National Electricity Transmission System Operator (NETSO), operates the Scottish high voltage and offshore transmission system.

NGET has long been an advocate of the need for co-ordinated system design and the development of offshore, onshore and cross-border electricity transmission infrastructure in order to deliver the best outcome for GB consumers. To ensure the optimum transmission capability is provided at the right time, it is vital that the network is engineered in such a way to be able to respond to future challenges and requirements. Given this, we agree with the objectives of the Integrated Transmission Planning and Regulation project and believe that NETSO taking on enhanced system planning responsibilities fits well with National Grids current responsibilities and obligations to develop an economic and efficient transmission system. We anticipate that any enhanced system planning role will have to be transparent and open to public scrutiny, providing evidence that the network solutions identified are in the best interests of GB consumers.

There is no fundamental difference in role between onshore, offshore and interconnector networks. They all form the infrastructure needed to support the electricity market and deliver energy from producer to consumer. Integrated planning, optimising all network assets, has the potential to deliver significant benefits to GB consumers when compared with the un-coordinated alternatives. It will:

- facilitate provision of additional onshore, offshore and cross-border network capacity at the most efficient cost;
- determine the optimum timing for the provision of additional network capacity by evaluating potential system operation costs against investment costs;
- maximise system capability whilst reducing the environmental and societal impacts;
- provide clear signals for pre-construction activities; and
- ensure networks are delivered in a timely manner to facilitate meeting of the UK renewable and carbon targets.

However, there are, in our opinion, a number of significant challenges that will need to be addressed to ensure that the commercial and regulatory frameworks that are developed align with the principles of delivering full benefits to the GB consumer. These challenges can be summarised as:

- cross-border interfaces need to be simple, clear and transparent in order to attract and secure the optimum offshore connections and GB interconnection with the rest of Europe;
- the development of cross-border interfaces needs to be efficient and co-ordinated with other European markets;
- roles, incentives and liabilities need to be:
 - clear and mutually consistent between the multiple parties acting within the regulatory frameworks;
 - aligned with GB consumer interests;
- the different nature and complexity of potential projects must be taken into account: for example, multi-purpose projects may have a number of different developers, with different economic drivers, changing needs, new technologies and assets being developed to different timescales; and
- the nature of energy markets: the generation and demand background is ever-changing and optimum network solutions evolve and change over time. Any system design will need to be continually updated to reflect emerging user requirements.

These issues are arising now as developments are continuing to move forward and maintain progress towards meeting UK renewable and climate change targets. However, existing regulatory frameworks do not fully support the development of an integrated transmission network. They are significantly 'stretched' in providing the required clarity and certainty for developers. For example, we see that the licensing arrangements for transmission and interconnection are increasingly creating issues for coordinated development which may not be justified in the context of the way that they are both categorised (as transmission) under the EU Third Package.

It is essential that the ITPR project quickly develops clear principles against which investment decisions can be made. These principles will need to:

- reflect and recognise those projects that have already moved towards integrated solutions;
- take account of the regulatory frameworks in other Member States in order to facilitate integrated cross-border development.

Without this progress there is a risk that there will be an investment hiatus while developers await the ITPR project outcome and then reflect on how their project can be compatible with it and with the frameworks in other jurisdictions.

Recognising these challenges, we have already taken the first steps towards integrated transmission planning:

- through our RIIO and stakeholder engagement we have developed a shared understanding of the benefits of identifying a range of transmission solutions and improved the transparency and communication of the cost-benefit/implications of alternative scenarios and development approaches;
- we have already made connection offers on an integratable basis within the current commercial and regulatory frameworks. We have signed an integrated connection agreement off the east coast of England incorporating the connection offers for offshore wind at Dogger Bank (6GW) and Hornsea (2GW) with wider onshore system reinforcement. We have applied for anticipatory investment funding to allow these projects to continue to develop in a timely manner;
- we have undertaken a detailed review of and consulted on the future of the Seven Year Statement (SYS) and Offshore Development Information Statement (ODIS) network documents, with a view to providing current and potential connecting customers with improved information with respect to future network development through delivery of a new Electricity Ten Year Statement (ETYS) and;
- we are taking a leading role in Europe in the creation of the Ten Year Network Development Plan (TYNDP) and in the area of System Operator balancing.

During early 2012 we outlined our plans for review of the SYS and ODIS and the development of the new ETYS. The ETYS will encompass potential onshore, offshore and cross-border developments and identify integrated options and solutions where appropriate. We have recently completed our stakeholder engagement on these proposals, with an overwhelmingly positive response from our customers and stakeholders.

An important feature of our proposal for the new ETYS included an annual stakeholder engagement process. This process will focus on the form and content of the document, enabling continued evolution to better meet customer and other stakeholder needs. We already run an annual consultation process on the energy scenarios that we expect the ETYS to be based on, enabling the document to consider the impact on networks of future uncertainty in the energy markets.

We believe that this ETYS stakeholder engagement approach is wholly consistent with the ITPR project aims in that it will provide a transparent process which is open to scrutiny and will provide evidence that the solutions identified are in the best interest of GB consumers. Our development of a Network Development Policy document to sit alongside the ETYS will set out the process through which network development options are identified, incorporating feedback through a stakeholder engagement process.

We acknowledge that any enhancement of the NETSO role and increasing responsibility could raise issues of conflicts of interest. We understand that this may be an area of concern for the industry, however, as outlined in our response to the open letter on any potential conflicts of interest via our EMR role, we are used to managing conflicts of interest and separation of our businesses is something we manage on a daily basis in our current operations. In practice, we see that any actual or perceived conflicts of interest can be mitigated by current regulatory arrangements and increased transparency in NETSO's system planning processes.

National Grid welcomes the ITPR project and we look forward to working closely with Ofgem to identify a credible and flexible solution to identifying and delivering optimal onshore, offshore and cross-border networks to the benefit of GB consumers.

Yours sincerely

[By e-mail]

Paul Whittaker
UK Director of Regulation

Appendix: Response to the specific questions laid out in the open letter.

Q1. Are the objectives and scope of work for the ITPR project appropriate?

Yes.

Q2. Are there any additional drivers for the project that should be considered?

Yes. Ensuring clarity and simplicity in GB regimes and regime interfaces such that the competitiveness of GB in attracting investment in offshore and EU interconnection is enhanced.

Q3. Is there additional evidence that could be considered in understanding the current and future challenges?

Yes:

- EU neighbour state TSO / regulator perceptions: Ofgem should also seek input to the project from neighbour states in the North Seas region to ensure that their perceptions of the GB regulatory regimes are fully considered;
- Design case studies: The case studies/scenarios set out in the open letter do not adequately capture the full range of potential technical development options that might be considered when developing optimised network planning solutions. Simple case studies risk the development/evolution of regulatory frameworks such that they are not capable of addressing an adequate range of future network development outcomes; and
- Evolution over time. All networks evolve over time and it will be important for Ofgem to consider how different regulatory frameworks might come into play as “asset classes” change over time (e.g. from OFTO to interconnector to Main Interconnected Transmission System), and what common principles should apply throughout to ensure consistency, contiguity and certainty of the regulatory approach over time.

Q4. Are the current interactions between the NETSOs role and the role of other TSOs in system planning consistent and efficient?

Efficient – Yes. NETSO is driven under the existing licence to be efficient and economic in its interactions with all parties.

Consistent – No. Existing regime fragmentation results in interfaces that are different for different types of TSO. Structurally, (and in the eyes of EU rule makers), the Scottish TOs, OFTOs (or developers under the self build regime) and interconnector owners are all responsible for transmission systems, but are all required to interface with NETSO in different ways, largely due to historic regime evolution/development. The development of offshore transmission networks and further cross-border capacity may add complexity to this. There is a need to examine how greater consistency can be achieved, not least in respect of the collective of different GB TSOs being able to demonstrate co-ordination and co-operation at an EU/regional level under the 3rd Package.

Q5. Do the arrangements for and relationship between the NETSO and other TSOs appropriately incentivise system planning?

No. As per our answer to question 4, existing regime fragmentation results in interfaces that are different for different types of TSO. Different parties in the transmission value chain will act efficiently in their individual corporate interest. However, as they typically have different drivers and incentives, they are not therefore incentivised to align themselves with others in the value chain and in doing so enable the whole value chain to be incentivised in alignment with the interests of GB consumers overall.