

Integrated Transmission Planning and Regulation Project: Conflicts of Interest

David Newbery

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Conflicts over information asymmetries

- **Information asymmetries:**
 - non-NETSO merchants cannot access transmission planning information
 - NETSO, as project assessor, sees all third-party project details (commercially sensitive information)
- Might these informational asymmetries give the NETSO an unreasonable **competitive advantage**?
- Might the **perceived** conflicts of interest hamper entry and competition?
 - or is this special pleading by entrants wanting more favourable terms?

Conflicts in competitive activities

- National Grid's subsidiaries **own** interconnectors which compete with merchants
- Might the NETSO may **favour** these subsidiaries when planning and delivering transmission by
 - giving better connection offers to affiliated IC developers than to merchants?
 - inflating cost estimates for onshore reinforcements for these competitors?
- Would proper **Chinese walls** between the NETSO and any affiliates undertaking competitive transmission be sufficient to remove the NETSO's competitive advantage?

Is there evidence from other jurisdictions in which this has been effective or is it fundamentally unworkable?

Conflicts between different Transmission Owners

- Scottish TO's are vertically integrated (but National Grid is SO)
- Might the Scottish TOs distort transmission planning to deter competition within Scotland?
 - or are the unbundling requirements of the EU Third Package sufficiently strong that they will mitigate this risk?
 - Does the fact that Scotland is a power **exporter** almost all the time remove the incentive to distort its transmission planning?

What is the experience of RTOs/ISOs in managing such conflicts?

Ofgem's centralised options

1. Enhanced NETSO

- More system planning responsibility for NETSO – remove system planning responsibilities from ScotCos and give it to the NETSO
- Potential Conflicts of Interest (real or perceived)

2. ISO = Independent System Operator

- Separation of the SO function from NGET + giving it more system planning responsibilities; might be an **evolutionary move from the status quo**

3. IDA = Independent Design Authority

- Creation of a new body with network design responsibilities (excludes day-to-day balancing function, unclear about network access planning and connections role)

Institutional design issues

- **Remit**

- The roles and responsibilities of the body (e.g. supply-demand forecasting, long-term strategic national planning, detailed regional planning....)
- Time horizons planned to
- Cross-border role
- Connections role – e.g. contracting party? How would that work?

- **Powers and practicalities**

- Powers/"teeth"
- Data access governance – lessons learned from offshore
- Role of standards and frameworks, and how these could/should be governed (Grid Code, SQSS, etc...)

- **Governance**

- Engagement activity with stakeholders, transparency of decision making
- Transparency of system performance
- Accountability
- Performance incentives
- Funding mechanism

Options for resolving conflicts of interest

1. Preserve **status quo**
 - together with the planned changes in regulation to RIIO and the various requirements for business separation under the EU Third Package
2. Create **Independent Design Authority**, IDA also as **ISO**
 - spun out of TOs (NGET, Scottish Power and Scottish Hydro)?
- 2a Minimal role: **evaluates** all new proposals from TOs and merchants, leaves almost everything to the **market**, **but acts as ISO**
- 2b Maximal role: **plans and tenders** all transmission investments (on-shore, off-shore and interconnectors).

***What are the pros and cons of each?
Are there other models suitable for GB?***

Managing conflicts with NG as system planner

Remedy	Effectiveness
<ol style="list-style-type: none"> 1. Business separation and Chinese walls 2. Plan interconnectors and landing points with open tendering for ICs 3. Stakeholder forum discusses T plans (ETYS); allow other to propose or oppose solutions, with appeals to Ofgem 4. Move to LMPs to decentralise decisions 	<ol style="list-style-type: none"> 1. Unclear - planners still interested in NG's revenue 2. solves lack of LMPs to guide IC location but would merchants feel free to tender? 3. Allows innovative solutions but of limited value if others cannot build, own or manage T 4. What if this is infeasible?

Strengths and Weaknesses of IDA/ISO`

Strengths

1. **Avoids conflicts** of interest (if required to invite foreign experts?)
2. More pro-active in seeking **stakeholder engagement**
3. Can take a **holistic view** of whole set of options
4. Could **co-optimize T & G** if also designs EMR CfDs
5. Encourage contestable T

Weaknesses

1. **Asset light** solution means they may act irresponsibly
2. May usurp some of Ofgem's functions, little improvement on ETYS process
3. May be be **over-cautious** and gold plate for a quiet life
4. Would still need DECC and HMT approval
5. Entrants reluctant to compete given NETSO's advantages

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Issues in resolving conflicts of interest

- Is there a problem adequately **incentivising** an asset-light IDA, with no skin in the game? Any **evidence** from ISOs?
- Would efficient **nodal pricing** solve the coordination problem?
 - What is the evidence from e.g. PJM on the efficiency of T investment?
 - How do the various models compare with and without LMPs?
- Would the IDA merely duplicate the work of Ofgem?
 - or might it **replace regulation** with constructive engagement?
- Can an IDA better **coordinate the siting** of new EMR long-term contracted generation with transmission?
 - or can this be left to constructive engagement under the status quo overseen by Ofgem (or DECC in the case of contracts)?
- Which model is most likely to elicit **truthful generation plans**?