The voice of the energy industry

ENC 10/13

Energy UK response to Integrated Transmission Planning and Regulation (ITPR) Project: Emerging Thinking

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1. Introduction

1.1. Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members[1] that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes.

1.2. Energy UK supports the aims of the ITPR project to proactively consider whether GB electricity transmission system planning and delivery arrangements are fit for purpose in the longer term. We welcome the opportunity to provide feedback on Ofgem's emerging thinking with regard to what changes to existing arrangements may be required to ensure the network is economic, efficient and coordinated.

2. Executive summary

- Energy UK believes that an enhanced SO role appears to be the most attractive of the options explored by Ofgem, as it is best placed body to coordinate system planning but that it should be focused on formalising more information sharing between the SO, TOs, interconnector and offshore developers.

- However, Energy UK has very strong concerns about the treatment of perceived conflicts of interest arising if National Grid took on the new enhanced SO role alongside its existing TO role and other commercial interests; and Ofgem would be required to undertake appropriate measures.

- Energy UK agrees with Ofgem that additional flexibility within the application of transmission delivery regimes could have potential benefit in future as multi-purpose projects come forward in the future. A discretionary approach to decision-making would be preferred to a rules-based approach to achieve the maximum benefits of flexibility.

3. Energy UK views on Ofgem's emerging thinking

3.1. Energy UK believes that planning, regulatory and delivery arrangements have worked well for most transmission developments, particularly onshore and offshore. However, the significant change to the Transmission System over the coming years, with increasing penetration of intermittent and remotely located generation; and new interconnectors, may require a more integrated approach to system planning and delivery.

3.2. Energy UK believes that an enhanced SO role appears to be the most attractive of the options explored by Ofgem, as it is best placed body to coordinate system planning. If this option is taken forward, it should be focused on obligating the SO to proactively provide more information to TOs

[1] National Grid is a member of Energy UK but did not have input into this consultation response.

and developers (particularly offshore) about the wider needs of the Transmission System and options for delivery. This would help clarify and speed up the TOs' 'needs case' submissions for new transmission infrastructure. It is less clear from the consultation how an enhanced SO would assist in the development of interconnectors. The enhanced SO should also have the obligation to report on progress in delivery of transmission connections and identifying problems.

3.3. Energy UK would have very strong concerns about the treatment of perceived conflicts of interest arising if National Grid took on the new enhanced SO role. Ofgem would need to ensure that National Grid does not take a minimum approach to business declaration and further consideration needs to be given to the other significant responsibilities being undertaken by National Grid, particularly its EMR delivery role.

3.4. Energy UK agrees that additional flexibility within the application of transmission delivery regimes could have potential benefit in the future as multi-purpose projects come forward, although it is difficult to see how the flexibility of a more integrated solution would be attractive for an offshore project developer without the right commercial risk and cost indicators and control over delivery.

3.5. We agree that criteria would need to be developed to identify the delivery route but it is unclear whether a formalised process would work. Energy UK would not support a rules based approach. An alternative solution could be to formalise a query process for developers to discuss delivery options with National Grid or Ofgem.

3.6. The energy policy landscape is constantly shifting with a number of initiatives identified in the consultation document. Therefore the ITPR project must be flexible enough to factor in developments such as EMR and the implementation of the European network codes over the next 18 months before moving to final proposals and implementation.

4. Consultation questions

Question 1: Do you think we have appropriately characterised the future challenges to network development? Where do you see the main challenges? What are the long-term strategic and sustainability implications of these challenges?

4.1. Energy UK broadly agrees with the future challenges to network development set out in the consultation. The scale of investment in low carbon electricity generation likely to happen over the coming years will require the most efficient and cost effective approach to network planning. The priority must be to ensure that projects are connected to the grid with minimum delay. Otherwise the outcome may be the failure to meet renewables and emissions reduction targets, inadequate generation on the system with security of supply implications, and damage investor confidence in delivery timelines.

Question 2: Are any of the review areas under ITPR more relevant than others?

4.2 The most important area for the ITPR project is achieving clarity on system planning responsibility and asset delivery, and who fulfils which roles within the industry and the extent of responsibility. Market participants need to work within a stable and transparent framework where there is no second guessing of interpretation of regulations and Ofgem's intentions.

Question 3: What are your views on the options for system planning discussed in this chapter? Are there other approaches to system planning that you think we should be considering within the ITPR project?

4.3 Ofgem has set out a comprehensive menu of options for system planning and there do not appear to be any options that have not been considered.

Question 4: Do you think that it would be beneficial to strengthen the role of a coordinating body working with relevant parties to facilitate efficient decision-making? In what areas could this coordinating body add most value to the process?

4.4 It could be beneficial to strengthen the role of a coordinating body to play a greater role in identifying strategic system needs**.** Energy UK believes that the greatest benefit would be if the SO proactively provided more information to TOs and developers with respect to the wider needs of the Transmission System and the most efficient options for transmission delivery. The availability of this information and advice would clarify and speed up the 'needs case' for new transmission infrastructure.

4.5 There may also be a case for mandating TOs to build required transmission assets in a timely manner to ensure that new generation can get connected to the system. However, we would require more clarity from Ofgem about who the appropriate body would be to mandate TOs.

Question 5: What are your views on the (real or perceived) conflicts of interest that could occur from parties holding dual responsibility in system planning and asset delivery and ownership? What are your views on potential options for institutional arrangements, separation and transparency measures to mitigate this?

4.6 Energy UK believes that there could be conflicts of interest that occur from National Grid undertaking the enhanced SO role as well as maintaining its wide commercial business interests and the other responsibilities that National Grid will acquire through its EMR delivery role and its heavy involvement in ENTSO-e. Ofgem would need to ensure that National Grid does not take a minimum approach of business declaration and business separation would have to be considered in addition to transparency measures already identified.

Question 6: What are your views on potential future approaches to planning interconnection? Should there be increased central identification of potential interconnection that could benefit GB consumers?

4.7 There could be benefits from central coordination, as wider consideration of socio-economic benefits could be more easily incorporated into decisions on the planning of interconnectors. However, if the investment decision is not undertaken via the historical GB market-based approach and via a regulated approach, then a central coordinator would also need to identify the extent to which any new regulated or semi-regulated interconnector investments would affect the existing market.

4.8 If the proposed enhanced SO role incorporated a requirement to identify potential interconnection this would place National Grid, which is actively engaged in developing interconnection, in a dominant position and potentially give National Grid a commercial advantage over all developers.

Question 7: What are your views on the options for delivery of transmission assets discussed in this chapter? Are there other options that you think we should be considering within the ITPR project to address the delivery drivers and challenges identified?

4.9 The options for delivery of transmission are clearly explained and there do not appear to be any other options that have not been considered.

Question 8: Do you think that it would be beneficial to introduce some flexibility in the existing regimes to provide for alternative delivery routes, where this is in the interests of consumers? If so, what criteria could be used to determine the delivery route for an investment?

4.10 Energy UK agrees that additional flexibility to application of transmission delivery regimes could have potential benefit in future as multi-purpose projects come forward, although it is difficult to see how the flexibility of a more integrated solution would be attractive for an offshore project developer if there would be an increase in commercial risk, potentially higher cost and lack of control over delivery.

4.11 Onshore transmission delivery might benefit from a more competitive approach, as it could encourage more efficient development of transmission assets by the incumbent developer. However, it is unclear whether there are enough opportunities for onshore development (i.e. ones that are not upgrading existing circuits) where it would be beneficial to introduce a competitive approach, which will require a lot of cost upfront. Ofgem needs to provide additional clarity as to how potential developers would be funded and what would be the process to transfer assets to the incumbent TO.

4.12 It is unclear how the process for adding flexibility would be formalised and Energy UK would not support a rules based approach. An alternative solution could be to formalise a query process for developers to discuss delivery options with National Grid and Ofgem. A further suggestion from one of our members is for a 'first refusal' process – e.g. the offshore developer gets to decide whether it wants generator build, and if not, it goes to OFTO tender, then to the incumbent TO.

Question 9: If we pursued additional flexibility in application of the regimes, what role should discretion play in identifying the delivery route for a particular investment?

4.13 It may be better to adopt a discretionary approach to decision-making on the delivery route for projects than a rules-based approach, so ensure as much flexibility as possible in delivery options. However, adopting a discretionary approach could add a level of uncertainty for investors, which would in turn make the option of flexibility redundant. It is difficult to achieve the right balance and believe this is an area that Ofgem will need to look at further.

Question 10: Do you think that the case for change to current arrangements to enable more integration and coordination is material now, or may become so in the future? If the latter, when?

4.14 Energy UK does not believe that the case for change to current co-ordination arrangements is material now because in the main the existing regime works well, although there is a case if change led to more timely delivery of transmission assets by TOs. Looking forwards, there are projects such as the Greenwire Project[2] connecting Irish onshore wind power with GB and offshore wind farms that could potentially develop into interconnectors which would benefit from a choice of delivery. This could be as soon as the end of the decade. The Intergovernmental Agreement between the Irish and British governments in relation to RES Export was recently signed. The detail of the agreement is to be confirmed but it is important that there is consistency with the outcomes of ITPR.

Question 11: What are your views on our emerging thinking to consider further an enhancement of NGET's role as the SO in system planning to provide for a more coordinated and holistic approach across the GB system?

4.15 It appears to be the most sensible of the options considered by Ofgem, because the SO is the best placed body to coordinate system planning which could benefit the efficiency of transmission planning and delivery discussed. However, as previously mentioned, there are concerns over National Grid's conflicts of interest.

Question 12: What are your views on the emerging thinking that introducing further flexibility and applying criteria to designate whether an investment should be delivered by incumbent delivery or competitive selection could address many of the challenges and drivers identified?

4.16 Energy UK agrees that additional flexibility would be preferable to full flexibility of delivery, although there is not currently a clear cut case for changing the existing regime, which is well understood and largely predictable. However, there could be benefits to developers in future, particularly for offshore projects, because multi-purpose projects are likely to be more common over the coming years as we move to a more integrated European energy market. Criteria

[2] http://www.greenwire.ie/greenwire-project/

would need to be applied to ensure that an alternative delivery model would bring benefits over the existing route.

4.17 We are uncertain about how the formal process for reaching delivery decisions would work in practice. A discretionary approach to would be preferable to a rules-based approach, which by its nature would likely be inflexible to the specifics of different projects.

Question 13: What other options should we take forward for consideration in the next stage of our work on ITPR?

4.18 Energy UK does not have a strong view on whether any options in addition to those identified by Ofgem should be taken forward for consideration in the next stage on ITPR.

Question 14: Do you have any views on our approach and timetable for our work on ITPR, or on interactions with related areas?

4.19 The approach and timeline for the rest of the ITPR project must take into consideration live policy initiatives, specifically EMR and the implementation of the European Network Codes, but also other decisions such as on renewables trading, due by the end of the year, the interconnector cap and floor (Project Nemo) and offshore coordination projects. Therefore we are pleased that Ofgem has not been definitive about the date for implementation of any proposals. Flexibility must be retained to review ITPR proposals in light of other developments across the industry.

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