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6 March 2014  
Our Reference NG/LAD

Dear Pete,

**Response to “Offshore Transmission: Non-Developer Led Wider Network Benefit Investment”**

Please find attached a response from National Grid’s Business Development Department to the above consultation.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'LAD', with a stylized flourish at the end.

Lewis Dale

Cc: Peter Boreham  
Paul Whittaker

## Offshore Transmission: Non-Developer Led Wider Network Benefit Investment

National Grid's Business Development Department welcomes this opportunity to respond to the above consultation.

National Grid's interconnector and other business development activities are ring-fenced and separate from National Grid's transmission and distribution undertakings. We jointly own and operate the IFA and BritNed interconnectors with our partners RTE and Tennet, respectively (representing a 50% share of 2 of the 4 existing links to GB). In addition to the NEMO link to Belgium, we are actively progressing other proposals which include an interconnector to Norway (with our partners Statnett), more capacity to France via a new link (with our partner RTE), and proposals for additional capacity to countries which may wish to export renewables to GB including Ireland, Iceland and Denmark. This response contains no commercially confidential information.

Our answers to the specific consultation questions are as follows:

### **Question 2.1: Do you consider there would be market interest in tenders under these non developer-led WNBI models? Please state why or why not, including whether you would be an interested party.**

Given the prospects for a return commensurate with the risks faced by participants, we expect Ofgem E-serve would receive market interest in the tenders associated with any of these models. However, these models introduce new risks:

- by separating aspects of design from the responsibility for asset delivery and operation, and
- by introducing new information interfaces and hand-offs (especially in model 1).

As these risks result from the way services are divided between contracts rather than the content of specific contracts, the consequences of these risks are likely to fall to the tendering body and so on to consumers who will have little opportunity to manage them. For this reason it is important that the potential benefits of the models in terms of enhancing competition in certain areas is judged against the potential consequences of these risk factors.

The regime will favour participants that are the most competitive in delivering stated tender requirements. Parties that have wider capabilities, which might be suitable to manage the design-deliver-operate trade-offs for consumers, may have costs associated with keeping these broader set of skills and capabilities. If such costs are considered to be overheads rather than a source of competitive advantage in the tenders, then such tender approaches will tend to dissuade participation by companies with design-deliver-operate capabilities.

### **Question 2.2: What are your views on the role that onshore TOs and the NETSO would need to undertake to ensure success of non developer-led WNBI projects under the different models?**

Many of the high-level design imperatives for WNBI projects will result from how the capabilities of the existing onshore network assets meet the operational requirements of physical market participants and the system operator. The participation of the SO and onshore TOs are therefore essential.

However, participation of the SO and onshore TOs should not reduce opportunities for other parties to propose and refine solution options. The best outcomes for consumers will be those that result when:

- the solution proposer is willing to take substantial responsibility and financial exposure to

- the performance outcome of their designs;
- the users benefitting from the designs (whether individuals or classes of users) are willing to make some financial commitments to the preferred option;
- the design has been refined against realistic and testing future scenarios which include specific sensitivities developed to compare and distinguish between available options (with both the scenario development and option regret evaluations progressing in a transparent process), and
- where both economy of scale conditions and the impact on real-option values are systematically identified.

The system operator has the required data, scenario creation and operational evaluation tools to facilitate such a process (which has strong similarities with the Network Development Policy procedures for strategic wider works). The system operator will also have the capability to ensure system technical issues impacting quality and security of supply are appropriately addressed. Onshore transmission owners will have the detailed information on what options are available from existing and new onshore network assets.

**Question 2.3: What are your views on the appropriate risk allocation between consumers and parties undertaking preliminary or construction works, and why?**

As consumers (and many market participants serving consumers) have little or no ability to influence the delivered quality of parties undertaking preliminary or construction phase works then consumers will be best served if the appointed parties manage these factors. However, this becomes increasingly difficult to achieve in complex supply chains.. For this reason, Model 2 is likely to offer the best scope for protecting consumers against the risks resulting from incomplete information transfers between parties and any failure to appropriately address design-delivery-operation trade-offs.

**Question 2.4: What are your views on the incentives and obligations that would be needed to ensure that the preliminary works, including consents, are completed in the interests of consumers and the economic and efficient development of the future transmission system?**

Specialist contractors will have reputation and unavoidable financial exposures should inadequate quality be highlighted. However, where such parties may have no continuing involvement in subsequent project delivery and operation, there is a risk that the specification of their required service may be incomplete. With competitive pressures on the parties in subsequent phases, there is a significant risk that any such short-falls will not be remedied (for example, such parties may well damage their competitive position if they make allowances to refine the outputs of earlier stages when others would assume that any such quality gaps are solely a matter for the procuring body and hence consumers). In the absence of a continuing involvement with the project (as implied in model 2) we suspect the pressures of meeting the specific contracted outputs to cost and time will outweigh considerations for later delivery and operation.

**Question 2.5: To what extent do you think the alternative models would help deliver the objectives set out in paragraph 2.32 of Chapter 2?**

- *deliver fit for purpose electricity transmission infrastructure to facilitate the connection of offshore generation and realisation of significant carbon savings*

Model 2 appears better than the others provided that the specified outputs substantially incentivise outturn performance. NB it is not safe to directly equate facilitating offshore generation or its connections with reducing global carbon

emissions.

- *provide value to consumers by building on the existing offshore regulatory regime, retaining the benefits of competition and helping to capture the benefits of coordination*

To better explore the trade-offs implied in this objective it is important to define what outcomes coordination seeks to achieve, what benefits incremental competition might derive and what risks might result.

- *attract new entrants and sources of finance to the sector*

While model 1 appears to give greater scope for new entrants and model 3 reduced risks for investors – these aspects must be assessed against the implications and risks for consumers.

- *ensure that consumers are protected from undue stranding risk, and where they do take on some stranding risk, that they should also receive clear benefit for doing so*

The extent this is achieved depends to a significant extent on the quality of the assessments of economies of scale gained and real option values lost as a result of the decision to adopt designs that diverge from those that would be progressed by the particular connecting customers. This is a matter of improving the design process so that proposers of options can express their willingness to accept delivery and performance risks and obtain financial commitments from their beneficiaries.