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Jon Parker
Future Networks, EU Electricity Transmission
Ofgem
9 Millbank
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Dear Jon,

NGIH Response to “Integrated Transmission Planning and Regulation (ITPR) project: draft conclusions” [consultation published 29th September 2014]

Thank you for the opportunity to respond to Ofgem’s draft conclusions on the ITPR project.

We, National Grid Interconnector Holdings Limited (NGIH), are the ring fenced division within National Grid responsible for the development of new interconnectors. These enable a significant contribution to GB reaching the European Commission’s proposal for a European Union interconnection target of 15% by 2030.

Our response covers our views as a developer of complex, multi-jurisdictional transmission projects, adept at managing development risks in order to ensure project feasibility. Our ambition is to expand our interconnection portfolio through commercially viable interconnection projects that return value to consumers, as well as to broaden our business on the basis of our core capabilities and the benefit of our experience.

NGIH continues to support Ofgem’s proposals to change the system planning arrangements for GB electricity transmission infrastructure in order to bring further benefits to existing and future consumers. However, we are conscious of how the new enhanced SO role may develop in a way that negatively impacts on new interconnector projects. As such, we wish to highlight the need for market-led principles of the developer-led cap and floor regime for interconnection to be upheld throughout the implementation of the new enhanced SO role.

As developers of HVDC network solutions we especially endorse your proposals on continuing a developer-led cap and floor regime for interconnectors and opening more cap and floor windows in the future. This regime is the step change both us and commercial partners have been waiting for. It sends a strong message about the importance of interconnectors in the future of the UK energy market and will unlock new investment in the

next generation of cross border infrastructure. The regime incentivises developers to identify and progress commercially viable projects, delivering economic, environmental and security supply benefits to consumers with low project underwriting risks.

We note that prior to participating in any new regime it is imperative for a developer to understand the detailed regulatory landscape, including risks and benefits. However, as a developer, it is currently challenging to perform a thorough assessment on the basis of ITPR's draft conclusions due to the high-level nature of the proposals for Multi-Purpose Projects (MPPs), non-GB generation and onshore competition. This makes it difficult for us to develop projects and for our Board to take financial investment decisions under these current regimes (versus other commercial opportunities available). In our attached response we provide specific examples of where we feel further details and greater clarification for these regulatory regimes are needed.

We further note that Ofgem's proposals on MPPs (and non-GB generation) currently mean that they will only be realised on a merchant basis.

We wish to highlight that MPP projects or meshed solutions cannot be designed in isolation from other transmission developments both within and outside GB. Therefore, firstly, an effective interaction between the designs of different types of transmission developments must be achieved. Secondly, until cross border frameworks are in place to support meshed infrastructure, regulatory and policy alignment of incentives needs to be achieved. This calls for, for example, the need for all relevant UK parties to commit to initiatives like The North Seas Countries' Offshore Grid initiative (NSCOGI) that opens lines of communication and cooperation with counterpart TSOS, regulators and governments.

Please find attached our detailed response to your questions. We are happy to discuss our views contained within this letter further should that be helpful. For further details, please contact Hannah Kruimer (hannah.kruimer@nationalgrid.com). Our response is not considered confidential. We are therefore happy for it to be published on Ofgem's website and shared for the purpose of the consultation.

Yours sincerely



Alan Foster
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National Grid Interconnector Holdings Limited

Detailed response

1. Question 1: What are your views on our proposed enhancements to the SO role in system planning, including the specific roles we have proposed the SO would undertake for onshore, offshore and interconnection planning?

We agree that the enhanced role for the SO would be valuable. At the same time we are conscious of how the new enhanced SO role could potentially develop and have an undesirable impact on new interconnector projects.

It is important that the new enhanced SO role upholds the market-led principles of the developer-led cap and floor regime for interconnection. This means that the new SO's roles on Cost Benefit Analysis on additional interconnection capacity and Network Options Assessment on interconnection should support developers to bring forward commercially viable interconnection projects that are in consumers' interests.

We note that in order for NGET to perform the enhanced role it will be necessary to step up its analytical capability and resources. For example, it would be desirable for NGET to develop the capability to run detailed network and market studies using datasets not just for GB transmission network and generation backgrounds, but also for equivalent datasets for the neighbouring European countries to whom existing or future interconnection is envisaged. We support the case for NGET investing in these capabilities so that it can play the fullest part and most completely represent GB interests, in European fora such as ENTSO-E which are vital to realising EU energy and climate policy goals.

We are keen to work with Ofgem and NGET to help develop the detail of the new SO processes and implementation plans.

2. Question 2: Are there other roles that you think an enhanced SO could or should undertake in order to better support the development of an efficient transmission and interconnector network?

We recommend that the new enhanced SO role to identify system needs also involves scenario analysis or forecasting of the expected Balancing Services requirements, including the type and volume of ancillary services likely to be required across the network to ensure security and quality of supply. In this regard we welcome the recent publication by NGET of the System Operability Framework 2014 which is a positive step in this direction.

We also recommend the SO takes a leading role regarding strategic consensus forming on EU system requirements in the UK TSO Community. This should include views from the SO as GB system operator, TOs, current and future operators of interconnectors, and offshore links. This would be valuable as it would ensure that the views of TSOs other than NGET are appropriately represented in European fora. It would also contribute to a more coordinated view from the UK on an EU level in terms of determining what is best for the UK Plc. and how to influence accordingly.

3. Question 3: What are your views on the specific obligations for TOs that might be needed to support our proposed enhanced SO role?

No views.

- 4. Question 4: What are your views on our proposal that, as part of its enhance role, the SO should lead gateway assessment for offshore projects that include investment to provide wider network benefit.**

Please note our response to question 8.

- 5. Question 5: What are your views on our proposal to extend competitive tendering to new, high value, separable onshore assets?**

We note the proposal by Ofgem to introduce competition into the onshore transmission arena on some large projects which meet predetermined criteria.

Under the early model a party is appointed to undertake pre-construction activities including consenting, as well as construction and operation of the asset. As a developer, this is where you can add most value to bring competitive and innovative pressure to the design stages of a project's development, which the late model does not allow. Also it would allow developers to achieve consents and assure a positive final investment decision can be taken.

Here it would be good to highlight the issue of allocation of risk/liability between parties in the early/late build models. Critical questions for any developer participating in onshore competition will be regarding where the responsibility sits for the overall integrated system design and whether the SO or TO defines the design/operational requirements at the interface.

This will determine whether an early or late model is appropriate. NGIH, as a developer with experience of interfacing with many complex transmission networks around Europe, would be interested in tendering for any suitable projects if that competition was introduced into the onshore arena.

- 6. Question 6: What are your views on our proposals to maintain a developer-led approach to interconnection and to extend the cap and floor regime?**

We agree that Ofgem should maintain the developer-led cap and floor approach to interconnection as long as efficient investments are enabled by this approach, and to open more cap and floor application windows in the future.

The developer-led, cap and floor approach is the step change both ourselves and commercial partners have been waiting for. It sends a strong message about the importance of interconnectors in the future of the UK energy market and will unlock new investment in the next generation of cross border infrastructure. The industry will be able to make more informed investment decisions based on the stability of a clear regulatory framework that embodies the principles of regulatory and TSO cooperation.

- 7. Question 7: What are your views on our proposal that non-GB generators pay for their connections, without consumer underwriting?**

The proposal implies a fully merchant model for investment in non-GB generation connections to the UK system as a default position. The option of consumer underwriting of such links is left open by Ofgem and to be reviewed on a case-by-case basis.

Prior to participating in any new regime (versus other commercial opportunities available) it is imperative for a developer to understand the regulatory landscape, including risks and benefits.

For the non-GB generation proposals, we would need to understand Ofgem's view on how the regulatory risks around the EU exemption regime would apply to investment in non-GB generation, including caps on returns and third party access requirements.

8. Question 8: What are your views on our proposal to provide regulatory continuity when the purpose of a transmission asset changes?

We endorse Ofgem's proposals on continuity in regulatory approach for assets wherever possible, even if they become part of a Multi-Purpose Project (MPP) over time. We agree with Ofgem that the owner should be at least as well off after forming the MPP as before.

It is imperative for us as developer to understand the regulatory landscape, including risks and benefits of the MPP regime for our existing and future (interconnector) projects.

We would need to understand the metrics used to determine whether an asset owner is disadvantaged or 'at least as well off' from forming the MPP, and, when relevant, how compensation would take place. For example, what happens to the commercial structure already in place for a single definition asset e.g. an interconnector, after being converted into a MPP? In the event that an offshore generator seeks to make a connection to an existing interconnector, how would third party access requirements be applied on the interconnector 'part' of MPP and the MPP as a whole? Additionally, how would appropriate compensation be determined to keep the developer/asset owner whole? We would only consider turning our projects into MPPs when we have a clear decision from Ofgem that sets out such metrics, including a mechanism for MPP compensation.

We would like to draw Ofgem's attention to a recent study¹ by the EU Commissions on the Benefits of a Meshed Offshore Grid in the Northern Seas Region. The study outlines the need for substantial investment in electricity infrastructure in the Northern Seas region. It found that a coordinated approach (meshed configuration²) provides greater benefits than the 'business as usual approach'.

MPP projects or meshed solutions cannot be designed in isolation from other transmission developments within and outside GB. Therefore, an effective interaction between the designs of different types of transmission developments as well as forward look to the possibility of a MPP, including expansion for the future, must be achieved. We also recognise the inherent interplay between investment in such projects and Government support schemes for renewable/low carbon generation. Until cross border frameworks are in place to support meshed infrastructure, regulatory and policy alignment of incentives needs to be achieved to resolve this challenge. In our view this calls for, for example, the need for all relevant UK parties to commit to initiatives like The North Seas Countries' Offshore Grid initiative (NSCOGI) that open lines of communication and cooperation with counterpart TSOs, regulators and governments.

9. Question 9: What are your views on our assessment of conflicts of interest?

We agree that Ofgem's proposed changes to the role of the SO and the delivery of transmission assets could lead to (perceived) conflicts of interest. We believe that the SO is in the best position to suggest solutions to both Ofgem and the industry about how conflicts of interest can best be resolved. We note that ring-fences and business separation arrangements are common throughout the industry. Furthermore, we wish to highlight the importance of TSO-to-TSO cooperation within the boundaries of business

¹ http://ec.europa.eu/energy/infrastructure/studies/ten_e_en.htm

² A meshed grid configuration entails a more coordinated approach taken between countries and developers, several neighbouring wind farms are clustered and connected together to shore, and countries are better connected together through interconnectors linking several countries. It is even possible to have a meshed grid, where wind farm clusters are connected to offshore hubs that are connected to each other and to various countries. There are fewer cables in this approach, with a higher rating.

separation. On this, please see our response to question 2 regarding the need for strategic consensus forming on EU system requirements in the UK TSO Community.

10. Question 10: What are your views on our proposals for mitigating conflicts of interest?

We agree that the adequacy of ring-fence and business separation is best ascertained when the roles and responsibilities of the enhanced SO role are formalised through obligations for NGET to perform its role in a transparent way. It must be ensured that the SO's enhanced activities are undertaken without bias and NGET's relevant associated competitive businesses, such as NGIH, are treated on an equivalent basis to other delivery parties.

11. Question 11: Do you think independent scrutiny of the SO's activities (eg through an expert panel or auditors) would provide value for money?

We consider that the increased transparency, stakeholder engagement and enhanced Ofgem scrutiny are sufficient. Therefore, we do not see the need for independent scrutiny at this time.