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for energy consumers

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Date: 24 June 2015

Dear Sir/Madam

## **Electricity Transmission: Network Access Policy (NAP)**

### **Introduction**

This letter approves the Network Access Policy (NAP) of National Grid Electricity Transmission Plc under special condition 2J of its electricity transmission licence.

The RIIO T1 price control introduced this condition, along with the concept of a NAP. The aim of the NAP is to support improved the communication and coordination between National Grid Electricity Transmission (NGET), in its role as the System Operator (SO) for Great Britain, and the Transmission Owners (TOs). Such an approach builds on the requirements of the SO:TO Code (STC).<sup>1</sup>

Whilst NGET is both TO and SO for England and Wales, NGET has developed a NAP to demonstrate greater transparency about SO and TO functions and establish best practice. Scottish Hydro Electricity Transmission plc and SP Transmission Limited ("Scottish TOs") have a single common NAP that they have agreed to use to set out what the SO can expect from them.

### **Background**

RIIO-T1 set the price control arrangements for TOs from 2013 to 2021. The NAP was developed as part of these arrangements to encourage the TOs to cooperate and communicate effectively with the SO to reduce overall costs to consumers (including constraint costs). The NAP sets out the commitment by the TOs to effectively communicate, coordinate (as far as possible) outage planning and to identify ways in which TO actions can help the SO minimise constraint costs. This sits alongside TO statutory obligations<sup>2</sup> to operate an economic, efficient and coordinated system.

Initially, this work was done in parallel with the development of SO incentives that would apply from 2013. The RIIO-T1 Strategy decision in March 2011 envisioned that more material SO incentives for outage planning would be developed by the time the RIIO-T1 Final Proposals were settled. However, these provisions were ultimately not included as part of these SO incentives.

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<sup>1</sup> The SO:TO Code is available at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/System-Operator-Transmission-Owner-Code/>.

<sup>2</sup> Section 9 of the Electricity Act 1989 sets out a requirement on transmission licensees to develop and maintain an efficient, coordinated and economical system of electricity transmission.

The TOs and SO continued to work on the NAP during the development of RIIO-T1. However, it was acknowledged at the time of the RIIO-T1 Final Proposals<sup>3</sup> in December 2012 that there was still work to do to finalise the NAPs for the Scottish TOs and NGET. A licence condition was therefore put in place to require the licensees to develop and submit a NAP to us for approval within 30 days of the RIIO-T1 arrangements coming into force on 1 April 2013.

## **2013 consultation**

In July 2013, we consulted on the NAPs submitted to us by the Scottish TOs and NGET. In that consultation, we recognised that the Scottish TOs and NGET had already started to implement elements of their submitted NAPs (although the NAPs had not yet been formally approved). We also noted that there were major improvements in communication and coordination from this new approach to outage planning. We felt that the proposed documents were a good first step in setting out some of the key principles that should apply. However, we also noted areas that needed further development and recognised that these could form part of future updates to the NAP that are provided for every two years under Special Condition 2J.

We had two responses to our consultation, one from NGET and one from Scottish Hydro Electric Transmission plc. The consultation and the responses are available on our website.<sup>4</sup> Both respondents to the consultation noted that the processes outlined in the NAP and the resulting change in relationships between the TOs and the SO on system planning were positive. Both also noted that further areas that could be developed in future years. These included the development of:

- A provision for the TOs to be compensated for carrying out additional works to reduce constraint costs;
- An approach to assessing costs and benefits of changes to the short-term outage plan;
- An approach that identifies options that may minimise constraints in the design phase of a project;
- A view of cost materiality to ensure the focus is on highest benefit opportunities; and
- A process to allow the benefits achieved under the NAP to be demonstrated and compared to a baseline.

## **Work since the 2013 consultation**

Many of the issues identified in the responses to the consultation were for the long term development of the NAP. As the NAP is designed to be a live document with provisions for regular updates, these issues did not prevent us at the time from approving the submitted NAP. Since the consultation, ongoing meetings have been held<sup>5</sup> between the TOs and the SO on the NAP which Ofgem has attended. These meetings have been productive and improved TO and SO coordination and communication.

We held back from formally approving the NAP while there was uncertainty as to whether financial incentives to enable the SO to compensate the TO for certain works benefiting the system as a whole could be developed as part of the SO incentives to apply from 1 April 2015. The delay has not prevented benefits arising from the draft NAP being realised through improved communication between TOs and the SO. During this time, the parties have continued to work on developing possible financial incentives which may sit in or alongside the NAP, as well as other issues such as working out an appropriate “price list” for compensating TOs for taking costly actions.

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<sup>3</sup> <https://www.ofgem.gov.uk/ofgem-publications/53600/2riiot1fpoutputsincentivesdec12.pdf>.

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-transmission-owners-proposed-network-access-policies>

<sup>5</sup> Including a meeting at Wokingham on 18 June 2013 and meetings in Glasgow on 31 October 2013, 15 May 2014 and 19 November 2014.

In July 2014 we consulted on the SO incentives to apply from April 2015<sup>6</sup>. This included consulting on “the need for, and design of, financial mechanisms to support the planning and coordination of outages to ensure whole system cost efficiency”. We noted that in practice this may not be straightforward to achieve. However, based on responses to the consultation, in our initial proposals on the SO incentives for 2015-2017<sup>7</sup>, we said that the merits of this mechanism were not currently clear and therefore we had decided not to take forward the development of these at this time. We proposed that we would continue evaluating the need for a financial mechanism between the SO and TOs and if appropriate consult on incorporating it during the current incentive scheme period or together with our reviewed incentives from 2017 onwards.

As the approach to financial incentives is unlikely to be resolved in the near term, the companies have asked that we the NAP in its current form, notwithstanding the limitations in the absence of these incentives. This would allow the parties to bed down the improvements made to date and allow the TOs to be more transparent about the accountabilities that the NAP sets out.

Having considered the responses to the 2013 consultation, the further developments to the NAP since that consultation, and the ongoing constructive meetings between the parties, we have now decided to:

- Approve the NAP for Scotland, applicable to both the SP Transmission and Scottish Hydro Electric Transmission plc electricity transmission licence; and
- Approve the NAP for England and Wales, applicable to National Grid Electricity Transmission's electricity transmission licence.

We are publishing the approved NAPs on our website and expect the companies involved to do the same.

Special condition 2J still envisages that the NAP is updated every two years, so we expect that continued progress can still be made in developing the principles that the NAP sets out, including incorporating the issues identified in the consultation responses and set out in this letter. We have also published our conclusions on Integrated Transmission Planning and Regulation on 17 March 2015. Among other things this decided on various future enhancements to the SO's role, including for the SO to be more proactive in supporting certain aspects of system planning. We expect that relevant changes arising from our conclusions on Integrated Transmission Planning and Regulation will be reflected in future updates to the NAP.

Yours Sincerely,

**Kersti Berge**  
**Partner, Electricity Transmission**

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<sup>6</sup> <https://www.ofgem.gov.uk/ofgem-publications/88216/extensionconsultationjune2014final.pdf>

<sup>7</sup> <https://www.ofgem.gov.uk/ofgem-publications/90974/rev1517-ipconsultationfinal.pdf>