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Dear Sheona,

National Grid European Business Development response to “Consultation on licence modifications to enhance the role of the System Operator” [consultation published 10 April 2015]

Thank you for the opportunity to respond to the above consultation.

European Business Development is the ring-fenced division of National Grid responsible for developing our business portfolio in-line with our core capabilities. We are responding to the consultation as the GB promoter of a portfolio of jointly owned interconnector projects and as a prospective proponent for future competitive transmission investment opportunities both onshore and offshore.

We continue to support Ofgem’s proposals to change the system planning arrangements for GB electricity transmission infrastructure and in particular its commitment to cap and floor regulation for near term interconnectors. The proposed enhancements to the SO role are an important building block to facilitate Ofgem’s stated aim “to ensure that the network is developed in an efficient, coordinated and economic way...” We strongly support this aim.

In the attachments to this letter we have responded to the specific questions posed in the consultation and we have put forward our detailed drafting suggestions in the format of the supplied template. We wish to highlight the following key points which are elaborated upon in the subsequent sections of our response:

Need case for additional interconnection

Where the enhanced role requires the SO to undertake new analysis of the need case for additional interconnection, the proposed licence modifications frame the SO’s new responsibilities around “the licensee’s best view of the capacity, location and timing of

the connection of new interconnectors that could provide value for GB consumers.” We understand Ofgem’s intense focus on consumer value and agree that this has been a very important driver for GB interconnector projects to date. However we note that the complete value proposition for interconnectors is multi-faceted. This requires careful analysis of the full breadth of costs and benefits on a “total surplus” approach having regard to consumer and producer surpluses (at both ends of the link) and the interconnector congestion rent.

The beauty of interconnectors is that on a day to day and hour to hour basis the value can flow to consumers at either end of the link in response to market price signals and system operator / security of supply drivers. The TEN-E regulations¹ and associated pan-European processes implemented by ENTSO-E and approved by the European Commission (such as the Cost Benefit Analysis Methodology²) are strongly anchored in principles of maximising pan-European socio-economic welfare.

We are concerned that if the licence changes were implemented as proposed, the narrow drafting references to GB consumers could give rise to unintended inconsistency with European regulation, create possible misalignment with the true business drivers for greater interconnection and result in SO analysis that only contributes to one part of a complete evaluation of all relevant costs and benefits. Our suggested way forward is to adopt more generic and widely accepted drafting language in the licence modifications that would frame the new SO responsibilities around identification of a level of interconnection consistent with an “efficient, co-ordinated and economical system of transmission”.

Alignment with pan-European processes

In order to perform the enhanced role, the SO will need 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.

In order to get the fullest benefit from the enhanced analytical work we believe it is important that the new processes and outputs are closely aligned and dovetailed into pan-European processes such as the ENTSO-E Ten Year Network Development Plan and Scenario Outlook and Adequacy Forecast. We would like to see stronger evidence of clear intent and practical planning for how the GB and pan-European processes will better align going forward. We have made various improvement suggestions in our detailed comments but in order to ensure maximum value from the enhanced activities we would encourage further thought to be given to this area.

We are happy to discuss our views contained within this letter further should that be helpful. For further details, please contact Jonny Hosford [jonny.hosford@nationalgrid.com].

This response is not considered confidential. We are therefore happy for it to be published on the Ofgem website and shared for the purpose of the consultation.

¹ Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure

² ENTSO-E Guideline for Cost Benefit Analysis of Grid Development projects FINAL – Approved by the European Commission 5 February 2015

Yours sincerely,

A handwritten signature in blue ink that reads "Alan Foster". The signature is written in a cursive style with a large, looping initial 'A'.

Alan Foster
Director
National Grid European Business Development

Responses to Specific Questions

Question 1: What are your views on our proposed licence changes for system planning?

We support the general intent and proposed manner of implementation of the licence changes. We have certain specific suggestions for how to improve some of the drafting and have used the provided template to put forward our detailed suggestions for consideration. Within the template we also provide further comments explaining the rationale for our suggestions.

Question 2: What are your views on our proposed timing of the NOA report from 2016/17 onwards?

Our preference would be to see an enduring arrangement whereby the NOA report is published at the same time as the ETYS. This is because we believe the underlying analysis is actually one single exercise (identifying the efficient level of transmission investment both within GB and across its borders) not a sequential exercise.

In general we would like to see a clearer intent to align GB processes, content and timing (such as ETYS and NOA) with pan-European processes (such as ENTSO-E TYNDP). The same alignment would be beneficial between the SO's input to the GB Electricity Capacity Assessment process and the ENTSO-E Scenario Outlook and Adequacy Forecasting process. Any sources of misalignment (such as the use of different planning backgrounds, assumptions and publication dates) is generally unhelpful to the proper identification and acceptance by all stakeholders of the merit of future interconnection.

Question 3: What are your views on our proposals for the scope and approvals process for the NOA methodology and the NOA report?

We think it is important that the NOA methodology and NOA report contain a high degree of openness and transparency so that prospective developers can fully understand data inputs and modelling assumptions. Developers should effectively be able to replicate SO modelling outcomes and run alternative scenarios / sensitivities to explore the effect of different data inputs and assumptions. We recommend that the SO should identify all data sources, assumptions and inputs relying where possible on independent published data – eg for generation / transmission unit costs.

Question 4: Do you think our proposals for provision of information by the SO are appropriate?

See our earlier responses to questions 1 to 3.

Question 5: What are your views on the way we propose to formalise the process used to determine efficient connections?

We are content with the proposed approach.

Question 6: What are your views on our proposed licence modifications for conflict mitigation?

The modifications do not materially depart from principles that have already been adopted in light of OFTO and EMR. We have no further comment.

Question 7: Do you think there could be any unintended consequences from our proposal to remove special conditions (SpCs) 2D and 2E?

We have not identified any unintended consequences.