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Dear Cathryn,

European Business Development (EBD) response to open letter on ''Criteria for onshore transmission competitive tendering''

Thank you for the opportunity to respond to the above open letter.

We, EBD, are a ring-fenced division of National Grid responsible for developing our business portfolio in-line with our core capabilities. As such, we support competitive tendering where it can bring consumer benefits; we look forward to working in partnership with you to achieve this.

We favour the "early" model because, as a developer, this is where we can add most value. We can bring competitive and innovative pressure to the design stage of a project, which the late model does not allow – see also our consultation response letter to "Integrated Transmission Planning and Regulation (ITPR) project: draft conclusions" on this. The early model also allows developers to achieve consents and ensure a positive final investment decision can be taken.

Furthermore, we also agree that there is a case for allowing competitive tendering on projects which could "substantially", but not completely, meet the new and separable criteria. Instead, we suggest the appropriateness of application of the principles is monitored / overseen by OFGEM on a project by project basis, with visibility and feedback from stakeholders used to keep the effectiveness of the principles under review. EBD, as a developer experienced in interfacing with complex transmission networks around Europe, would be interested in tendering for any suitable projects if that competition was introduced into the onshore arena.

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. 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.

Yours sincerely,

Alan Foster

Director European Business Development

Detailed response

1. What are your views on the analysis and conclusions in Jacobs' report?

The Jacobs report provides a useful summary of issues that should be considered.

2. What are your views on using £100m as the high value threshold? Should this be whole life or capex?

EBD is supportive of tendering large onshore projects and believes the threshold should be set at a level where the prospect of increased consumer benefits, through increased competition, could outweigh the potential downsides e.g. bidding costs and disruption. For example, if the threshold were too low it could lead to a multitude of low value bids with a comparatively high bidding cost and integration effort per project. In such circumstances it may not be sufficiently appealing for EBD, or others, to bid. Whether or not £100m is appropriate as the high value threshold also depends on whether an early or late model is used. For example, a late model may support higher gearing of projects which could mean small equity investment for a £100m project. Again, in such circumstances it may not be sufficiently interesting for EBD, or others, to bid.

We agree that using a whole life approach to estimating costs could provide a more complete picture of the overall project costs. However, this could also lead to greater difficulty in agreeing appropriate estimates. Jacob's description of whole life costs are capex costs, operational costs and maintenance. We think that it is important to include these cost items in 'whole life' costs – in order to ensure that the competition element of the bidding process is not just limited to capex costs and to drive maximum efficiency for consumers. We welcome further discussion of the definition on whole life costs, in particular around whether and how to include costs such as losses and future constraints.

With "early model" tenders we suggest that the SO's estimate of whole life costs should be the basis for the value threshold trigger to invoke competitive tendering. It should then be up to individual proponents to define and cost engineering solutions, which could incorporate elements of non-asset solutions, leading to possible outcomes where the value of the successful tender is lower than the threshold.

3. What are your views on defining new and separable? Are our principles clear? In your view, do they appropriately capture projects where using competitive tendering would bring value to consumers? If not please explain and suggest how we can improve them.

We agree that there is a case for allowing competitive tendering on projects which could "substantially", but not completely, meet the new and separable criteria. In practice, we consider it would be difficult, and not necessarily helpful, to attempt to prescribe fixed criteria, for example a 25% limit on elements that are not new.

Instead, we suggest the appropriateness of application of the principles is monitored / overseen by OFGEM on a project by project basis, with visibility and feedback from stakeholders used to keep the effectiveness of the principles under review. We also believe that there is merit in starting simple by first learning lessons from the competitive tendering of relatively straightforward and discrete transmission projects i.e. ''completely new'' and ''separable'' before a roll out to more complex projects.

As a developer of innovative, multi-jurisdictional transmission projects, including several interconnector projects, we understand the paramount importance of system safety and reliability. Hence we recommend that Ofgem should develop further criteria in order to represent system safety and reliability as prevailing considerations in deciding on the applicability of the new and separable criteria.

4. What are your views on the importance of electrical separability and electrical contiguity, including on the alternative approaches for considering electrical separability?

We agree with the views of Jacobs that electrical separability is not essential. We suggest that it should be left open for proponents to determine the merit or otherwise of including additional circuit breakers or disconnectors in schemes for the purpose of more readily achieving electrical separability – e.g. for outage management. See also our comments on system safety and reliability under question 3. From this perspective of safety and reliability it is of utmost importance that the CATO's decisions on technical and operational procedures, including for example on whether or not extra control systems are appropriate, are aligned with the incumbent' procedures, where appropriate, with a view to preventing that the security of the system is being compromised. Ofgem or another independent party should have a role in safeguarding this principle.

5. In thinking about how to apply the criteria, what should be taken into account when establishing different packages of works to address a given need?

We consider that it could be worthwhile for non-contiguous assets to be bundled together into a single competitive tendering event. For example, a new connection could encompass local substation works and some wider system reinforcement works – where the need case for such works share the same trigger then it could make sense to bundle. Another example would be multiple reactive compensation installations at different geographic sites - bundling a portfolio of similar assets into a single competitively tendered event could be sensible.

6. What are your views on the three approaches we suggest for applying the criteria? Are there other options for applying the criteria that we should consider?

See earlier comment to Question 3.

7. Are there any additional considerations that should be taken into account in relation to the new, separable and high value criteria?

Consideration should be given to how to avoid potential pitfalls with schemes which are triggered by new connections. If the schemes are tendered before firm decisions have been made to proceed with the connection event (e.g. new generation) then the schemes could end up being retendered multiple times. The costs / inefficiencies of successive retendering would not bring consumer benefits. For a developer to maintain interest, it is essential that efficiently incurred costs, arising from managing this uncertainty, are recoverable if there is a strong case for recovery of bid costs.