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10<sup>th</sup> July 2015

Dear Pete,

### **Criteria for onshore transmission competitive tendering**

This response is on behalf of National Grid Electricity Transmission plc and is not confidential.

The development of clear and transparent criteria for onshore transmission competitive tendering is an essential area for consideration and the detail provided in Ofgem's open letter is helpful in this respect. However, we feel that some further work is required as questions remain around the proposals relating to electrical separability, the potential re-packaging of tender projects and the differences between capex and the whole life value of assets.

Other important issues perhaps inevitably require further thinking. These include which of the tendering models is going to be utilised, how best to enable innovation within the tendering process and the linkage between the Network Options Assessment (NOA) and the competitive regime. We look forward to working with both Ofgem and industry in further developing these areas so that they can be addressed in Ofgem's autumn consultation.

### **Key issues**

1. **Electrical separability** should be a pre-requisite for competition and we are concerned that Ofgem is proposing otherwise. In our view, it is crucial that clarity exists as to who is operationally accountable for the reliability of the asset which encompasses its availability, switching, safety and the associated legal liability. This is not achieved with the current proposals which mainly focus on the relatively straightforward (albeit important) aspect of ownership demarcation. Ofgem notes that a Competitively Appointed TO (CATO) may wish to add extra control over its potential assets through its tender bid. However, it would not only be the CATO's assets which would be impacted but also the existing TO's assets. Future control of existing assets should not be decided by an entity which may not be aware of the potential impacts on all contiguous assets.
2. The approaches to **applying the criteria** are open to question. Particularly, the concept of 'substantially' new and the proposal to repackage projects that are 'close' to the value threshold, which are likely to create unintended consequences, such as delays, that are not in the best interests of consumers. Fundamentally, any tendered package must relate to the same system driver to give the contestable regime a logical underpinning. We believe the disadvantages of any potential repackaging of work will significantly outweigh any potential benefits and hence we argue for simplicity and transparency in this area as a clear framework is vital to provide certainty to all.
3. The "**high value**" section of the Jacobs report appears to confuse the value of a project with the lifetime costs of the assets. Using the same consistent methodology as will be

used to assess the capex value assigned to projects in the NOA, would be a transparent approach. Further detail on this can be found in Appendix 1.

4. The definition of a project being “**new**”, when a percentage of the assets are not completely new, is a concern for us. It is important to ensure investment certainty and regulatory continuity for existing owners and to properly manage ongoing risks and liabilities for all parties.
5. Further thought is required for **projects which require another TO to undertake modifications or upgrades** to their existing assets to facilitate a CATO’s new asset. Comfort is required that incumbent TOs / CATOs in future years will be treated fairly for such works. The SO can play an additional role in facilitating any such consequential work where completely new, separable and high value assets are tendered. All bidders, however, will need comfort that the late delivery of supporting works by an incumbent TO/CATO would not impact on the liability of the new CATO to meet their overall programme, with clarity over who carries this risk for late delivery.
6. We agree that **Ofgem should be responsible for project tenders using existing publications**. We believe that the Electricity Ten Year Statement (ETYS) is the most suitable way to identify the initial needs on the system with the NOA providing solutions to meet these needs. However, ETYS and NOA have not been designed to assess the packaging of projects suitable for tendering. If agreed that this is the most appropriate vehicle to help deliver competition, we will work closely with industry to develop these processes.
7. Clarity and transparency around the entire framework for competition is essential. Any **additional complexities** as a result of the criteria and their application have the potential to increase costs to consumers, especially where **projects are delayed**.

Our answers to the specific questions raised in the consultation are contained in the attached appendix. We are happy to discuss our views contained within this letter and appendix further should that be helpful. For further details, please contact Jenny Doherty [Jennifer.doherty@nationalgrid.com](mailto:Jennifer.doherty@nationalgrid.com).

Yours sincerely  
[By email]

Ben Graff  
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## **Appendix 1: Questions raised in Criteria for onshore transmission competitive tendering**

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

We do not agree with Jacobs' noting that 'high value' should consider consenting, pre-construction and transactional costs as part of the calculation. We agree with setting a minimum capex value of £100m of the assets to be tendered subject to a clear demonstration of consumer benefit.

For the separable criterion we agree that ownership and control boundaries must be definable for interfaces between parties. We believe that a key additional factor for electrically connected assets to the delivery or technology justification noted in Jacobs' report, is life time costs of non-contiguous assets as these additional costs could reduce the value for consumers in the long term. Jacobs note that the SO could consider the costs of achieving electrical separability in our option development. However, the role of the SO differs significantly in the early / late model and the SO is not necessarily best placed to understand the impacts on incumbent / CATO networks. We believe that electrical separability should be a pre-requisite for competition as discussed in response to question 4.

For the new criterion we have concerns regarding the ambiguity of setting a threshold for 'substantially new' assets. This is due to the complexity of assessing projects on a case by case basis and the time which may be required to reach industry agreement on which packages of work could be in or out of scope. Any additional time added to the tender process could incur project delays which would come at a cost to the consumer. In our view new should mean new and we would welcome the adoption of a simpler approach by Ofgem.

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

We agree with setting a minimum capex value of £100m for an onshore transmission project to be tendered. However, further analysis would be helpful to clearly demonstrate a benefit to consumers of tendering at this value, relative to the associated transactional costs.

The Jacobs report appears to confuse the difference between the value of the assets being tendered and the whole life costs of the asset that is being assessed. We support Ofgem's approach of using capex as the appropriate measure for 'high value' assets and to provide all TOs with a methodology for assessing the value. This methodology could be based upon the NOA, where TOs input a System Requirements Form (SRF) to the process which includes estimated costs for the project; these will be verified by the SO meaning the same value will be used on a consistent basis as part of the competition criteria. The Jacobs report notes the importance that the value assessment method should be standardised and transparent and capex does seem to be the most appropriate measure.

It should, however, be noted that whole life costs must be taken into account through Ofgem's assessment of the tenders. This will ensure that the winning bidder not only has the lowest initial capex costs, but also delivers best value for consumers throughout the operational life of the assets e.g. maintenance and spares requirements costs etc.

We would like to note that there are also references in Jacobs' report to areas which could be considered under 'high value', for example for projects relating to a Contract for Difference (CfD). Although these do not fit under a capex approach for high value, this raises a question of where criticality is considered in the criteria, as up until this point, this has not been the case.

**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 are concerned regarding Ofgem's view of electrical separability and explore this in question 4 below.

We support the premise of Ofgem wanting to tender projects which are constituted of new assets (in circumstances where it is clear that such an approach will deliver value to the consumer). It is important to ensure investment certainty and regulatory continuity for existing owners and to properly manage ongoing risks and liabilities for all parties. In our view it is difficult to achieve this if new does not mean new.

We agree that there is overlap between the 'new' and 'separable' criteria, but they should remain as separate criteria as being new does not necessarily mean that the asset would also be separable and vice versa.

A range of other factors, as noted in the open letter will also need to be considered on a case by case basis, including the potential reusing of land corridors and potential modifications on existing TO / CATO assets to facilitate the competitive package of work. Whilst necessary considerations, these do add further complexity, therefore going against the principle of starting simple. In addition, further clarification is required that the 'complete replacement of an existing overhead line' includes where the towers are also replaced as we believe that it would not be suitable to class a line upgrade on existing towers as new.

Any uncertainty has the potential to cause delays to projects whilst industry lands on a joint agreement of which packages of projects could go out to competition.

**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 that the concept of electrical contiguity should not be a pre-requisite for competition; however, there should be a single underlying driver for the package of works to ensure that the key date for asset delivery is not put at risk from one driver falling away or timescales changing by multiple parties. We support Jacobs' note that packaging projects to be physically and directly connected to one another reduces the complexity of managing several interfaces and therefore the cost to consumers. We would support the concept of tendered projects being electrically contiguous where possible.

Electrical separability is one of the most important factors of the separable criterion. It is vital that electrical separability provides greater control over each TO's own assets and provides clarity over operational responsibility including responsibility for the significant issues of reliability (including Security of Supply), availability, switching, safety and legal liability. We are concerned regarding Ofgem's view of electrical separability; however, we are supportive that clear ownership and control boundaries are recognised by Ofgem. All bidders will note the possibility of non-separability impacting upon performance under any availability/reliability incentive scheme introduced to ensure optimal consumer benefit regarding operational performance. It is noted that the CATO may wish to add extra control over its assets to provide electrical separability through their tender bid. We would like to highlight that it would not only be the CATO's assets which would be impacted but also the existing TO's assets. It does not seem appropriate for the control of existing assets to be decided by an entity which may not be aware of the potential impacts on all contiguous assets of not making assets electrically separable. Rather, these principles should be clearly defined consistently and appropriately within the broader parameters of the criteria.

We note the Jacobs references to the CUSC principles of ownership, but believe that these may not have been fully understood. The CUSC principles refer to the point of ownership boundary. This is a simple concept, typically referring to a recognisable point such as busbar clamps adjacent to isolators. However, the Jacobs work does not capture the distinction between ownership boundary (which can be anywhere, usually at the clamps) and operational responsibility and its associated liabilities - the crucial factor for separability.

**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?**

A key consideration is through which model Ofgem decide to implement competition as the package of works will be different in the early and late model. Ensuring that relevant stakeholders have an opportunity to input into the process of applying the criteria and that this process remains transparent are both important factors.

There should be a single driver for a package of works. Where multiple drivers for a package of works exist, the suitability for the assets being tendered would need to be revisited if any of the drivers change. A single driver would provide more certainty for both developers and CATOs that the assets will be delivered in a timely manner.

**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?**

We think the disadvantages of any potential repackaging of work will significantly outweigh any potential benefits, hence we argue for simplicity and transparency in this area as it is vital that a clear framework is in place that is certain to all. Therefore we see the first approach as the only credible way of applying the criteria.

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

Clear criteria will be needed to facilitate competition that is in the best interests of consumers whilst reducing the level of discretion required by us as GB SO in assessing which projects meet the criteria for competition and for Ofgem in determining which projects are contested. As we have noted in our previous consultation responses, we believe that there is more work to do, to demonstrate the appropriate level of consumer benefit, proportionate to the risks and costs associated with the development of onshore contestability.

We would like to reiterate the concept of 'starting simple' with radial and HVDC projects as these both clearly meet the new and separable criteria and therefore are the most suited for Ofgem's 'relatively straightforward and discrete transmission projects'.

Moreover, any additional ambiguity in the process has the potential to cause delays to projects whilst all parties land on an agreement of how a package of work should look. Delays are likely to result in additional costs to consumers.