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for energy consumers

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Dear Julian

Network Options Assessment methodology review and related direction

Thank you for submitting the proposed Network Options Assessment (NOA) methodology on 30 September 2015 as required under standard licence condition C27 of National Grid's transmission licence.¹ We've reviewed the methodology against the requirements contained in the licence condition. This letter explains that the outcome of our review is to direct the System Operator (SO) to do further work on its methodology.

The proposed methodology the SO submitted on 30 September 2015 makes good progress against several of the licence requirements. For example, it explains the SO's assessment approach to future transmission network requirements and options. We think this should help to make network planning more transparent and consistent in future.

However, we think there are two issues with the proposed methodology.

First, we have concerns about the interaction between different energy scenarios and the least worst regrets decision rule. In particular, we are concerned by the use of the Gone Green scenario in the process. It increasingly appears to be an overly optimistic scenario going forward, which in combination with the least worst regrets decision rule, could lead to inefficient network planning needs being identified. We expect National Grid to consider how it could modify its methodology to manage this risk. This issue also applies to National Grid's Network Development Policy (NDP) which we will discuss separately with NGET.

Second, we think there also might be an issue with the accuracy of NGET's estimation of boundary transfer capability and the impact from reinforcement options on this capability in scenarios and seasons other than Gone Green at winter peak. This is because NGET only models the boundary flow and different reinforcement options at Gone Green winter peak. The estimated boundary capabilities and impacts of different reinforcement options are then assumed to be the same across the different scenarios modelled. We think this approximation might lead to some inaccuracy if the demand and generation assumptions in the other scenarios differ significantly from Gone Green. We would like some evidence that this approach is fit for purpose, particularly in relation to identifying limits to boundary transfer capability caused by non-thermal issues.

Because of the above specified issues, **we are directing the SO to review and refine its approach to assessing future network requirements.** Based on my team's discussions with you, we do not think this exercise can be completed swiftly. **We therefore direct**

¹ A copy of the NOA methodology is available at: <http://www2.nationalgrid.com/UK/Industry-information/Future-of-Energy/Network-Options-Assessment/>

that a revised methodology be submitted to us by 1 August 2016 for the publication of the second NOA report by 31 January 2017.

In addition to the direction above, we think the SO should proceed with publishing the initial NOA report by end of March 2016 on the basis of the draft NOA methodology submitted to us. We think there is merit in publishing the initial NOA report in this timeframe, with appropriate caveats, as this would be a tangible output for wider stakeholders to engage with the NOA process more generally.

We also note that the proposed methodology doesn't fully cover some of the requirements because there wasn't sufficient time for the SO to develop its approach before the required submission date 1 October 2015. We acknowledge that the SO has committed to working on developing several aspects for next year's methodology. We encourage the SO to keep us informed on its progress, particularly in the following areas:

- The approach to early development work on non-developer offshore wider works
- Development of a pan European model to assess the consumer welfare benefit of interconnector developments
- Wider industry engagement facilitated through the first NOA report
- Further development in the NOA methodology of SO's role to support onshore tendering arrangements
- Further refinement of the SO's input to the strategic wider works (SWW) process in response to the new assessment stage for SWW projects.

If you have any questions in response to this letter please contact Anna Kulhavy (Anna.Kulhavy@Ofgem.gov.uk).

Yours sincerely,

Kersti Berge
Partner, Electricity Transmission