

MINUTES OF THE EXTENDING COMPETITION IN TRANSMISSION INDUSTRY GROUP

STEERING GROUP

OFGEM, LONDON

Thursday 16<sup>th</sup> March 2017

**Present**

**Chair**

Ofgem

James Norman (JN)

**Members**

Energy Networks Association

Ardy Elansey (AE)

Energy Networks Association

John Spurgeon (JS)

National Grid (System Operator)

Ben Graff (BG)

Scottish Power Transmission plc

Stephanie Anderson (SA)

Scottish Power Transmission plc

Alan Kelly (AK)

Scottish Hydro Electric Transmission plc

Malcolm Burns (MB)

Transmission Investment

Chris Veal (CV)

Scottish Government

Catherine Cacace (CC) (telephone)

Dalmore Capital

Adrian Peacock (AP)

Department for Business, Energy and Industrial Strategy

Claire McLoughlin (CM)

**Also in Attendance**

Ofgem

Andrew Ryan (AR)

Ofgem

Joseph Baddeley (JB)

Ofgem

Katie McFadden (KM)

National Grid (System Operator)

Joanna Carter (JC)

**Apologies**

Diamond Transmission Corporation

Gary Thornton (GT)

## **1. Introductions and actions from last meeting**

- 1.1 The Chair opened the meeting and welcomed those attending the steering group for the first time.
- 1.2 The minutes of the previous meeting of 24 October 2016 were agreed with no comments.
- 1.3 The actions from the previous meeting were reviewed. These have been completed or will be covered in the course of the meeting.
- 1.4 In relation to action 4, JC confirmed the SO's view that CATOs would need to have a Network Access Policy. There was general consensus amongst the group that this is a sensible approach. Some discussion followed on whether there should be a separate NAP for CATOs, and where it should fit – STC a potential fit. JN noted that programme for separating the SO and TO will need to amend the NAP also.

## **2. Ofgem update**

- 2.1 JN gave an update on CATO work programme timing and prioritisation; that Ofgem is still seeking legislation, working closely with BEIS, but has limited clarity at this stage on whether and when legislation will come forward. Ofgem and BEIS should know more on this by May. At this point, if CATO legislation looks to be forthcoming, Ofgem will go ahead with the CATO work programme. If CATO legislation is not forthcoming, or if there is no clarity on legislation, Ofgem will pause the CATO programme until legislation is more certain. If Ofgem pauses the CATO programme it currently plans to consider other approaches for introducing competition in transmission, eg introducing competitive pressure via other means such as in project development or financing. Under that scenario, Ofgem would therefore still look to continue this group in some form, albeit the work is in its formative stages and Ofgem can't comment any further at this stage. SA asked whether this alternative work would focus on T2 only; JN responded that it is too early to tell. SA also asked whether this would mean NWCC would no longer be possible to compete in this case; JN commented that again this was hard to answer at this current point, particularly given uncertainties around the NWCC project. CM noted that May is a realistic deadline for securing a slot in a 3<sup>rd</sup> Session Bill, ie there would be clarity one way or the other in May on whether there would be a 3<sup>rd</sup> Session Bill covering CATOs.

## **3. Consultations update**

- 3.1 JN gave a brief overview of upcoming consultations, as set out on page 3 of the future working group plan. There were no comments from the group.

## **4 Report of the early CATO model working group**

- 4.1 BG presented the report from this working group.
- 4.2 BG noted the following points on the report:

- Rationale for holding the working group: complexity of the early model; potential scope for greater consumer benefit; the scope of international examples that provide useful case studies.
- The group looked at a spectrum from 'early model' through to 'very early model'.
- Potential scenario where the SO would come up with the reference design, against which bidders would bid.
- 25% increase in costs identified as a potential threshold for where Ofgem could call a halt (though not automatic – discretionary).
- The working group came up with some criteria around how different solutions could be compared, comprising quantitative and qualitative criteria. This draws on best practice procurement criteria from various sources.
- Working group also looked at the potential for variant bids, though noted that this presented increased challenges for evaluation.
- Generally felt to be a positive outcome amongst the working group – despite practical challenges, this work is theoretically in good shape.

**Action: BG to send around summary slides**

4.3 JB questioned how the 25% figure was arrived at. General consensus that 25% may be too high but that more about the principle here than an actual number for now.

4.4 CV asked how pressure could be maintained on cost once the Preferred Bidder is selected. CV noted that whilst outside of the working group scope, further consideration was needed regarding the benefits of the early model (enhanced innovation) vs the disbenefits (lack of firmness on financing and price).

4.5 AP noted the importance of visibility from a financing perspective of a) how evaluation assessments are made; and b) project certainty. He noted that it may be risky to jump to an early model straight away – may prefer to prove the late model first.

4.6 AK made a point that whilst outside of the scope of the working group, considerations should be made in relation to the very early model and potential to drive non-infrastructure build and to tender for ideas rather than built solutions (cf parallels to architectural design competitions).

4.7 JN outlined key Ofgem points on the report:

- Need to future-proof in the light of changing system; the evolving SO role; blurring of transmission/distribution boundaries; impact of non-build and storage solutions.
- Potential to run competition on a specific part of a project only.
- Perhaps need to address, in the future, the challenge of numerous CATOs becoming involved in consenting and engaging with planning authorities. Scottish government has voiced concerns about this in the past.
- Ofgem won't be taking forward development of the early model further unless there is certainty on CATO legislation.

**Action: Ofgem to publish working group report. No further amendments needed (although a number of issues to explore if further work on the early model goes ahead)**

## **5 Codes working group report**

5.1 AR presented on the minutes of the February codes working group on the STC.

5.2 At this initial meeting the discussion focused on high level principles; where codes governing CATOs would need to differ from those for TOs.

5.3 CV raised a question on construction security and further thinking required on this. It was noted that this was policy still to be developed.

**Action: Ofgem to publish the minutes from the working group.**

## **6 Future working groups**

6.1 AR covered the future codes workshops in March and April, covering the SQSS and Grid Code, and the CUSC, as set out in the future working group plan.

6.2 JB covered the tender specification working group to be held on 27 March. Ofgem has consulted on this a number of times; looking to get a more detailed view on what should be in the specification and what each of the scheduled items would entail. Ofgem will also likely hold a project-specific workshop, when relevant.

6.3 On the potential for a 'tender models and market offering' meeting (if these go ahead), MB noted it would be useful to have more than one, to spread out the discussion. General agreement that this would be a good approach.

6.4 JB also set out the broad timeline for the T1 licence modification programme, with a statutory consultation currently expected in mid-2017 to align with expected clarity on legislation.

## **7 AOB and next meeting**

7.1 MB picked out a few points from the last meeting's minutes: reference to dummy ITT - when this would be happening. JN responded that this would be picked up as part of the May consultation on tender models and market offering. If there is certainty on legislation, would expect this would also be included as part of the next workshop. MB also asked about the publication of further details on risk allocation; again, JN responded that this will be dealt with in the May consultation.

7.2 SA asked about certification and changes to European legislation. Wanted to know if there would be any impact on unbundled companies' (SHETL and SPT) existing certification. MB noted doesn't think an issue – he has looked into it briefly.

**Action: JB and KM to pick up with SP Transmission separately**

7.3 Next meeting is to be scheduled for May. Will include an update on legislation and the work programme, and reports on the tender specification and codes workshops.