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Dear Matthew,

Consultation on changes to Standard Licence Condition C27

This response is on behalf of National Grid Electricity Transmission plc.

Executive summary

We welcome the continued work to explore the potential for extending competition in electricity transmission. We support developments in this area and, as SO, are working to expand the scope of the Network Options Assessment (NOA) to help deliver greater value for consumers through consideration of a wider range of system needs and potential options to meet them. This informal licence consultation represents a further helpful step and we look forward to contributing to the next stage of the process.

There are elements of the consultation that we support. In particular:

- **Inclusion of the obligation to undertake competition criteria assessment for recommended options:** We support the inclusion of the obligation for the SO to undertake an assessment for recommended options against Ofgem's criteria for competition, which have been included in the past two publications of the NOA report.
- **Clarity on the options for Major National Electricity Transmission System Reinforcements:** We acknowledge and welcome the intent to be clearer as to the options which Ofgem expect to be included in the NOA for assessment. We however have concerns that as the NOA is still developing, suitable mechanisms are not yet in place to facilitate inclusion of all options in this list, particularly with regard to the inclusion of options suggested by other interested persons. We are developing a roadmap for the NOA, which will, in time, facilitate the inclusion of all options listed, however this is over a number of years. Further detail on Ofgem's expectations in this area would be welcome including whether the SO's current approach meets Ofgem's intentions. We would also like Ofgem to carefully consider the proposed wording related to Major National Electricity Transmission System Reinforcements as the current proposed wording appears to exclude construction of transmission capacity options.

There are also elements of the consultation and proposed licence drafting where we believe further thought is needed. In particular:

- **Early Development of Options:** We are supportive of ensuring a wide range of options can be considered within the NOA process. We think, however, that this could be given clearer effect within the draft licence wording of Standard Condition C27 by clarifying what is meant by “early development” of options. At this point in time the SO is not funded to undertake early development of any options aside those restricted to “SO-led” options or Non-Developer Associated Offshore Wider Works. The breadth of options included in the proposed licence revision give cause of concern of the level of activity which could arise and which, at this point in time, the SO has neither the capability nor funding to support. Further, consideration needs to be given to the obligation’s interaction with the development that has already been or is to be carried out by TOs to avoid inefficiency and unnecessary project risks. We would welcome further clarity from Ofgem on the expected obligations of the SO in this area.
- **Competition criteria:** The reference to the guidance document for competition criteria has the potential to create uncertainty as the criteria could conceivably be altered at any point. There would need to be clear guidance as to the process by which any set of criteria for competition are reviewed and amended, such that any interested party has the opportunity and ability to feed into this process. Moreover, we do not think there is much scope to deliver value to consumers beyond the current proposed criteria. We would encourage Ofgem to provide the industry with more certainty that the existing criteria will be given a proper opportunity to bed in before further changes are considered, and an assurance that any further potential changes will be rigorously assessed from a consumer benefit perspective.

Competition assessment: We believe it is in the consumers’ best interest for Ofgem to confirm that the expected savings from competitively tendering specific projects outweighs the expected costs before projects meeting the criteria for competition are put out to tender. We would also welcome clarification that it is only SWW projects which meet the competition criteria that are eligible for competition in RIIO-T1 in line with Ofgem’s other publications on this topic.

- **Licence wording:** The proposed modifications to the licence go some way to implementing Ofgem’s policy intent. We have included, as an appendix to this document, some suggested amendments to the licence drafting provided by Ofgem, as a starting point for further discussion. These amendments are not intended to be taken as a definitive view of what the licence should look like, but rather as a few initial suggestions that can be explored further. In particular, it is important that the early development role of the SO is properly defined, such that it does not go beyond desktop work, and that where the SO identifies the need for development of options, the subsequent detailed development work is undertaken by the TOs or other relevant third party with the support of the SO. We have concerns with the drafting for this section for the following reasons:
 1. We do not believe it is Ofgem’s intention for the SO to provide development of options for interconnector capacity. This should be limited to the current role of identifying the level of interconnection capacity required and to enable markets to deliver most benefit for GB consumers.

2. Options suggested by TOs or other interested parties may include use of information, technologies, experience or knowledge for which the SO has no capability, or exposure to in order to suitably develop the option. We believe it would be better for development of any such option to be conducted by the TO or interested party with relevant support from the SO.
3. We note that Ofgem's Decision Document "Extending competition in electricity transmission: Decision on criteria, pre-tender and conflict mitigation arrangements" published November 2016 states "... we would expect early development works will include desktop analysis, such as capacity analysis, technology choices and high level routing and not require any field analysis or surveys." This consultation, however does not explicitly state Ofgem's intent of early development works, which would be beneficial in providing clarity. If still relevant we would also like to see further explanation of the term "desktop" studies, as it is worth noting that some desktop assumptions, such as the extent of undergrounding required for a new line, are complex and could be sufficiently material to change the NOA outcome and therefore do not fit well into the SO's role. We also have concerns with the inclusion of technology choice and high level routing as part of early development works. Technology choice should be driven by the market to facilitate innovation and best value for consumers. High level routing is an activity for which the SO has neither the capability nor funding to undertake.

We hope that you find the points raised within this response helpful and in line with expectations. We would be willing to discuss any of the matters contained within this response with you in more detail should that be of interest.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'N Harvey', with a long, sweeping underline.

Nicholas Harvey

Head of Network Development

Appendix 1: Answers to consultation questions

Question 1: What are your views on our proposed licence modifications, as outlined in this document, and whether they effectively implement the SO-related policy decisions in our November 2016 Decision Document?

The proposed licence modifications go some way to implement the SO-related policy outcomes in the November 2016 Decision Document, although we have included some suggested changes in appendix 2 as a starting point for further discussion.

For the SO, we would like to see a confirmation that its role is limited to desktop activities. For options for which the SO is obliged to undertake early development works, which involve land, costing and engineering related work, the SO's role should be to recommend that the incumbent TOs progress these options. The TOs will have access to the relevant land/cost information and supply-base innovations required to develop the option, and will have the capabilities to do this work, which is not a good fit with the role of the SO.

We believe it is in the consumers' best interest for Ofgem to confirm that the expected savings from competitively tendering specific projects outweighs the expected costs before projects meeting the criteria for competition are put out to tender.

Question 2: What, if anything, do you think is missing from our proposed licence modifications to implement our policies?

We believe that the proposed policy wording goes some way to implement Ofgem's policy intent, and we have included some suggested wording within appendix 2 as a starting point for further discussion.

We would welcome an explicit clarification within the licence that not all projects identified by the SO as meeting the criteria for competition will eventually be put out to tender, and the NOA report is simply flagging that the question should be considered further via a bespoke impact assessment of consumer benefits and risks. It is important for potential bidders to be aware that the scope of a particular project may change over time, meaning that it may no longer meet the competition criteria, or future study work carried out by the SO may show that the project in its current form is no longer required: these risks would need to be factored into an assessment of whether a particular project should be subject to competitive tendering.

Question 3: What do you think of the newly explicitly noted points 16(a)(vi)-(vii)? Are there any other points that should be captured in addition?

We welcome the additional clarity that the newly explicitly noted points bring. We believe it is important that options recommended to progress do so, as they are assessed as being in the interest of consumers. We also note that options meeting the majority of these criteria are already being considered.

The inclusion of the requirement to include options suggested by "*other interested persons*" does however cause some concern. We note and welcome the statement in the consultation that "*...it is not our intention that the SO set out all options suggested by interested persons.*" We are however aware that the NOA does not currently allow for the inclusion of such options. We are developing a roadmap for the direction of the NOA, which will facilitate this in due

course. We therefore would welcome acknowledgement from Ofgem that the SO direction of travel is sufficient to meet this obligation.

We would also like Ofgem to carefully consider the wording of this section related to the definition of Major National Electricity Transmission System Reinforcements. It may not be Ofgem's intention to exclude transmission construction options from this definition, however this is how it appears. As the majority of options assessed in the previous three NOAs have been transmission construction options, this should also be an explicitly noted point if the intention is to capture and clarify all potential options to be assessed in the NOA process.

Question 4: What are your views on the form of the criteria as set out in the draft criteria guidance (published as a subsidiary document to the January 2018 competition document published alongside this consultation)?

We welcome the confirmation that the criteria of new, high value and separable remain applicable to the newly proposed competitive delivery models. We welcome the additional clarity of the detail of what is included in the high value criterion. However, the ability to clearly delineate ownership boundaries is not particularly meaningful: we would still like to see that the entire project is electrically contiguous, and electrically separable from the incumbent TO's assets, and that work is appropriately bundled so as to minimise overall cost in terms of outage and resource availability.

Question 5: What are your views of our proposed new paragraph 16(e) regarding the assessment of generator and demand connection offers against the criteria for competition? Would this amendment capture all appropriate connections?

We do not feel that there will be a significant number of generator connection offers or demand connections which will meet the competition criteria. For those which do, it is necessary to consider whether the competitive tendering of such projects is truly in the interests of consumers. There is significant churn in transmission projects, so the need case or scope of a project may always be subject to change. Incumbent TOs are well placed to manage this uncertainty due to their large portfolio of work.

Further, it is necessary to consider how well the identification of generation and demand connections which meet the competition criteria fits with the NOA process, as generation and demand connections are based on a contracted background, and the NOA is based on the probabilistic assumption of a smaller percentage of projects connecting depending on the likelihood of different Future Energy Scenarios. The proposed modifications would mean tendering different types of projects based on different views of the future: adding cost, complexity and uncertainty for all stakeholders.

Question 6: What are your views on our proposed amendment to extend the principle of early development to any option that is not developed by the relevant TO, where the SO considers there may be benefits to developing that option further?

We would like to clarify here that the SO's role in "leading" these options should be limited to desktop analysis and leading on non-build options, with no involvement in engineering work on TO assets, fieldwork or physical surveys. The SO should be focussed on identifying option gaps and then ensuring that the relevant experts in the TOs or third parties take these projects forward.

We generally believe that the requirements for early development works for the SO are too wide, and would like to clarify Ofgem's expectations here, as any detailed development of new transmission capacity does not sit well with the SO.

