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Extending competition in electricity transmission: commercial and regulatory framework for the SPV model

Dear Matthew,

We welcome the opportunity to respond on behalf of the National Grid Electricity System Operator (ESO) to Ofgem's consultation on the commercial and regulatory framework for the Special Purpose Vehicle (SPV) model. We are supportive of the introduction of competition for new-build onshore transmission assets where this can be shown to deliver value to the end consumer and where any new role for the ESO is consistent with our current capabilities.

From April 2019, the ESO will be a new standalone business within National Grid, legally separate from all other parts of the National Grid Group. The ESO will have its own Board, and staff will be physically separate from all other parts of National Grid. This will provide the right environment to deliver a balanced and impartial ESO that can realise real benefits for consumers as we transition to a more decentralised, decarbonised electricity system.

The introduction of competition in onshore transmission build should, if properly designed and implemented, be positive for consumers. The design of the competition model will be important in determining the extent to which value is delivered. We believe that optimal consumer value can be delivered by introducing competition at the very early stages of the development of a transmission reinforcement so that the full benefits from innovation in design, technology, risk management and delivery can be realised. As much of the competitive process as possible should be undertaken by the party delivering and being accountable for the asset. This has the benefit of work being undertaken by the experts and avoids duplication of resources. Therefore, we believe that the early model of the Competitively Appointed TO (CATO) regime should still be progressed when there is time in the legislative agenda.

If Ofgem decides to introduce the SPV model, there are a number of important factors to get right in its design. We have focused our response on the areas of the consultation we see as being crucial to the development of a successful competitive model. These align with our knowledge and expertise and we have left out aspects where others will have a more informed position.

The SPV model, and any other competitive model, should be designed to ensure that there are no delays to the availability of the new asset due to the introduction of competition. Delays to the construction of large transmission infrastructure projects can potentially lead to higher costs to consumers resulting from the need to manage additional transmission system constraints, as well as delays to customers' connection dates.

There are two aspects of the consultation document that we feel it is important to get further clarity on before Ofgem implements the regime, in order to ensure that the requirement to operate a safe and secure national electricity transmission system is met.

1. Operational responsibility – the respective responsibilities between the TO, the SPV and the ESO will need to be very clearly set out; and
2. Asset quality requirements – clarity on the asset quality requirements and ongoing maintenance regimes will be required to ensure safe and secure operation of the electricity system.

We look forward to working with you and industry to help develop clarity in these areas and on the development of competitive models more broadly that result in a safe, secure and operable transmission system and build on our and other parties' respective capabilities.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Julian Leslie', is centered within a square area that has a light gray dotted background.

Julian Leslie

Head of Networks