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New Transmission Investment,  
Office of Gas and Electricity Markets,  
10 South Colonnade,  
Canary Wharf,  
London.  
E14 4PU

Nicholas.Harvey@nationalgrid.com  
07824 482889  
www.nationalgrideso.com

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20<sup>th</sup> January 2020

**Statutory consultation to modify standard condition C27 (*the Network Options Assessment process and reporting requirements*) of the electricity transmission licence**

Dear Sir/Madam,

We welcome the opportunity to respond to your statutory consultation on a proposal to modify standard condition C27 (the Network Options Assessment process and reporting requirements) of the electricity transmission licence.

National Grid Electricity System Operator (NGESO) became a legally separate entity on 1 April 2019. As the ESO we use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers. We are supportive of competition where it is in the interest of consumers. We are working to expand the scope of the Network Options Assessment (NOA) through our pathfinder projects to help deliver greater value for consumers through consideration of a wider range of system needs and potential options to meet them. We are also developing an Early Competition Plan, which will set out proposals for implementing early competition for onshore transmission. These proposals will include competition for non-network solutions, that is solutions not requiring a transmission licence.

We have been conducting the NOA process since the implementation of the enhanced SO role, which followed the conclusion of the Integrated Transmission Planning and Regulation Project. In this time, we have already introduced some of the elements which this proposal would provide the licence obligation for. As such we welcome the clarity these proposals provide. Regarding the statutory consultation, we wish to raise the following points:

- **Restructuring parts of C27 to provide a non-exhaustive list of the types of options for Major National Electricity Transmission System Reinforcements that the SO should set out in the NOA report.** We welcome the enhanced clarity provided by an explicit list of options which Ofgem requires to be considered. We note that this also includes options from interested persons. As set out in our ESO Forward Plan, we are expanding the NOA to include options from a wider set of participants. This will be introduced in a phased manner, focussing on specific network requirements through market tenders. We welcome continued engagement with Ofgem and stakeholders through the NOA methodology consultation on our proposals and views from interested parties on how we can broaden this over time. We note Ofgem's view *"that the SO is the party best placed to define the process for submitting proposals and appropriately filter out submitted options before setting them out in the NOA report"*. Our understanding is that the proposed condition will require NGESO (using the latest data available to it and in accordance with the methodology) to give its best view of the options suggested by interested persons which could meet the needs identified in the ETYS and facilitate the development of an efficient, co-ordinated and economical transmission system. This means that, if NGESO's best view is that an option from an interested person does not do these things, NGESO does not need to set out the option in the NOA report. We would be grateful if Ofgem would confirm that this understanding is correct.

Separately, it is not clear to us what obligation an interested person has to deliver an option once selected. Further clarity on this issue would be welcomed.

Since the previous statutory consultation, Ofgem has requested that we develop an Early Competition plan by February 2021, which will set out how models for early competition could be implemented. These models for early competition need to apply to both asset build and non-network solutions. Due to the points raised above we propose that the models for early competition are the means by which interested persons are able to submit

options for assessment. This will provide a transparent framework and clearly set out the roles and responsibilities of all parties in the process. We are keen for stakeholders to work with us as we develop these proposals.

We also note that one of the requirements of the amendments to the now paragraph 16(a) is to oblige us to report on any options given a proceed recommendation which are not taken forward by a transmission licensee. In order for us to fulfil this obligation we would require some means of obtaining this information, such as the TOs being obliged to report this to us either through their licences or through changes to the STC. We request that Ofgem confirms its expectation of the mechanism by which NGENSO will receive this information from the TOs (including how this will be mandated) and what the outcome/impact/consequences of that are expected to be.

- **New requirement for the SO to assess certain projects set out in the NOA report against the criteria for competition, as described in the Criteria Guidance.** We are supportive of the proposals to formalise the requirement to assess projects in the pipeline against the criteria for competition, which will be delivered in RIIO-2 timescales. We agree that the NOA methodology is the best place to detail how we will conduct this assessment, particularly with respect to packaging and unbundling.
- **A new requirement for the SO to undertake early development of options it intends to set out in the NOA report where early development is not carried out by another transmission licensee.** Since it was announced we would become a legally separate entity, we have clarified our role in the development of options which are submitted into the NOA. For example, we have identified opportunities for reduced build options, collaborated with TOs on reduced build options and also developed generic commercial solutions for evaluation in the NOA. These options are developed to such a level that they can be compared in the process. We welcome the change in this statutory consultation to limit the requirement on NGENSO to desktop works. Our understanding is that, for these purposes, desktop works do not include any detailed design, surveying or consenting activities and we would be grateful if Ofgem would confirm that this understanding is correct. This would align with our current activities and capabilities. We believe it is appropriate that any detailed design, surveying and consenting activities are best placed with the party delivering the solution. This does mean that, depending on the stage at which a project is not progressed by a transmission licensee, it may not be possible (or appropriate) for NGENSO to continue to progress an option.

The NOA has options of all different levels of maturity. With desktop work we will be able to develop an option to a point where it can be included in the assessment – this can be done ahead of any surveying work. It will however never progress beyond this stage, even if we recommend it to proceed, without some other mechanism to develop the option beyond desktop activities. If NGENSO is unable to develop an option further through desktop activities, it is currently unclear what process would follow. Early competition could provide a mechanism for any option not being progressed by a transmission licensee to be developed further. In developing the Early Competition Plan we will be considering the interaction of Early Competition with the NOA process and how the processes will work together. Where this would expand our role beyond current activities and capabilities in order to meet the proposed licence changes, we would expect to seek appropriate remuneration.

In addition, we wish to raise three specific drafting comments, which are raised in the table annexed to this response.

We welcome the opportunity to further discuss the points raised within this response. Should you require any further information or would like clarity on any of the points outlined in this paper then please contact Hannah Kirk-Wilson in the first instance at [Hannah.Kirk-Wilson@nationalgrideso.com](mailto:Hannah.Kirk-Wilson@nationalgrideso.com).

Yours sincerely



Nicholas Harvey  
Head of Network Development

**ANNEX – Specific comments on modifications proposed to standard condition C27 (*the Network Options Assessment process and reporting requirements*) of the electricity transmission licence**

| Paragraph                   | Comment   | Explanation   |
|-----------------------------|---|---|
| Para 16 (currently para 15) | We suggest that the opening cross-reference should be changed from ‘ <i>...in accordance with the methodology established pursuant to paragraph 8...</i> ’ to ‘ <i>...in accordance with the methodology approved by the Authority pursuant to paragraph 7...</i> ’.  | For consistency with para 12(b) (currently para 11(b)).   |
| Para 18 (currently para 16) | Ofgem is proposing to delete ‘ <i>transmission</i> ’ from the opening line of the paragraph (i.e. ‘ <i>... must provide electricity <del>transmission</del> licensees and...</i> ’). We request that if a change is to be made to this wording, ‘ <i>electricity</i> ’ should be deleted instead (i.e. ‘ <i>... must provide <del>electricity</del> transmission licensees and...</i> ’). | <p>We understand that the change is intended to be a non-substantive change, made because the term ‘<i>electricity transmission licensee</i>’ is not defined in the licence conditions, whereas ‘<i>electricity licensee</i>’ is defined.</p> <p>However, the proposed change does entail a substantive change to the licence condition. It is clear from the current wording that the category of licensees to which information must be provided is transmission licensees. The word ‘<i>electricity</i>’ in the opening line is strictly redundant. (See also references to ‘<i>transmission licensee</i>’ in current paras 16(b) and 16(c).)</p> <p>Adopting the term ‘<i>electricity licensee</i>’ would expand the condition beyond providing information to transmission licensees (and Interconnector Developers) as the defined term ‘<i>electricity licensee</i>’ applies to a broader category of licensee.</p> <p>Given that Ofgem intends to retain the current meaning but align more closely with defined terms, we propose that the word ‘<i>electricity</i>’ can be deleted. The term ‘<i>transmission licensee</i>’ is already a defined term in the licence and so can properly be used.</p> |
| Para 23                     | We request that the first paragraph reference in the opening sentence of this paragraph should be ‘ <i>...(in accordance with paragraph 24)...</i> ’, instead of ‘ <i>...(in accordance with paragraph 24(b))...</i> ’.   | <p>Para 23 sets out an obligation on the licensee to undertake early development and para 24 sets out: (a) what that early development may be limited to; and (b) the requirements which must be met relating to that early development.</p> <p>Given that both para 24(a) and 24(b) explain how the licensee undertakes early development, it is confusing if the cross-reference in para 23 is only to ‘<i>paragraph 24(b)</i>’.</p> <p>We request that the cross-reference should be to ‘<i>paragraph 24</i>’ so that all of paragraph 24 is clearly referenced.</p>   |