

14 July 2022

National Grid Electricity System Operator (ESO) response to Ofgem's Minded-to Decision and further consultation on Pathway to 2030

Dear colleagues,

We welcome the opportunity to respond to Ofgem's recent Minded-to Decision and further consultation on Pathway to 2030. Our response is not confidential.

The ESO is the electricity system operator for Great Britain. We move electricity around the country second by second to ensure that the right amount of electricity is where it's needed, when it's needed – always keeping supply and demand in perfect balance. As Great Britain transitions towards a low-carbon future, our mission is to drive the transformation to a fully decarbonised electricity system by 2035 which is reliable, affordable and fair for all. The ESO holds a unique position at the heart of the nation's energy system. We use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers. The ESO is also a proud project partner of the OTNR and in the first phase of the ONTR we demonstrated there is benefit in delivering an integrated network as quickly as possible to deliver better outcomes for consumers and coastal communities. We have recently published our Pathway to 2030 Holistic Network Design (HND)¹.

A summary of our key points can be found as follows.

- We are supportive of the proposed very late competition developer led offshore delivery model for any non-radial offshore transmission within the HND and the status quo offshore delivery arrangements for radial offshore transmission within the HND. Further work is required on how any non-radial offshore transmission system is to be delivered under the preferred offshore delivery model in practice.
- The minded-to decision indicates that Ofgem plans to work with the ESO and developers to agree how non-radial offshore transmission system will be delivered once HND recommendations are published. Now they are, we look forward to supporting Ofgem in doing so and classifying assets is critical to the facilitation of the detailed network design and consenting processes for TOs and non-radial developers.
- It is important that this process also considers the practicalities of the minded-to decision in respect of deliverability of non-radial offshore transmission system. For example, to allow the ESO to update connection contracts to reflect the HND recommendations we need to determine which party or parties in a non-radial design is/are going to be responsible for the delivery of those assets.

¹ <https://www.nationalgrideso.com/future-energy/the-pathway-2030-holistic-network-design>

- As the draft impact assessment acknowledges, the analysis and conclusions are within the context of selecting a preferred offshore delivery model for the HND. It is therefore important that some of the analysis and conclusions are not taken out of context in future when considering other decisions where there may be similar options i.e. onshore network competition and the enduring regime offshore.
- In Paragraph 1.11, Ofgem notes the scope of the minded-to decision and in one particular instance this does not appear to align with the scope of the HND. This is also relevant in relation to Paragraph 4.7. In addition, whilst potentially immaterial, the impact assessment considers a lower capacity than the capacity within the HND. We would like to further discuss these points with Ofgem to ensure it is clear which non-radial offshore transmission system this minded-to decision applies to, including in respect of any anticipatory investment, and that there is no material impact on the impact assessment analysis.
- Some of the aspects of this minded-to decision relate to topics we have also considered within our *Industry Code, Standard and Licence Recommendation Report*² and we would welcome the opportunity to discuss these further with Ofgem.

Our detailed responses to the consultation questions are included in the appendix below.

We welcome the opportunity to further discuss the points raised within this response. Should you require further information or clarity on any of the points outlined in this response then please contact Alice Etheridge in the first instance at alice.etheridge@nationalgrideso.com.

Yours sincerely,

Matthew Wright
Head of Strategy and Regulation

² <https://www.nationalgrideso.com/document/262691/download>



Appendix: ESO response to consultation questions

Q1: Do you agree with the findings of the draft impact assessment published alongside this document?

It is worth us briefly restating our overall position from our previous consultation response on the original six offshore delivery model options as follows.

‘Overall, we believe that Ofgem should give priority to further exploring and developing Option 5, Option 2 and Option 6 in the context of [Pathway to 2030].’

We are therefore supportive of Option 6 being the preferred offshore delivery model in respect of the relevant projects within the HND.

However, we feel there are still outstanding questions in relation to the implementation of this preferred model, such as in relation to the points below, which are also taken from our previous consultation response.

‘Regarding Option 6, we would like further information on how this could work in order to form more defined views on it. For example, would there be a ‘lead developer’ responsible for delivery of the coordinated Offshore Transmission System, or would there be an expectation that developers relying on the infrastructure all create a Joint Venture which in turn becomes responsible for that infrastructure?’

‘Option 6 could reduce developer confidence, depending on how it is implemented, as one developer could be reliant on another developer for their connection’.

Therefore, we look forward to working with Ofgem and the developers which are dependent upon non-radial offshore transmission system in the HND to agree how such assets are to be delivered in relation to Option 6. In the impact assessment Ofgem assumes *‘that there would be at least six months of commercial negotiations between developers if one of the developer competition models was adopted’*. In respect of such agreement, we would like to understand the extent to which this implies that non-radial developers are expected to resolve any responsibility and risk aspects of the offshore delivery model on a commercial basis.

As an ‘Option 7’ was also subsequently introduced by Ofgem it might now (with Option 6 being preferred) be worth exploring the additional effort which would be required to also allow this option for any non-radial offshore transmission system for comparability with the status quo arrangements for radial offshore transmission system. In some cases, it might be possible for a late competition to be undertaken without adversely impacting upon the connection date(s) of the developer(s).

We have set out some further considerations in respect of this minded-to decision in our response to Q2 below.

Q2: Where you disagree with the draft impact assessment, does this raise any issues with our minded-to decisions?

As the draft impact assessment acknowledges, the analysis and conclusions are within the context of selecting a preferred offshore delivery model for the HND. It is therefore important that the analysis and conclusions are not taken out of context in future when considering other decisions where there may be similar options i.e. onshore network competition and the enduring regime offshore. For example, Ofgem considers the significant estimated implementation time for the introduction of an offshore early competition model. The time to implement early competition onshore, or the time to subsequently implement early competition offshore will not be the same as the time considered within this impact assessment due to a different context and baseline. There may also be additional facilitative changes in place. We therefore need to be cautious about the broader use of the content of this impact assessment in future.

In respect of Option 2, it is also worth noting that any Ofgem and stakeholder concerns in relation to onshore TO delivery of offshore transmission assets will likely need further consideration in the event that some of the assets within the HND are designated as onshore transmission rather than offshore transmission.

Chapter 4 – Pathway to 2030 – Gateway assessment process

Q3: Do you agree with the proposed introduction of a new Tender Entry Condition in the Tender Regulations requiring the confirmation of the offshore transmission system as ‘economic, efficient and coordinated’?

Yes. It is important that the qualifying network design is aligned with the HND (subject to justifiable changes) and is an economic, efficient and co-ordinated design. Therefore, it seems appropriate for this be a requirement for entry into a tender process. An alternative could be for the cost assessment process to consider in a similar manner to the treatment of inefficient costs i.e. via disallowance of costs when setting the asset transfer value. As is considered by the consultation, it is important that there is flexibility in the drafting of this new tender entry condition and how it is interpreted as whilst the HND recommendations should be taken forward by developers, the detailed network design and consenting stages may result in justifiable changes. Therefore, any such changes should be permissible in the context of the new tender entry condition if they are shown to be economic, efficient and co-ordinated changes by the developer(s), and/or potentially also due to changes, as per our response to Q5 below, which are demonstrably beneficial in the context of the other network design objectives.

Ofgem may wish to consider whether this requirement should also be extended to radial offshore transmission. If so, there could potentially then be a requirement to also extend the proposed gateway assessment to provide early comfort, albeit the additional administrative effort may then reduce or remove the potential benefits of the new tender entry condition having been extended.

Q4: Do you agree with the introduction of the proposed gateway stage assessment process?

Yes. We agree that the above new tender entry condition creates additional uncertainty for developers and the proposed gateway assessment process should provide some additional comfort to developers.

It should also be noted that there may be a need for the ESO to support, or be involved in, elements of the gateway assessment process and we would like to explore this further with Ofgem in due course.

We agree that working to develop a standard process which will be applicable to developers regardless of workstream, to give certainty projects can enter the Offshore Transmission Owner (OFTO) regime, is a sensible approach to these processes.

Q5: Do you think the information sought as part of the gateway assessment process is appropriate and proportionate? Is anything missing?

We agree the information is appropriate and proportionate, although as well as detailing how the network design 'meets the required outputs of the HND' it may also be worth noting the network design objectives upon which the HND recommendations were based as per the Central Design Group Terms of Reference. It is important that the process facilitates the progression of connections to support the achievement of Government targets and ambitions and hence a light-touch approach to the process seems sensible.

This could fall within the 'interaction between all users and prospective users of the coordinated assets' but we also wonder whether it could be prudent for the developer(s) to provide information on their relationship between themselves and any contingency plans related to the delivery of the offshore transmission system. However, this assumes that such arrangements are to be left to relevant developers to agree. This may not be the case. If not, and such arrangements are clear via other means, then this may not be a requirement for the submission.

Q6: Do you have any views on the timing of the gateway assessment process?

We do not have any comments on the timing of the gateway assessment process.

Q7: Is there any other information which you believe should be included in the confirmation to developers?

We note that Ofgem will not be undertaking cost assessment at the gateway assessment stage and that it does not intend to provide a view on what would constitute economic and efficient costs on an ex-ante basis.



However, we believe that as part of the confirmation to developers a view should be provided on any anticipatory investment and the value of that investment, as is being considered in relation to the early assessment process being consulted upon for the Early Opportunities workstream. This information would support the ESO in ensuring user commitment arrangements related to any non-radial offshore transmission system development, including anticipatory investment, are appropriate.

In addition, whether or not confirmed to developers, it is at this point that Ofgem may wish to form a view on a tender strategy in relation to the non-radial offshore transmission assets. There may be opportunities to separate or consolidate offshore transmission assets into different or similar tender processes or lots. This could result in a greater or lesser number of OFTOs and so a greater or lesser amount of complexity in relation to interface points between systems and the owners of those systems.

It will also be prudent to form an initial view on this as part of the original asset classification process when any non-radial offshore transmission is first identified and subsequently included in connection contracts.

Chapter 5 – Very Late Competition Model Tender policy

Q8: Do you think changes are required to the current process to facilitate a very late competition model for non-radial assets?

Whilst there may be additional complexities, we are not aware of any reasons why a very late tender process for any radial offshore transmission assets would be inherently different from a very late tender process for any non-radial offshore transmission assets.

As per our response to Q7 above, there could also be changes to tender strategies associated with such assets. Therefore, an additional complexity not considered is the potential for an asset transfer process to not only involve Ofgem, the ESO, the appointed OFTO and the developer, but to also include additional OFTOs and developers e.g. if there is to potentially be an offshore transmission interface site between two different OFTOs.

It is worth noting that subsequent elements of the offshore transmission system will need to be energised for potential complexity with the generator commissioning clause to become an issue. It may actually be possible for offshore transmission assets not for use by the primary generator to not be energised until a later date.

As above, it may also be possible for those offshore transmission assets to be competed separately, although this is very much dependent upon the detailed network design of the offshore transmission system.

Chapter 6 - Policy considerations for implementing non-radial offshore transmission

Q9: Do you think changes are required to the current package of OFTO obligations and incentives due to the introduction of non-radial offshore transmission assets?

AND

Q10: Do you think changes are required to other aspects of the OFTO regime, eg asset life or duration of the revenue stream?

To an extent, as we have considered within our *Industry Code, Standard and Licence Recommendation Report*. We believe that non-radial OFTOs should have greater obligations than radial OFTOs in relation to facilitating new connections and wider network investment in the event that this is economic, efficient and co-ordinated. As a result, we believe that the licence cap on additional investment should be further considered by Ofgem where related to non-radial offshore transmission system and the potential for more coordinated OFTOs.

We agree that where there is the potential for a tender for any new offshore transmission assets this could be an appropriate route. However, this could be overly restrictive if time or design does not permit a new tender process, and so we feel it would be prudent to further consider the 20% cap on additional investment and the arrangements for setting the allowed revenue for any additional investment undertaken by an existing OFTO.

We also agree that the availability incentive calculation may need further consideration as is suggested within the minded-to decision. Whether the structure of the incentive remains appropriate likely depends upon whether the non-radial offshore transmission system design is inherently more or less likely to be available. If comparable then there is potentially no reason why the availability incentives fundamentals should not remain the same. However, with new offshore transmission network configurations it may be that the calculation, or the criteria associated with exceptional events and the like, may need some adjustments. For example, non-radial offshore transmission system may be providing a wider system benefit and as such it could potentially be more important for it to be available. Whilst there could be greater redundancy in a non-radial offshore transmission design this requires further consideration in relation to availability targets and the availability incentive structure.

In addition, any arrangements in relation to revenue period and revenue period extension, as well as obligations in relation to decommissioning, may also require further consideration. However, this depends on the date upon which the assets enter into service and the date upon which the revenue period for those assets commences. For example, with non-radial offshore transmission system we might find that an underlying network need is for a longer duration than for radial offshore transmission. Therefore, there may be a case for the revenue period to be more closely aligned to the technical or economic lifetime of the offshore transmission assets in such circumstances and not the lifetime of the connecting offshore generation as per the current arrangements.