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ESO Response to the Consultation on the proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 projects

Dear Jon

Thank you for the opportunity to respond to your consultation on the proposed regulatory funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 (TCSNP2) projects.

As the Electricity System Operator (ESO) for Great Britain, we are in a privileged position at the heart of the energy system, balancing electricity supply and demand second by second. As the UK moves towards its 2050 net zero target, our mission is to enable the sustainable transformation of the energy system and ensure the delivery of reliable, affordable energy for all consumers.

Our Beyond 2030 report also known as the second transitional centralised strategic network plan (TCSNP2, published on 19th March 2024) provided a coordinated onshore and offshore network design that can connect up to 86GW of offshore wind. We support the need to invest rapidly in the network to meet these ambitions and welcome Ofgem looking at how delivering those network investments can be accelerated. The consultation marks a significant step forward in implementing the recommendations we have made.

Our key points

The ESO broadly supports the proposals outlined in the consultation for transforming the regulatory funding framework for onshore transitional Centralised Strategic Network Plan 2 projects. We already have one of the most progressive approaches to electricity transmission network investment planning in the world, however, recognise that this approach needs to change to help us as a country meet the scale of investment needed as we strive towards a decarbonised energy system at a fair cost for all.

We have responded to the specific consultation questions in the Appendix to this letter. In addition, there are a number of high-level points that we would like to make:

TCSNP2 Refresh: We agree that TCSNP2 refresh is an opportunity to build confidence in the network reinforcements put forward and their associated need case. However, there is a need to strike the right balance between continuing to enable progress and undertaking further detailed analysis; we look forward to continuing to work with Ofgem to ascertain the appropriate and optimum level of detail versus timescales, that delivers benefit for consumers.

Roles and Responsibilities: We welcome ESO continued role in supporting the need for expedience in delivery of transmission network investment. The consultation outlines several areas where the ESO could provide support, particularly around the TCSNP2 Refresh and scope change governance, aspects of which are currently under discussion between ESO and Ofgem.

Network Competition: The Government's aim of launching a competition exercise by the end of 2024, will require a project to be selected and a commitment made to the delivery of that particular project ahead of the TCSNP2 Refresh. The ESO is therefore currently further assessing the needs case drivers for our shortlisted projects to determine the level of confidence that the proposed project is the likely optimal solution to the network need. This analysis will be provided in our competition recommendation to Ofgem, due later this year, to assist Ofgem in determining whether the projects are suitable for competition. We would also welcome greater clarity from Ofgem and DESNZ on the strategic direction on the utilisation of competition, in order to provide signals to both the market and incumbent TOs as to the volume of future projects that may be competed for.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Lilian MacLeod, Network Planning Review Manager, at lilian.macleod@nationalgrideso.com.

Yours sincerely

Dr Paul Wakeley

Head of Strategic Network Development

Appendix - Consultation Question Responses

Section 3

Q1. Do you agree with our assessment of the TCSNP2 and the risks that we have identified?

We note that you highlight:

- the maturity of TCSNP2 reinforcement options and its effects on robust economic assessment in paragraphs 3.3 and 3.4.
- in paragraph 3.14, a view of little variation in three of the four scenarios used in TCSNP2 with respect to offshore wind generation.
- that you propose in paragraph 3.17 further analysis after CP2030 is published.
- in paragraphs 3.23 to 3.26 the interaction with REMA and Balancing Mechanism reform and that while uncertain at the moment, the ultimate effect could be to reduce the benefits case for TCSNP2 projects.

We agree with the observation that a number of the options recommended in TCSNP2 were of low maturity. This is an expected feature of the process given the significant increases in boundary transfer capability requirements identified in TCSNP2.

We agree that TCSNP2 refresh is an opportunity to build confidence in the TCSNP2 reinforcements and their associated need case. However, we are of the view that there is a need to strike the right balance between data accuracy and timely completion of analysis and look forward to working with you to ascertain the appropriate and optimum level of detail versus timescales.

We agree with your statement that, were GB to move to zonal pricing, changes in the resultant required transfers of power could alter the benefits case for some networks reinforcements. Further work would need to be done to understand how demand and generation project construction and operation would be affected in practice, and hence which projects could be impacted, and under what demand and generation scenarios.

The consultation notes that both Ofgem and ESO are assessing options for BM Reform. We agree that, since improved BM efficiency could reduce redispatch costs, successful BM reform could also alter the benefits case for some projects in TCSNP2.

In the net zero scenarios used for TCSNP2 we have catered for the connection of all currently leased offshore wind projects:

- as a key purpose of the exercise was to inform the design of connections of all of the projects in scope as agreed through the Offshore Transmission Review process;
- as previously explained, we placed significant emphasis on the complementary growth of flexible demand within our assessment; and
- the leased projects are required to meet government policy objectives including the legally binding Sixth Carbon Budget targets and hence removing some or all of them would have meant making recommendations that under-delivered.

We know that timelines for generation development can change hence we split the commissioning dates across the scenarios to represent delays in the development. We also take account of possibility they will not all be delivered in our falling short / counterfactual scenario.

Section 4

Q2. Do you agree with our proposals for the “Development track”?

Q3. Do you agree with our proposals for the “Delivery track”?

Q4. Do you agree with our proposals for the “Small / Medium Sized Project Delivery track”?

We agree with Ofgem’s proposals for development, delivery and Small / Medium Sized Project Delivery tracks. We note that the proposed tracks align with what we envisage for the delivery pipeline that will form a key part of the CSNP.

Section 5

Q5. Do you agree with our categorisation of TCSNP2 projects?

The consultation explains the different tracks in section 4 and lists projects in different categories (tables 6, 8 and 11). These lists are as we would expect.

Q6. Do you agree with our proposed approach for the TCSNP2 asset classification projects?

Your consultation describes how you considered HNDPUE projects in paragraphs 5.16 to 5.18 and list four projects in Table 13 placing them in the Development track. We welcome the clarity of responsibility provided with regard to these reinforcements as they form a critical component of offshore generator connections and directly affect connection dates.

Q7. Do you agree with our approach to identifying a project for early competition?

Covered in section 6 below.

Section 6

Q8. Do you agree with our approach to identifying a first project for early competition?

The ESO has been working with Ofgem throughout the development of early competition for a number of years. Our Beyond 2030 publication listed projects that meet the late and/or early competition criteria (subject to a Cost Benefit Analysis). Further to this, we have been undertaking further assessment to determine the project most suitable for the first competition. We sought stakeholder views on this process in a webinar on 8 April. We intend to make a formal recommendation to Ofgem later this year on the suitability of projects for the first competition.

We broadly agree with the approach Ofgem detail in the consultation. However, we note Ofgem's intention to reassess the needs case for projects in the TCSNP2 Refresh, to be published in January 2026, before committing that each project is required. In order to meet the Government's aim of launching a competition by the end of 2024, a project would need to be selected, and a commitment made to the delivery of that particular project, ahead of this refresh. The ESO is therefore currently further assessing the needs case drivers for our shortlisted projects to determine the level of confidence that the proposed project is the likely optimal solution to the network need. The ESO's analysis will also take into account the impact of the Clean Power Plan for 2030. This analysis will be provided in our competition recommendation to Ofgem, due later this year, to assist Ofgem in determining whether the projects are suitable for competition.

In addition, we note that Ofgem intend to confirm the delivery body for TCSNP2 projects once projects are put into the Delivery track, either following the TCSNP2 Refresh or if the projects are required as part of the CPP2030 plan. We would expect projects within CPP2030 to be unsuitable for competition due to being required urgently. This means that, other than the chosen first project, neither the market nor TOs will know whether or not the remaining projects will be competed.

We would therefore highlight the importance of indicating to the market what the future pipeline of competed projects may look like. Participating in the first competition will require a large commitment of resource from bidders. Therefore, knowing that there will be future opportunities to utilise that resource investment will be encouraging to bidders. We agree that it is challenging for Ofgem to determine exactly which projects will be competed in future at this time and we support the principle of keeping several projects in scope for competition. However, we believe it would be helpful for Ofgem to work with DESNZ to provide the strategic direction for the use of competition. For example, how widely do they envisage competition be applied to onshore transmission projects and might it also be applied, for example, to offshore transmission projects. This would help provide some indication of the future size of the competitive market.

Section 7

Q9. Do you agree with our expectations for the TOs and ESO?

Paragraph 7.5 lists eleven areas that Ofgem expects the ESO to include in the TCSNP2 Refresh analysis to be able to make its funding decisions. The list and the areas it includes recognise the ESO's continued role in network development. These areas are still subject to ongoing discussion between Ofgem and ESO.

We note that the impact of BM Reform on the benefits case for future projects is a highly complex area with interactions across ESO markets and the Electricity National Control Centre (ENCC). The consultation references two targeted projects addressing balancing costs (the Inflexible Offers Licence Condition and ESO's measures to support new technologies entering the BM); however, other projects also seeking to minimise balancing costs are summarised [here](#), alongside detail on where balancing costs have dependencies that are complex to forecast.

Many of ESO's initiatives to reduce balancing costs have been implemented and their impacts are being tracked, while others are under proposal or in design. It is important that modelling does not take into account projects which are under proposal to avoid counting savings that may not eventuate. If and when these initiatives are implemented, then they will be tracked through the regular Balancing Costs reports.

We welcome the proposals highlighted in paragraphs identified in sections 7.2 and 7.3 as this will enable us to have a greater understanding of potential Earliest In Service Dates. This will help to inform whether there is likely to be a consumer benefit if the project is competitively delivered compared to TO delivery.

Section 8

Q10. Do you agree with our proposals to introduce a scope change governance process for onshore transmission projects?

Paragraph 8.7 references the scope change would not be applicable to projects in the proposed Development track. We agree with this approach and concur that continually revisiting projects of low maturity with the intention to optimise previously recommended pathways outside of the CSNP exercises, would be inefficient and obstruct the overall objective of development at pace.

The process stages outlined in Figure 2 and explained further in paragraph 8.15 to 8.23 seem reasonable and sensible. From experience with the offshore impact assessment process, which is very similar in nature to the scope change proposal, the process can be delayed often due to TOs/Developers submitting scope changes without the required analysis and requested information. As such we would like the process to set out a clear need for all the information and analysis needed to undertake the agreed assessment to be provided by the window submission cut off, and that failure to do so will result in the scope change being rejected and pushed back until the subsequent window submission.

Regarding the preferred submission window approach to running impact assessments on scope changes, we believe there are benefits in both window and ad-hoc approach, however the benefits of a window submission system outweigh that of ad-hoc. 12 weeks for ESO to run the assessments feels plausible, we would like to highlight that it is all dependant on the volume of scope changes we receive and if they can be strategically aligned, the pre-engagement step will be very helpful for us to gauge what is likely to be submitted and prepare resource accordingly. Additionally, to somewhat alleviate TO concerns, and dependant on the volume of scope changes we receive for a specific window submission, if a scope change narrowly misses out on the window or is rejected for not having all the required information, the ESO would be flexible and consider introducing the scope change at a date later than the submission window. However, this would be heavily dependent on not unreasonably delaying the other scope changes that were submitted on time, having strategic importance, and agreement with Ofgem.

With regards to the Ofgem assessment listed under paragraphs 8.23 and 8.24 we agree with the questions listed however we believe that the first three must be considered earlier in the scope change governance process to mitigate the risk of rework for the ESO.

Paragraph 8.18 outlines a proposal for the baseline to start as the TCSNP2 network recommendation and be updated, not post each ESO impact assessment outcome, but when the process is complete. We would like to discuss further with Ofgem on this proposal as it feels like there could be an opportunity for misalignment

between ESO running the next impact assessments and confirmation back from Ofgem that a TO license modifications has been approved. Running impact assessments on multiple baseline scenarios is very resource intensive and if not managed in a controlled manner, it quite quickly becomes convoluted and unmanageable.

Furthermore, we feel that clarity is required regarding future CSNPs and the timeline for submitting scope changes. There inevitably will become a date which the baseline would need to be fixed prior to the next holistic optioneering exercise. With this in mind, we are conscious of the TCSNP2 Refresh and would anticipate there will likely be limited opportunities for scope change submission windows between conclusion of this consultation and the baseline freeze. Recognition of this fact by all parties is needed, for clarity we find it is generally the same resource in TOs who work on impact assessments and strategic optioneering activities. We note that in the RIIO-3 Sector Specific Methodology Decision Ofgem propose to utilise an ITA (independent technical advisor) to oversee the delivery of TO delivered projects. We would welcome the opportunity to discuss how this interacts with the proposed scope change governance process.

We would also highlight that Ofgem should also consider how any change control processes should apply to competed projects and the interaction with offshore and onshore baselines.