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Dear Sirs

Energy Market Investigation: Provisional Decision on Remedies

This submission is provided on behalf of National Grid Electricity Transmission plc (NGET) and National Grid Gas plc (NGG).

We appreciate the breadth of comprehensive work that has been undertaken by the CMA to investigate the causes of, and solutions to, adverse effects on competition in the energy industry. The proposed remedies regarding locational adjustments for transmission losses and industry codes, if proceeded with in the final decision, will directly impact some of the activities undertaken by National Grid and we have put forwards some thoughts on these in the paragraphs below.

Locational Pricing AEC

We note the obligations falling to us in relation to addressing locational transmission losses and will progress the activities required to deliver the CMA's proposed remedy. To ensure efficient delivery of the CMA's envisaged solution, it would be useful to work in the forthcoming months to develop the details of the remedies package. We would be happy to work with the CMA, Ofgem, Elexon and, where appropriate, industry parties, to develop the details of the Locational Pricing Order on National Grid to facilitate implementation. In particular, as the solution under the provisional decision appears to be similar to the proposed P229 BSC modification, it might be useful to consider the details of the respective responsibilities and arrangements between ourselves and Elexon and how we would set about fulfilling our obligations effectively to achieve the best results.

To aid the CMA's thinking on potential remedies for locational losses, National Grid submitted a thought-piece¹ outlining how the market design might be adapted in a way that aligns to the Capacity Allocation and Congestion Management (CACM) framework by application of market splitting. However, we recognise the complexities that are likely to be involved in implementing such a solution. Furthermore, we agree with the CMA's views that the proposed remedy for losses is not incompatible with the EU Target Model and that it would not preclude a move to this design at a later point in the future.

Previous proposals have incorporated lead times into their solutions to provide early signposting of changes to industry. Mindful of industry concerns over the timing of changes, we agree that implementation timescales are an important consideration to

¹ As described in the Provisional Decision paragraphs 2.90-2.97 and provided in Appendix 2.3

enable market participants to account for the adjustments efficiently in their contractual positions.

Industry Codes

Within our Transmission Licences, National Grid has obligations to ensure that the codes which we are party to are actively maintained and follow governance and administration arrangements in line with the Code Administration Code of Practice. In fulfilling these conditions National Grid directly acts as the code administrator for the CUSC, the Grid Code and the STC. In addition to these requirements, National Grid is responsible for the administration of the BSC, delivered via Elexon, and is jointly responsible (along with the gas Distribution Network Owners) for the administration of the UNC, delivered via the Joint Office of Gas Transporters.

We fully support the enhanced role of Ofgem, in particular this should deal with the concerns around coordinating cross code changes. Delivered altogether the comprehensive and cohesive package of proposed reforms that have been put forward should deliver arrangements that are more responsive and accountable. We note that some of these benefits are already being progressed through Ofgem's Code Governance Review and support the early move to new arrangements where this is possible. .

There are a number of significant implications of the proposed remedies for code governance to work through, such as how making code administration a licensable activity might require consequential changes to the existing obligations for some licence holders, the impact on the resources that are required and whether the funding arrangements for those administrative functions would change.

Remedies related to IS requirements

Finally, we are aware that more than one of the remedies proposed in the energy market investigation are associated with, or direct enhancements to, functionality provided by various Information Systems. Where these requirements draw upon the same or similar resources and/or systems there may be potential for conflicts between different objectives. For example, the ability of Xoserve to comply with the proposed order to make data available to PCWs may be compromised by the priority to deliver Project Nexus to the timescales envisaged. Therefore we would caution that in some cases prioritisation of remedies may be necessary when working through the detail of implementation.

We are aware that the details of the package of proposed remedies are to be developed and would be happy to work with Ofgem, DECC and the CMA to consider how this can be best done most effectively to maximise the benefits to end consumers.

Our response does not contain confidential information and we are happy for it to be published.

Yours faithfully

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