

CCSA Response to “Synergies and conflicts of interest arising from the Great Britain System Operator delivering Electricity Market Reform”

The CCSA welcomes this opportunity to respond to the consultation document on *Synergies and Conflicts of Interest arising from the Great Britain System Operator delivering Electricity Market Reform*.

The CCSA brings together a wide range of specialist companies across the spectrum of CCS technology, as well as a variety of support services to the energy sector. The CCSA exists to represent the interests of its members in promoting the business of Carbon Capture and Storage (CCS) and to assist policy developments in the UK, EU and internationally towards a long-term regulatory framework for CCS as a means of abating carbon dioxide (CO₂) emissions at a reasonable economic cost.

The CCSA submission below provides answers to those questions that are of relevance to CCS. Where the questions are not relevant to CCS then no response has been provided. In summary, the CCSA still believes that it is appropriate for National Grid to be the delivery body for the EMR instruments due to the synergies with its role as System Operator. However, it is clear that potential conflicts of interest do exist with some National Grid businesses. Given the absolute necessity of ensuring industry confidence in the EMR arrangements it is essential that proportionate mitigation measures are implemented to address potential conflicts of interest. However, the CCSA stresses that these mitigation measures should be proportionate in order that they are not overly burdensome and do not negatively impact on the synergies which could deliver material benefits.

Question 1.

a) Do you agree that there are unlikely to be material conflicts arising from the electricity System Operator having access to EMR related information? If not, please explain your reasoning.

The CCSA has no comment to this question.

b) Do you agree that there is significant potential for synergies as a result of the electricity System Operator having access to EMR related information? If not, please explain your reasoning.

The CCSA has no comment to this question.

c) Do you agree that the potential for conflicts and synergies arising from the electricity Transmission Owner having access to EMR related information is limited? If not, please explain your reasoning.

The CCSA has no comment to this question.

d) Do you agree there are limited conflicts with gas distribution, gas transmission and gas system operation arising from access to EMR information? If not, please explain your reasoning.

The CCSA has no comment to this question.

f) Are there any other conflicts of interest or synergies associated with access to EMR related information for businesses operating in mainly monopoly conditions that we have not identified?

The CCSA has no comment to this question.

Question 2.

a) Do you agree that the most material potential conflicts of interest with competitive businesses as a result of National Grid's increased access to information have been identified? If not, please identify which ones are missing, explaining your reasoning and providing evidence.

The CCSA agrees that the main material potential conflicts of interest have been identified.

b) Do you agree, that where competitive businesses are concerned, there is a need for additional mitigation?

The potential for National Grid's competitive businesses to access commercially sensitive information is a concern. It is essential that companies and investors in the UK energy market have confidence that proportionate mitigation measures are in place to ensure no conflict of interest can be acted upon. However, at present it is too early to fully understand the potential conflicts of interest that might arise and be acted upon as much of the specific detail on the implementation of EMR is still unclear. This requires an approach that strikes an appropriate balance between providing confidence that these potential conflicts will not be acted upon and ensuring that any mitigation measures are not disproportionate thereby undermining the basis for the System Operator undertaking the role of the EMR delivery body.

In the case of National Grid's CCS business the potential conflict of interest that could arise from access to commercial useful information could be a concern to both competitor businesses and also potentially with industry partners that own and operate the other parts of the CCS chain, e.g. the capture facility or storage site. While it is still too early to know what the eventual UK CCS business model will be it may be that National Grid will develop and operate a particular part of the CCS chain with other companies investing in other parts of the chain. If National Grid were to have access to commercially useful information then this could disadvantage the partner companies during any commercial negotiations to develop the project.

While the CCSA believes it is necessary to implement mitigation measures to the level required to provide confidence to other companies that no conflict of interest is being acted upon, it is also important that an appropriate balance is struck to ensure that any mitigation measures are not so intrusive as to negate the benefits that will accrue from the synergies presented by the System Operator acting as the delivery body for EMR.

c) Are there any other conflicts of interest or synergies with businesses operating in mainly competitive conditions that we have not identified?

The consultation states that allowing information to flow to competitive businesses will not result in any synergies as there will be no potential benefits for consumers. However, this may not necessarily be correct.

There are significant cost reductions in CCS that can be achieved for both the transportation and storage of CO₂. These cost reductions by developing assets with economies of scale and high utilisation rates. Achieving these reductions in the cost of CCS could result in lower-costs being charged for electricity consumers.



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Delivering these cost reductions requires effective planning of transportation and storage assets and the flow of commercially useful information could help to facilitate this.

At present it is currently difficult to determine the potential trade-offs between these synergies and any conflicts of interest that might arise. In part because it is not yet clear what the competitive landscape might look like for the two parts of the CCS value chain where National Grid may develop its business (storage and transportation), i.e. will National Grid be a monopoly provider of these services or will there be significant competition between companies.

Question 3.

a) Do you think that all the major potential conflicts of interest and synergies arising from an ability to exert influence have been identified? If not, please identify which ones are missing, explaining your reasoning and providing evidence where possible.

The CCSA believes that most of the major potential conflicts and interest have been identified in the consultation document.

b) Which aspects of the analysis that the SO will carry out for Government are most exposed to a potential conflict of interest? Please explain your reasoning.

The CCSA expects that the largest potential area of concern will relate to the analysis on the technology options needed to meet the EMR objectives as this could materially benefit a number of National Grid's businesses. This potential conflict of interest can be addressed by ensuring transparency on the assumptions and inputs used in the analysis and clarity on how the analysis is utilised in the decision making process. The proposed Panel of Technical Experts will be an important mechanism to ensure confidence on the conclusions presented in the analysis.

c) Do you agree with our conclusion that the main potential for synergies is between the SO and the EMR role? If not, please explain your reasoning.

The CCSA believes that the main potential for synergies is between the SO and EMR role and believes that this provides a strong case for the National Grid performing these roles.

Question 4.

a) Do you think that all the potential conflicts of interest and synergies arising from an ability to exercise discretion have been identified? If not, please explain your reasoning.

There is potential for a perception of a conflict of interest to arise in relation to National Grid's role in issuing CfDs and the benefits that this could bring to some of National Grid's businesses. This perception and the concerns it might raise would likely be particularly acute during periods where rationing of CfDs is imposed because of spending constraints under the Levy Control Framework.

The potential conflicts of interest for National Grid's CCS business have probably been overstated in the consultation document, in particular on the ability for National Grid to exercise discretion or influence the issuing of CfDs. If there were a potential conflict of interest on the allocation of CfDs then this could undermine confidence in the market. The CCSA therefore supports the proposal to ensure that National Grid's role in CfD allocation process leaves no room for discretion and that the role is primarily a 'box-ticking' exercise.

For the foreseeable future it is not expected that CCS projects will play a significant role in the Capacity Market as generation assets supported by CfDs will not be permitted to participate in the market. The CCSA therefore believes that there will be very little conflict of interest

between the National Grid's CCS business and its role supporting and implementing the Capacity Market.

b) Which potential areas of discretion present the most risk of conflicts of interest?

The CCSA does not currently see there being a significant risk of a conflict of interest.

c) Do you agree with our conclusion that the main potential for synergies is between the SO and the EMR role? If not, please explain your reasoning.

The CCSA has no comment to this question.

Question 5.

a) Do you agree with the assessment of the relative immateriality of the potential conflicts between the EMR role and the SO?

The CCSA has no comment to this question.

b) Do you agree that any potential conflicts with other activities including the electricity TO and businesses operating under mainly competitive conditions have the potential to be material?

The CCSA has no comment to this question.

c) What further analysis could be carried out to determine the materiality of the conflicts we have identified?

The CCSA has no comment to this question.

Question 6.

a) Do you think that conflicts of interest relating to access to information can be addressed through the design of EMR and EMR governance measures set out above? Please explain your reasoning

The CCSA believes that the governance measures set out in the consultation document do appear, initially at least, to provide sufficient mitigation measures to address the main conflicts of interest that might arise. These measures appear to be proportionate to the risks faced.

The CCSA would not wish to see overly restrictive or burdensome mitigation measures instigated at present as;

1. It is not clear that these are currently required,
2. They could reduce the synergies that will arise from National Grid taking on some of the EMR delivery functions,
3. They could delay the timely delivery of the EMR programme creating further uncertainties for investors.

However, to maintain confidence in the System operator and the EMR programme the CCSA believes that it is important that there is a continued, robust oversight of National Grid to ensure that conflicts of interest do not arise in the future and to enable further synergies to be exploited. It is important that there is clarity on which entity (e.g. DECC or Ofgem?) has responsibility for providing the oversight and enforcement of National Grid's EMR responsibilities.



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b) Which of the additional mitigation measures set out under ‘further mitigation measures’ should be considered to address these conflicts of interest? Would anything else be necessary? Please explain your reasoning.

The CCSA does not yet see the need for further measures to be taken at present.

Question 7.

a) Do you think that conflicts of interest relating to influence can be addressed through the design of EMR and EMR governance measures set out above? Please explain your reasoning.

In common with the answer provided to question 3.b, above, the CCSA believes that the conflict of interest relating to the analysis it provides to Government can be addressed through;

1. Transparency on the assumptions and inputs used in the analysis
2. Clarity on how the analysis is subsequently utilised in the decision-making process.
3. Effective scrutiny of the analysis provided by National Grid, including by the Panel of Technical Experts.

b) Which of the additional mitigation measures set out under ‘further mitigation measures’ should be considered to address these conflicts of interest? Would anything else be necessary? Please explain your reasoning.

The CCSA believes that it would aid the transparency of the analysis process if and the robustness of its conclusions if clarity is provided on the inputs, outputs and assumptions used in the analysis.

Question 8.

a) Do you think that conflicts of interest relating to discretion can be addressed through the design of EMR and EMR governance measures set out above? Please explain your reasoning.

The CCSA has no comment to this question.

b) Which of the additional mitigation measures set out under ‘further mitigation measures’ should be considered to address these conflicts of interest? Would anything else be necessary? Please explain your reasoning.

The CCSA has no comment to this question.

Question 9.

a) Overall, will the design of EMR, the proposed governance arrangements and the existing regulatory framework be sufficient to mitigate the conflicts that we have identified? Please explain your reasoning.

In summary the CCSA supports the System Operator also taking on delivery functions under the EMR as set out in this document and believes that the synergies these present do have the potential to be beneficial to consumers. However it is clear that there is potential for conflicts of interest to arise and that other companies operating in the UK energy sector must have the confidence that where these conflicts exist they are not acted upon. The CCSA wishes to see the adoption of a proportionate response to these potential conflicts of interest and believes that measures laid out in the consultation response appear to meet this test.



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There will be significant learnings as the EMR programme is implemented and some of the conflicts of interest and synergies could alter in importance over time. It is important that there is clarity on which entity has responsibility for providing the oversight on this issue and the powers to enforce any changes that may be required in the future.

b) Are other mitigations also likely to be necessary? If so, please specify what and why.

The CCSA has no comment to this question.

c) Are business separation requirements (beyond restrictions on information flows) necessary?

The CCSA has no comment to this question.

d) If business separation is necessary what entity should be subject to the ring fence?

The CCSA has no comment to this question.

e) What degree of business separation do you think would be necessary to mitigate conflicts of interest?

The CCSA has no comment to this question.

f) How can we best protect the synergies between the EMR and SO roles when considering additional mitigation measures?

The CCSA has no comment to this question.

The view expressed in this paper cannot be taken to represent the views of all members of the CCSA. However, they do reflect a general consensus within the Association.