

# National Grid briefing

## Energy Bill Committee Stage, House of Commons

### June 2023

#### Summary

Transforming our energy system and bringing more clean energy onto the grid is the surest way to deliver long-term security of supply, affordability and the UK's decarbonisation targets. It can also drive economic growth, a jobs and skills revolution and help establish a more energy independent UK.

National Grid sits at the heart of Britain's energy system, connecting millions of people and businesses to the energy they use every day. We will be investing over £16bn in the UK between April 2021 and April 2026 to upgrade our networks and support the UK's net zero ambition. This includes connecting low carbon sources of energy; preparing for the wide-spread roll out of electric vehicles and low-carbon heat; and innovating across new technologies and approaches needed for an increasingly flexible energy system. We aim to support an affordable and fair transition to net zero, in which nobody is left behind.

**The Energy Bill is one of the crucial planks to delivering the significant reform required to ensure the energy transition is carried out in the best interests of consumers and the environment while maintaining security of supply and resilience.**

Whilst the measures in the Bill are wide ranging, this briefing highlights our views on policy areas directly related to electricity networks and associated infrastructure and governance:

1. **Establishment of an Independent System Operator and Planner, responsible for whole energy system strategic planning, is a positive and welcome step towards an improved governance framework.**
2. **Introducing a competitive market for major onshore electricity transmission networks is welcome and, where applied appropriately can deliver real consumer benefits by driving innovation and downward pressure on costs.**
3. **There is a need to ensure that proposed licensing reforms are fit for purpose, supporting effective competition and investment.**
4. **We welcome changes to ensure Ofgem's statutory duties explicitly support the delivery of net zero.**

The Bill should proceed in parallel to wider reforms needed to accelerate the energy transition, as set out in our report, [Delivering for 2035: Upgrading the grid for a secure, clean and affordable energy future](#).<sup>1</sup>

#### Independent System Operator and Planner (ISOP) (Part 4)

- We welcome the Bill's provisions related to the Independent System Operator and Planner (ISOP), confirming it as the body responsible for strategic, whole system planning and oversight, with responsibilities across both the gas and electricity systems. Legislating to establish the ISOP with the appropriate objectives, duties and powers can drive progress towards net zero while maintaining energy security and minimising costs for consumers.
- National Grid has worked closely with Government, industry and the regulator to shape proposals for an ISOP that builds upon the skills and capabilities of the Electricity System Operator<sup>2</sup>. We continue to engage with the Department of Energy Security and Net Zero and Ofgem to agree and set out the steps required to establish the ISOP outside of the National Grid Group, subject to Parliamentary approval and conclusion of the transaction process.

#### Competition in onshore electricity networks (Part 6, clause 160)

- Meeting the UK's ambition of a fully decarbonised power system by 2035, and net zero by 2050, requires significant investment in electricity network infrastructure to connect and transport new clean energy to where it is needed.
- The introduction of onshore network competition through the Energy Bill is welcome and, where applied appropriately, can deliver real consumer benefits by driving innovation and downward pressure on costs. The

<sup>1</sup> A summary of the paper can be found [here](#)

<sup>2</sup> The ESO is currently a legally separate entity owned by National Grid plc. The legislation sets out proposals for the ESO to form the basis of an Independent System Operator and Planner, which will involve a divestment process.

Government and Ofgem must maintain pace in delivering the secondary legislation to ensure that the framework, including the eligibility criteria, supports competition which maximises benefits for consumers and supports timely delivery of the energy transition.

- Network companies already use competitive processes for existing tender/contract awards. We believe that additional value for money to consumers has the potential to be realised via the introduction of competition for strategic higher value projects (above £100m) and at an early stage, where competition can drive design innovation. Asset replacement work should be excluded from network competition as it poses a risk to the safety and reliability of the system.
- Where competition is introduced, we must learn from failings in the energy supplier market and ensure the network sector remains resilient to external changes. Any new licensees, or contracted parties, must be held to a consistent set of standards of financial and operational resilience, with proper oversight from Ofgem. This will protect our critical infrastructure and ensure that the costs of poor performance or failure are not socialised amongst taxpayers or consumers.
- Importantly, once the need for a project has been established, providing early clarity on which projects or programmes will go out to competition will be critical to ensuring timely delivery and securing maximum consumer benefit, by enabling both early supply chain engagement and design innovation opportunities.

### **Licensing reforms (e.g. for storage and Multi-Purpose Interconnectors, clauses 162-168)**

- To ensure the UK is at the forefront of the innovation revolution, we need progress on carefully calibrated legal definitions, licence and regulatory frameworks that embrace the new and developing technologies and business models required to support net zero.
- A modernised licensing regime for the sector will ensure it is aligned to the Government's priorities and vision for our affordable, clean and secure energy system and agile enough to embrace the continual developments needed for the energy transition.
- As such, we welcome the introduction of a new licensing framework for Multi-Purpose Interconnectors (MPIs), which simultaneously connect the GB market to neighbouring countries and clusters of offshore wind farms through a single landfall (clauses 162-167).
- However, we consider that clause 162 could create a significant risk for businesses interested in developing MPIs as it could be interpreted by Ofgem as requiring the creation of a ring-fenced MPI business, separate from existing interconnector businesses. This would prevent the sharing of portfolio benefits, expertise and support costs, which could at best cause delay and inefficiencies and at worst make MPIs unviable. Therefore, the legislation should be amended to ensure that it does not restrict the ability of existing interconnector developers to leverage their knowledge and skills in the delivery of MPIs. This issue could be resolved with a minor amendment to the Bill text or a clear policy position that sets the direction for Ofgem.
- Whilst we recognise that it is not possible to include a comprehensive review and reform of the entire energy licensing regime in this Energy Bill it is important to ensure that any proposed reforms are fit for purpose and enable effective competition. For example, whilst we welcome the consideration of the licensing regime for storage in the Energy Bill (clause 168), we believe that rather than being treated as a sub-set of generation a better solution would be for storage to have its own licensable activity category distinct from the activity of generation.

### **Ofgem's statutory duties (clause 271)**

- We recognise that Ofgem has a difficult balancing act in fulfilling its principal duty to protect the interests of existing and future energy consumers across costs, security of supply and sustainability. However, Ofgem's focus has traditionally been on lowest-cost solutions for current consumers.
- We welcome action through the Energy Bill to strengthen Ofgem's statutory duties to explicitly support the delivery of the legally binding net zero target to help ensure that it gives due consideration to the need to serve both current and future consumers. This change has wide support, including from the House of Lords, Climate Change Committee, National Infrastructure Commission and numerous Trade Associations.
- This complements the development and delivery of a Strategy and Policy Statement (SPS) for energy policy in Great Britain<sup>3</sup> which Ofgem and the FSO, once established, will be required to have regard to when carrying out their functions. This SPS should act to align the regulatory framework with overall Government policy direction.

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<sup>3</sup> [Strategy and Policy Statement for energy policy in Great Britain - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/strategy-and-policy-statement-for-energy-policy-in-great-britain)