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ENERGY MINISTER LAUNCHES CONSULTATION ON REGULATING OFFSHORE ELECTRICITY TRANSMISSION

The first steps towards establishing a regulatory regime for offshore electricity transmission have been taken today (Wednesday) by energy regulator Ofgem and the Department of Trade and Industry (DTI).

The UK has some of the best onshore and offshore wind resources in Europe. Sites have been identified for 15 new offshore wind energy projects in the Greater Wash, off the North West coast and in the Thames Estuary, which potentially can make a significant contribution to the UK's climate change targets.

Launching a consultation on regulating the connection of offshore wind farms during a visit to Scotland today, Energy Minister Malcolm Wicks said: "The development of Round 2 offshore wind has a vital part to play in reaching our renewable energy targets and aspirations. Connecting them to the onshore grid is an important aspect of delivery and this consultation sets out clear options for the regulatory framework offshore. It is critical to introduce a regime that allows offshore wind farms to connect at an acceptable cost both to developers and electricity customers. I urge anyone with an interest to respond to this consultation."

Ofgem Chief Executive, Alistair Buchanan, added: "The development of large scale offshore wind farms such as those currently being proposed can make an important contribution to helping the UK meet its climate change targets. The regulatory framework will need to protect the interests of customers and be sufficiently robust and flexible to adapt to developments in transmission or generation activities offshore."

The joint Ofgem and DTI consultation sets out two options for regulating the charges levied on transmitting electricity to the mainland either from wind farms or, in the future, other sources such as wave and tidal power.

They are:

- A licensed price control approach, similar to onshore arrangements, where the offshore connection belongs to the electricity transmission system owner. Agreed charges would be set allowing the owner to recover their costs from users of the system.

- A 'licensed merchant' approach where the generator would meet all the costs of developing the connection links and receive a licence to transmit through them.*

The consultation document is an important step in the process the Secretary of State for Trade and Industry will go through in establishing the regulatory regime for offshore electricity transmission.

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** In this case the only interaction between the generator and the transmission price controls would be once they connect to the onshore transmission system.*

Notes to Editors

1. In December 2000 The Crown Estate invited applications for site leases allowing the development of offshore windfarms within territorial waters. This first round of 18 offshore wind developments involved relatively small-scale projects, limited to a maximum of 30 turbines per project. Of these round one projects, 12 have received development consents and two are already generating (North Hoyle and Scroby Sands). Two more (Kentish Flats and Barrow) are currently under construction. Due to their relatively small size, neither of the projects that are generating requires a distribution or transmission licence.

2. The round one projects demonstrated the need for a strategic planning framework which was put forward by the DTI in 2002 to set out the basis for the expansion of the offshore wind industry. The framework proposed that development should take place in three strategic areas: the Greater Wash, the North West and the Thames Estuary. A second round of licensing held by the Crown Estate resulted in the letting of sites for 15 projects (nine in the Greater Wash, three in the North West and three in the Thames Estuary).

3. The Energy Act 2004 provides powers for the Secretary of State for Trade and Industry to put in place new regulatory arrangements for offshore electricity transmission. Ofgem will administer these arrangements and if necessary modify them so they remain fit for purpose. The Energy Act also provides for the licensing of offshore distribution, however, given that the focus of this consultation document is on the high level regulatory framework, this issue will be addressed at a later stage.

4. Copies of the document "Regulation of Offshore Electricity Transmission: A Joint DTI/Ofgem Consultation" are available on the Ofgem website www.ofgem.gov.uk and on the DTI website www.dti.gov.uk Hard copies can be ordered from the Ofgem distribution centre on 020 7901 7116 or by email from distribution@ofgem.gov.uk.

5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by

promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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