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FIRST STEPS TOWARD OFFSHORE PRICE CONTROLS

The first steps towards setting up the regulatory framework for offshore renewable energy have been taken by energy regulator Ofgem.

Energy Minister Malcolm Wicks has announced that the networks through which offshore wind farms and other forms of offshore renewable energy will transmit electricity will be regulated by arrangements similar to the price controls for onshore electricity networks.

Price controls set out how much owners of these offshore networks can charge for their use. Ofgem will now work with the industry to establish offshore price controls after considering a number of factors. These include how licences for offshore transmission operators will be issued, which geographic areas they will cover, and the technical aspects relating to the transmission of electricity offshore.

David Gray, Ofgem's Managing Director, Networks, said: "There is great potential for offshore renewable generators to make an important contribution to the Government's targets for renewables. There are already plans for 15 offshore wind farms and in future other technologies such as wave and tidal power may be developed. The price controls Ofgem will eventually set for offshore electricity networks will ensure that the companies which run them do so efficiently and in a way that best protects consumers."

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1. Copies of the document "Offshore electricity transmission - scoping document" are available on the Ofgem website www.ofgem.gov.uk. Hard copies can be ordered from the Ofgem distribution centre on 020 7901 7116 or by email from distribution@ofgem.gov.uk

2. In July 2005, Ofgem and the Department of Trade and Industry jointly consulted on two options for regulating offshore renewable generation. Those options were:

- A licensed price control approach, similar to onshore arrangements
- A 'licensed merchant' approach where the generator would meet all the costs of developing the connection links and receive a licence to transmit electricity through them.

The decision on which regime was to be adopted rested with the Department of Trade and Industry (DTI) on March 30 2006, Energy Minister Malcolm Wicks announced that licensed price controls would be used for this regulation.

3. Ofgem's scoping document has identified five work streams which it needs to take forward to help implement an offshore regulatory regime. Ofgem will work with the DTI and the industry to achieve this. The five work areas cover:

- The geographical scope of offshore transmission licences,
- Allocating offshore transmission licences
- The technical rules for offshore transmission
- Designing the offshore transmission price controls
- Likely changes to electricity licences and industry codes

4. 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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