Offshore Transmission Team,
OFGEM,
9 Millbank,
London,
SW1P 3GE

25th July 2008

Dear Offshore Transmission Team,

Offshore Electricity Transmission - A Joint Ofgem/BERR Regulatory Policy Update – 13 June 2008

BWEA and Scottish Renewables wish to make a joint response to the consultation on the Offshore Electricity Regime. Our comments will consider high level policy areas and not the details of codes and standards.

Scottish Renewables is Scotland's leading renewables trade body, representing over 250 organisations involved in renewable energy in Scotland. Representing over 400 corporate members, BWEA is the UK's leading representative for the wind, wave and tidal energy industry. Further information on the work and membership of our organisations can be found on our websites (www.scottishrenewables.com, www.bwea.com).

General Considerations

Offshore transmission represents a vital part of the planned expansion in offshore wind. We are grateful for the efforts of Ofgem and BERR in developing this regime to date and recognise the importance of developing the details of the regime to ensure it is fit for purpose.

As detailed in previous responses, we share the aims of Ofgem and BERR that the regime delivers transmission connections that are cost effective and timely. The Government's 2020 targets for renewables will require these aspects. The system put in place must not cause delay or disproportionate costs, if delivery is not to be hampered.

The need for a review

There continues to be divergent views within the industry on the best approach to the offshore regime. We would underline our commitment to address any industry concerns as part of this consultation process and believe a review performed now would cause delay to projects. However we continue to have serious concerns about the complexity and benefits of the regime and request that after the first transitional and first enduring projects have been delivered, that a robust review is

conducted to establish whether the regime is delivering on its current objectives and that it is suitable for the delivery of future rounds of offshore wind projects. If it is found that this has not been attained then appropriate changes should be made.

An additional workshop

We believe that industry concerns can be addressed within the current regime, but we would once again request that a workshop is performed examining each stage of a project's passage through the regime and identifying the high level and strategic concerns and the potential mechanisms within the regime that could be altered to address them. We do not mean to overlook the extensive work performed by Ofgem, BERR and National Grid in developing the regime to date or repeat the workshops performed on codes and standards, but we feel that additional benefit would be obtained by working through the issues.

The reduction of uncertainty to potential OFTOs and generators is crucial to the success of the regime. If companies are unsure of the impacts of the regime and the costs generated it will delay investment in projects.

Requirements for Strategic Collaboration

In December 2007, BERR announced a plan for 33GW of offshore wind by 2020 and this has since been further developed in the current Renewable Energy Strategy Consultation by BERR. As detailed in the consultation, a large increase in offshore wind will require a large increase in offshore transmission. The regime appears to see this as being delivered by point to point, radial connections. Strategic grid will be provided by the use of the tender window and by industry collaboration.

It still remains unclear how the benefits of collaboration will be delivered. The Crown Estate indication that future offshore sites will be awarded in zones, offers an opportunity for encouraging collaboration. However projects will be run by competing companies and will have different delivery timetables and requirements. There is also a concern that if one party leaves a collaborative venture or an individual project is delayed then any grid collaboration project will also collapse and projects could be delayed by several years.

We would therefore ask for further details on how the tender window will deliver collaboration on strategic grid and how this will be incorporated into a competitive system.

Offshore Transmission Networks and Interconnection

Studies such as the East Coast Transmission Network: Technical Feasibility Study and the work of the Electricity Network Strategy Group have been performed to look at the possibility of offshore transmission networks. While this option remains a possibility and could deliver benefits to the speed and cost of project delivery, as well as address onshore capacity issues, the current regime has not been set up to deliver this type of project. We would ask for further information on the mechanism that the Government would use to support offshore transmission networks, if they were developed.

Similarly there is a potential benefit to projects and renewable energy delivery across Europe by incorporating interconnection across the North Sea or Irish Sea

with the expansion in offshore transmission. We feel that the potential benefits of offshore networks and interconnections highlight the need for a strategic approach to parts of the offshore transmission system. We would request that BERR and Ofgem actively pursue these options and consider additional measures beyond the current regime to promote them.

We also note the studies that have been conducted and will be conducted by the Scottish, Welsh, Northern Irish and Irish governments on connections in the Irish Sea and off the west coast of Scotland. In addition, the feasibility work proposed on inter connection with Norway is also worth noting. These, we hope, will prove beneficial to further strategic planning for offshore networks in British and European waters.

Access of offshore projects to the onshore transmission system

Can you confirm that the £4 billion invested in onshore grid will provide adequate transmission capacity for offshore wind, as well as new nuclear and replacing worn out transmission infrastructure? Concerns have been raised that the onshore transmission network will not be ready in time to accommodate substantial growth in offshore wind and will not have compatible investment triggers and time lines. This creates a risk that a queue will form where the offshore transmission reaches the land. We would like to see more incentives for National Grid to carry out strategic investment to be able to quickly and efficiently deliver generation to the network.

Accountability

BWEA believes[1] that a Cabinet Office committee should be charged with delivering the UK's share of the EU 2020 renewable energy targets. This committee would go beyond the Renewables Advisory Board and be tasked with ensuring all government departments are coordinated in delivering renewable energy goals. This would allow more decisive action on strategic issues, such as collaboration between projects on transmission, offshore transmission networks and interconnection.

Specific Aspects of the Current Consultation

We are pleased that some of the adjustments made in the current consultation represent an increase in flexibility and a pragmatic approach to the balance between a robust competitive regime and needs of generators and transmission operators. For example the decision to allow a 20-year revenue period for an OFTO agreement to set above 20 years and to be extended or re-tendered at the end of the period will allow more customisation of the process. This will enable the generator's asset life to match the OFTO revenue period.

However we continue to have concerns on the following items:

Charging – As detailed in BWEA's material issues response, we are concerned that Ofgem's request to National Grid for further development of the charging methodologies represents a move towards reducing the amount of costs that are socialised.

[1]Scottish Renewables has not formed an opinion on this matter.

OFTO tender process timetable – In the material issues response, BWEA highlighted the need to consider the timetables of the tender process. OFTOs will be limited in their ability to deliver a firm bid in the three-month period outlined in the January 2008 consultation. To further illustrate this point, the generator will have carried out desk-study work and potentially some initial site surveys to help define site conditions (e.g. metocean and soil conditions) for the purposes of initial scoping of the grid connection. Will this be sufficient for the purposes of the OFTO? If the tenderers think not, then there is the potential need for further site survey work during the tender period. The minimum time for the scoping and procurement of offshore surveys would be in the order of four to six months. This could significantly lengthen the required tender period.

Ofgem's resources – Does Ofgem have a large enough team to be able to prepare for and run the tender process (e.g. ITT preparation, tender reviews, etc.) in order to meet its proposed timescales? An annual tender window will concentrate responses and could result in a large number of bids being received at the same time.

License exempt projects – As detailed in BWEA's material issues response, projects currently connecting to the distribution network require special consideration for entry into the transitional regime. Embedded projects are currently required to enter into agreements with National Grid as part of the transitional regime when at present they are not required to do so.

Technical considerations of transitional projects – Many offshore projects are either at or approaching the stage where it is necessary to tender for transmission infrastructure. There remains confusion over the electrical standards that transitional projects should adopt to both meet their own needs and be compatible with the regime and OFTO expectations. Informal guidance should be issued on the interpretation of the SQSS, STC and other relevant codes for projects currently arranging transmission.

Currently constructed wind farms face problems from the separation of generator infrastructure and OFTO infrastructure on projects where these were not designed to be considered separately. While approaches to infrastructure separation exist for onshore regimes and can be transferred, the offshore environment presents new challenges, such as the availability of vessels and weather windows impacting on the generator's ability to access their components of the OFTO's infrastructure. Further guidance would be beneficial.

Incentives and penalties – A specific concern on the area of incentives and penalties is that the cost to an OFTO for losses should be proportional to the losses of the generator. The amount of penalty associated with operational availability must be ensured to remain above the cost of maintaining the transmission asset. If the cost of maintenance is greater than the penalty then an OFTO will accept the penalty and not perform the maintenance. The variable nature of the costs of maintenance, such as vessel prices, should be taken into account in calculating operational penalties.

Regulated Asset Value (RAV) – We are concerned that the assessment of ex-post RAV under the transitional regime will be difficult to independently assess. How will the actual and efficient cost be determined? Will Ofgem perform the engineering audit and if so will they have the resources to make the assessment?

Whilst it is important that developers take on the responsibilities and commitments associated with infrastructure development, it is equally essential that National Grid take a more proactive role in reinforcement planning. Therefore, we feel that Ofgem should be encouraged to permit National Grid in conjunction with developers to take on more risk regarding speculative research into offshore grid demand, inter-connectors and feasibility studies.

Finally, we understand that these are very difficult and complex issues that will not be solved overnight. However, we are also committed to the government's goals and welcome the debate on how to move forward. We feel that the 2020 targets are so ambitious that they will only be attainable by government and industry working in partnership for the sake of ensuring certainty and delivering renewable energy projects.

We hope that you find our comments constructive and are willing to expand on any items further. Please contact either Scottish Renewables or BWEA if you wish to discuss this response.

Yours faithfully,

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BWEA

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