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Dear Sam and Paul

**Renewables Advisory Board Grid Group response on material issues
under the joint Ofgem/BERR Regulatory Policy Update on Offshore
Electricity Transmission**

The Renewables Advisory Board (RAB) provides advice to Government on a wide range of renewable energy issues. The board is an independent, non-departmental public body sponsored by the UK Department for Business, Enterprise and Regulatory Reform (BERR), that brings together government departments, the renewables industry, academia and the unions. It aims to provide the Secretary of State with independent, impartial and authoritative advice on policies, programmes and measures, to improve Government understanding of the obstacles and opportunities for the development and deployment of renewable technologies in the UK, both in the short term and over the next 20 years, and make specific recommendations.

The RAB Grid Group welcomes this opportunity to raise concerns of a material nature to Ofgem and BERR in response to the policy update on offshore electricity transmission, published on 13th June 2008. We note that Ofgem has asked National Grid to address, through further consultation on its charging methodology to apply to offshore, the basis (definition of and justification for) of the split between locational and residual charging elements in respect of offshore transmission systems (page 54 of the consultation document and Ofgem's letter to NGET dated 30 May 2008).

We understand from Ofgem's letter to NGET dated 30 May 2008 that at least one of the reasons Ofgem has asked NGET to consult further on this issue is the possible perverse incentive on an OFTO (presumably an affiliate of the offshore wind farm to which the connection relates) to incorrectly allocate locational costs. We agree with Ofgem that this issue needs to be addressed.

Ofgem's 30 May letter sets out that in NGET's development of offshore transmission design arrangements, its primary objectives (as set out in Condition C5 of the transmission licence) are to:

- Facilitate effective competition in the generation and supply of electricity;
- As far as reasonably practicable be cost reflective; and
- As far as reasonably practicable properly take account of the developments in transmission licensees' businesses.

We would also highlight NGET's obligations as set out in Condition C7 of the transmission licence:

- In the provision of use of system or in the carrying out of works for the purpose of connection to the GB transmission system, the licensee shall not discriminate as between any persons or class or classes of persons; and
- The licensee shall not in setting use of system charges restrict, distort or prevent competition in the generation, transmission or supply of electricity or in the participation of the operation of an interconnector.

We are concerned that in the desire to avoid perverse incentives on one potential OFTO, sight is not lost of the need to avoid discrimination between classes of persons, in this case between onshore and offshore generators. We consider that as well as the exercise to be conducted by NGET, consideration should also be given as to how to avoid possible perverse incentives both through the structuring and administration of the OFTO tendering process (this is what NGET describes in GB ECM-08 as "regulatory oversight that would, in any event, be present during the tender process"), and the process for ensuring unbiased allocation of costs to the locational and non-locational elements of the OFTO assets, with the split as currently recommended by NGET (i.e, if the split were to remain the same how to make sure costs are allocated fairly).

One of the principal tenets of the regulated offshore transmission licensing regime is to replicate the onshore market arrangements offshore. Since the regime was first consulted on in 2005, one of the main supporting benefits for the price regulated approach, as opposed to the merchant approach, is the potential for a share of the costs of the onshore substation and offshore platforms to be socialised across the wider GB charging base, to a similar level as onshore substation assets.



The RAB Grid Group would therefore ask for Ofgem to clarify its thinking and intentions on this point as soon as possible. We would welcome an opportunity to discuss this issue with you further at your earliest convenience.

Yours sincerely

Ch Naili (RAB Secretariat)

PP.

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