

Offshore Transmission Team
Office of Gas and Electricity Markets
9, Millbank
London
SW1P 3GE

Your Ref: 84/08

4th July 2008

Dear Sir or Madam,

Offshore Electricity Transmission – A Joint Ofgem/BERR Regulatory Policy Update, Reference 84/08 and URN08/730

Please find attached Warwick Energy Limited's (Warwick's) written comments in response to the above consultation document on Offshore Electricity Transmission. Also attached is the recent report from Poyry which comes to similar conclusions on the points they have covered.

Our detailed comments are made separately in relation to various sections of the consultation document and associated annexes.

In summary Warwick believes these proposals will produce major adverse effects on all future offshore wind projects. The proposals do not seem to meet the stated objectives and the rationale for rushing to impose these changes is difficult to understand given that the current arrangements are working satisfactorily. Warwick believe that these proposals should not be progressed unless it is clear that they will help bring forward offshore wind schemes in a timely and efficient manner.

For the Thanet project concerns include the initial capital value ascribed to the electrical infrastructure and possible increased on-going charges for operations and maintenance. Another critical concern surrounds compliance issues and adoptability criteria for equipment – given the fact that the required technical criteria were still not clear when commitments to this project were made.

Warwick also wishes to express many general concerns regarding the overall enduring proposals. Despite feedback from previous consultations the proposals still appear to be overly complex – particularly in terms of the

proposed connection application and tendering processes. TOW has real concerns regarding both of these areas, which appear costly, time consuming and difficult to manage. Indeed the proposals seem likely to act as a barrier to new projects coming forward by adding costs, delaying developments and preventing effective competition.

There also appears to be little real prospect of an effective integrated offshore grid developing within the confines of the regulatory proposals. It seems likely instead that individual projects will be connected via dedicated radial circuits with little scope for sharing costs of common infrastructure. This seems a fundamental difficulty which should be addressed immediately.

While outside the immediate scope of the proposals there also appears an urgent need for strategic reinforcement of the onshore transmission systems. Such reinforcement is needed to prevent undue delays to projects due to lack of onshore transmission capacity. Without this strategic approach the stated Government aim of up to 33GW of offshore wind farms appears totally unrealistic.

Another issue is that in a rapidly evolving industry the proposal for a 20 year license regime with no regulatory review or pre-defined adjustment mechanisms is unlikely to minimise transmission costs. Warwick expects that it will be difficult for OFTOs to bid without allowing considerable risk premium in their proposals for both time and cost. This will deter bidders from coming forward and have a knock on effect on costs, timescales and provision of critical connections. All of these factors will therefore affect project viability and ultimately increase charges paid by consumers.

Despite previous consultations there is still uncertainty regarding Ofgem's OFTO of last resort proposals for transitional projects. Indeed the latest documents suggest that Ofgem reserves the right to not appoint an OFTO at all even for transitional projects. It is also still unclear whether we will have to go through the time consuming and costly exercise of tendering to buy the transmission assets that we will have just designed and built for Thanet to ensure that it has an OFTO. It would be simpler to allow for existing asset owners to be granted OFTO of last resort status without having to bid for the assets. Indeed the simplest approach would be to allow developers to apply for exemption from these untried arrangements if they so wish. No explanation has been given as to why such a common sense option has been discarded.

It now appears that the main benefits of a Regulated Licensed approach as originally perceived by the industry – namely lower financing and cost sharing between demand and generation customers – will not materialise. Given this and the complexity and obvious difficulties which become increasingly apparent as detail emerges, there is no real justification for proceeding along the present lines. Warwick would therefore call for a fundamental review of the way offshore transmission - and its integration with the onshore network - is to be regulated, structured and managed.

Warwick currently believe that, if a change is needed, extending the existing onshore transmission franchises under the 'connect and manage' ethos will best match the stated aims of connecting major increases in offshore wind capacity in a timely and efficient manner and at lower cost to the consumer in the longer term. We strongly recommend that this sensible, quick and pragmatic approach be considered by the industry.

Despite the numerous fatal flaws in these proposals Warwick has made a number of constructive suggestions in the attached paper which could limit the damage to some degree if these proposals are imposed on a reluctant industry.

I trust the comments are clear however please do not hesitate to get in touch if you require any clarification on any of the points made.

Yours faithfully,

Mark Petterson
Director
Warwick Energy Limited