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Initially by email  
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Dear Jon

Balfour Beatty Capital is pleased to respond to the consultation dated 1 March 2012 "Offshore transmission - Consultation on potential measures to support efficient network coordination" (the "Consultation"). Balfour Beatty Capital is responding as preferred bidder on the Thanet OFTO project, as part of the preferred bidder consortium on the Greater Gabbard OFTO project and as a bidder in the Transitional Round 2A OFTO tender process.

Following our review of the Consultation, the attached appendix contains the responses to the questions raised.

We would be pleased to discuss in further detail with you.

Yours faithfully



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**APPENDIX: RESPONSE TO THE CONSULTATION ON MEASURES TO SUPPORT EFFICIENT NETWORK COORDINATION**

**CHAPTER 2 – PLANNING AN EFFICIENT, ECONOMIC AND COORDINATED NETWORK**

Q1.a What are your views on whether the connection process (including the relevant industry framework) supports the design of an efficient and coordinated network?

The connection offer process begins with the generator applying for a connection offer from NETSO. The proposal in the Consultation is for NETSO to consider if, on receipt of a connection application, there are wider coordination benefits which would then be included in its connection offer.

We believe there should be a process for a scenario where there are clear coordination benefits but there is no generator applying for a connection offer. For example, NETSO, or the independent coordinating body or a third party may identify opportunities for a more efficient coordinated network independent of the transmission connection process.

Q1.b What are your views on whether the NETSO needs further powers to develop an efficient network?

Yes. NETSO or the coordinating body should have the power to be able to specify the need for offshore assets which are beneficial for coordination.

Q1.c What are your views on whether there are any barriers to the NETSO taking on an enhanced role in network development?

The independence of NETSO is key for NETSO taking on an enhanced role in network development in order to mitigate potential conflicts which may exist between coordination and planning and the construction of transmission assets.

Q2 Do you agree with the proposed objectives for a reformed network planning document? Would other changes be useful?

As noted in Paragraph 1.13 of Appendix 2, “ODIS is a high level, forward looking statement which considers particular future scenarios of generation growth, and potential investment needs under those scenarios. It is not a blueprint or future plan of what the offshore transmission network will look like.” We agree with this. As such any reformed network planning document should be

transmission specific to include, for example, indication of transmission assets required, location, investment value, timing etc.

### **CHAPTER 3 – ANTICIPATORY INVESTMENT**

**Q3** Do you agree with our initial proposal for a definition of AI and that the types of AI set out are those that need to be captured in an approach to AI?

We agree with the definition of AI. For the types of AI, we think there should be a third category included or perhaps a subset of the investment focussed on coordinating the connection of offshore generation. This third category or subset should cover: (i) AI for offshore that is not generator led; or (ii) an early build out of offshore transmission assets to develop a coordinated network.

**Q4** Do you agree with our initial proposed objectives and regulatory design principles for an approach to AI? Are there some which you see as more important than others?

We agree with the Authority's initial proposed objectives and regulatory design principles for an approach to AI. We believe that clear and appropriate risk allocation and incentives is a critical objective to ensure that coordination is supported by all stakeholders and is therefore realised.

**Q5** What are your views on use of the connection application process as the platform for identifying AI opportunities? Could there be a need for AI to be identified outside of the formal connection offer process?

Please see response to Q1.a. Yes we think there is a need for AI to be identified outside of the formal connection offer process. It is likely that NETSO or the independent coordinating body will consider AI outside of the connection process. The connection process will then trigger a wider discussion. For more significant AI, however, the discussion should be triggered in advance.

**Q6** Do you envisage that changes to industry codes and licences are necessary to enable the connection offer process to identify AI?

Yes.

Q7 Are there barriers to cooperation in connection offers being agreed where a development involves more than one generator? What actions do you consider are warranted to address these?

There is, perhaps, some risk that one generator may be less proactive in the connection offer process if he feels that another generator may pick up the additional AI activity. There is some need to ensure that an impartial view is taken, probably by NETSO or the independent coordinating body, of how the AI effort should be shared where there is more than one beneficiary. We would question if a generator is incentivised to undertake AI for a project which the generator does not have a beneficial interest. The generator may not have the appetite / capacity to undertake this type of AI. The barriers are reduced if an OFTO or TO undertakes the AI works where a generator does not have a beneficial interest.

Q8 Are there other parties that should be able to identify opportunities for AI?

Potentially. Parties interested in developing offshore transmission assets, together with onshore transmission asset owners.

Q9 What changes may be needed to ensure that assets that provide wider network benefits are designed, constructed and operated to provide a longer asset lifetime?

NETSO or the coordinating body has to be able to specify the requirements of the AI, including changes to the industry framework documents or licence which require the assets to be maintained to a certain condition or meet a certain standard at different points of the asset's life.

Q10 What are your views on whether a longer revenue stream for assets that have wider network benefits could create better value for consumers?

We think there is better value for the consumer in extending the period of the revenue stream of the relevant asset to in line with the transmission asset's lifetime, assuming that the assets can continue to provide wider benefits over their extended life.

Q11 What are your views on the best way to deal with possible interaction between assets with differing lengths of tender revenue streams?

We do not think that there is an issue with different assets having differing lengths of tender revenue stream. The regulatory regime for offshore transmission already incorporates the concept of an extension of the tender revenue stream or a retender.

Q12 Do you agree with these high-level user commitment and charging principles for AI?

Yes.

Q13 What areas of the transmission charging regime may need to change to facilitate AI in the offshore transmission network?

We believe changes are required but we are not in a position to comment.

Q14 Is there a need for greater, earlier clarity on how including AI within the scope of works might be treated under our assessment of costs?

A generator, OFTO or TO are unlikely to engage in any investment activity unless the mechanics for recovering its costs are clear and the risks properly allocated.

Q15 What are your views on the potential form of these Ofgem assessment stages? Should it be optional for generators to go through the gateways where they would be undertaking the subsequent works?

If the AI need has been identified by the NETSO or independent coordinating body, why is there a need for a two stage assessment process? This adds complexity and additional costs.

Q16 Do you agree with the proposed high-level criteria for use by Ofgem if considering whether AI would be economic and efficient?

We agree with the high level criteria.

Q17 What are your views on the appropriate timing of the possible Ofgem assessment stages?

The appropriate timing and structure for Ofgem involvement will be dependent on who is responsible for the delivery of the AI. For example, generator or OFTO build.

If the AI project is undertaken by the generator then the structure established for the OFTO Transitional projects or the structure being developed for the Enduring generator build projects, which includes Ofgem assessment, could be adopted.

If the AI project is to be undertaken by the OFTO, the timing of Ofgem assessment stages would reflect the structure of the OFTO build competitive tender process completed.

Q18 What information should in your view be provided as part of any published guidance that supports AI approval?

The information requirements within the generator and OFTO build models could be used to support AI approval.

Q19 Should there be additional requirements to share information with Ofgem to help streamline Ofgem's assessment of AI for project? What information should be included?

The information requirements within the generator and OFTO build models could be used to support AI approval.

Q20 What are your views of the different options for who should undertake pre-construction works for assets that are driven by wider network benefits?

For AI required for wider network benefits, we would consider the OFTOs or TOs to be more incentivised than the generator. Therefore we would support Option 2.

Q21 Could OFTOs potentially have a role in undertaking pre-construction works for assets significantly driven by wider network benefits? How might this work?

Yes. The relevant body could ask for offers from OFTOs for undertaking the required pre construction works. There might be implications on the OFTO involved in the pre construction works for a tender process run for the construction works.

Q22 Do your views of the attractiveness and feasibility of an early OFTO build option differ for assets that are driven by wider network benefits?

The early OFTO model is well suited for assets that are driven by wider network benefits. An OFTO could be selected early to ensure that the asset is delivered for the various connection dates.

Q23 Are there changes that can be made to improve the incentives on offshore generators in undertaking pre-construction and construction works for assets that are driven by wider network benefits?

The offshore generator is best placed to comment.

Q24 What would be the impact on the attractiveness of Generator build option for assets that have wider network benefits if additional delivery incentives are incorporated? Should the OFTO build option be the main focus for this type of asset?

The OFTO build option should be the main focus for this type of asset.

Q25 What are your views on how any distinction between “offshore generator focused” and “wider network benefit” assets should be made?

There could be assets which are temporarily classified as having “wider network benefit”. For example, a 2GW HDVC circuit built out to service a 1 GW wind farm, with the expectation of future generation to be developed. The spare 1 GW could initially be classified as wider network benefit and once the expected generation connected, it could be reclassified as offshore generator focused.

Q26 What role could commercial contractual arrangements have in ensuring that pre-construction assets are passed to the relevant party and the first developer can recover their costs?

We believe the OFTO regime provides the commercial arrangement to address asset transfer and cost recovery.

Q27 What changes may be needed to support the process? What would be the impact of requiring an OFTO to hold assets for future generators?

We believe the structure of the OFTO regime supports the process and includes provisions for extending the OFTO revenue period or re-tendering of existing assets so an OFTO holds the assets for future generators.

Q28 Will commercial arrangements and industry codes and licences provide sufficient access rights for shared assets? If not what changes may be needed to support the process?

The industry codes and licences will have to be adapted to take into account shared assets.

Q29 Are there any other issues with shared assets that need to be considered?

No comments.