

Jon Parker  
Offshore Coordination  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Centrica Plc  
Millstream  
Maidenhead Rd  
Windsor  
Berkshire SL4 5GD  
www.centrica.com

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By email

Dear Jon

**RE: Offshore transmission: Consultation on potential measures to support efficient network coordination (ref 26/12)**

Thank you for the opportunity to respond to your consultation. This non-confidential response reflects the views of the Centrica group of companies, excluding Centrica Storage.

Centrica recognises the benefits of coordinating offshore transmission to save cost for customers and to minimise environmental impacts. However, we also welcome recognition by Ofgem and DECC in the OTCP Conclusions Report that significant barriers exist to delivering a coordinated, efficient network. The regulatory framework must adapt to meet, for instance, the challenges of incentivising investors to make anticipatory investment (AI), of the sort that may be required to ensure the optimal level of coordinated investment offshore.

We note that your consultation is seeking to address uncertainty around AI and is beginning to look in more detail at securities / user commitment and charging. It is clearly right that these issues in particular are prioritised and resolved, and we have sought to respond to your specific questions in order to facilitate resolution of these and other issues you raise.

However, we are concerned about the ability of the offshore regime to adapt in a timely way. Round 3 projects are already at the stage where regulatory uncertainty is affecting developers' ability to make key decisions. For example, on connection agreements, clarity is lacking in terms of who is required to construct some offshore assets, who pays for certain elements and how much is securitised by the developer.

We do not believe that fundamental changes to the organisation of the offshore regime are necessary or in consumers' interests (see our response to the Enduring Tenders consultation). However, we do need to understand how coordinated offers are likely to be treated under the

present regime. Without this, it is unlikely that the benefits of co-ordination will be realised or the range of projects that would otherwise be economic will go ahead.

In order for Round 3 projects to proceed incorporating anticipatory or co-ordinated development, developers need clarity in the following areas as soon as possible:

Issue	Ofgem proposal / position	Centrica comment
Treatment of anticipatory investment by Ofgem	New early assessments to determine whether a developer's or other TO/OFTO proposed AI would be in scope for capex recovery	<p>Early AI assessment around time of connection offer is desirable, but needs to be enhanced. Centrica supports either:</p> <p>(i) A move towards a generator build option where the developer has an option to agree an upfront capex allowance for AI with Ofgem; or</p> <p>(ii) Detailed ex ante guidance on what Ofgem considers to be an efficient procurement and construction process (in addition to its proposed AI assessment.)</p>
Indicative TNUoS charges	Principle that charges should be cost reflective. Wider network users to bear some charges where they benefit.	More clarity needed – particularly for assets that are built as radial connections and subsequently integrated such that they yield wider system benefits. Ofgem to facilitate indicative TNUoS charges / methodology as soon as practicable.
Securitisation / user commitment	The generator should not incur full liability where other users benefit.	We need clarity over the securities and liabilities arising from system reinforcements, including bootstraps, triggered by a developer's project. This should include the treatment of system reinforcements constructed offshore to avoid onshore upgrades.
Tender process flexibility and adaptability	Unclear	<p>Tender process should not disrupt the timely delivery of Round 3 projects and needs to be able to accommodate assets that are built out incrementally, and potentially bundled assets.</p> <p>Clarity needed on whether transmission system reinforcements constructed offshore will be captured by an Ofgem run tender process.</p>

We hope you find our response useful. Please feel free to contact me if you would like to discuss our response further.

Yours sincerely,

Tim Collins

Regulatory Affairs  
Centrica Energy

## **Responses to specific Ofgem questions**

### **CHAPTER: Two**

#### **Question 1: What are your views on whether:**

- a) the connection process (including the relevant industry framework) supports the design of an efficient and coordinated network?**

We believe that the current negotiated arrangements between the NETSO and the offshore developer form an appropriate basis for reaching a connection agreement. These arrangements allow the two main parties to discuss the specifics of each connection and identify and overcome the specific challenges. There is plenty of scope within the existing arrangements to explore coordinated options, but coordination is considered (as it should be) in the light of the risks it poses to a project's critical path, as well as its potential benefits to GB.

Coordination should not be pursued at any cost – this will simply deter investment. Rather, coordination should be assessed on the merits, taking account of the risks it introduces to a particular project (construction, consenting, logistical, financability). Negotiated offers between the main parties to a connection are the best way to ensure that the risks and benefits are properly appraised and the best connection agreement overall is reached.

- b) the NETSO needs further powers to develop an efficient network?**

We do not believe the NETSO needs further powers to develop an efficient network. We believe that any move away from the current negotiated arrangements would make it less likely that the best overall connection agreements are reached.

- c) there are any barriers to the NETSO taking on an enhanced role in network development?**

The NETSO's enhanced role should focus on making network planning documents fit for purpose. We support the aim of making the SYS and the ODIS in particular into a more holistic document, which takes proper account of wider developments (e.g. cross border developments). However, this document should not be a blueprint for the GB network, rather a forward looking document that evolves over time, taking account of actual developments on the ground as they become more certain, and relevant developments elsewhere (e.g. European developments, cross border connection).

As you state in paragraph 2.2.1 of your document, there would appear to be barriers in the form of NGET's current licence obligations to produce the SYS and the ODIS rather than a coherent network development document. We support some form of integration of these and other GB transmission planning documents.

- Question 2: Do you agree with the proposed objectives for a reformed network planning document? Would other changes be useful?**

A reformed network planning document would be a helpful piece of information, provided that it is not used as a blueprint that undermines the existing negotiated connection agreement between the developer and the NETSO.

A key piece of information that is inhibiting coordinated development is the lack of visibility on network charges and user commitment / securities for integrated offshore assets, and as importantly, integratable offshore assets. It is hard to see how a developer could get FID for a complex integrated connection without a proper understanding of how user commitment and transmission charges will impact them.

It is also essential that clear regulatory boundaries for offshore transmission, quasi onshore transmission (e.g. bootstraps) etc are defined. For example, a transmission cable built subsequently to join up two initial radial connections would need to be defined as a certain type of transmission, and a process for bringing about that investment would be needed.

### **CHAPTER: Three**

#### **Question 3: 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?**

The proposed definition of AI you set out in paragraph 3.8 seems reasonable. However we note that it may not be straightforward to separate out AI from investment for the immediate needs of a project. For example, a 1GW cable where, say, 600MW was needed for the immediate needs of a project, could not be considered wholly anticipatory, as 600MW of its capacity is needed to serve the immediate needs of the project. In this instance, would Ofgem pro-rate the value of the whole works, so that 40% of the cost would be considered anticipatory, or would AI be deemed to be the difference between the cost of some sort of 600 MW radial connection and the 1 GW cable?

Ofgem has not provided sufficient guidance on its proposed process for allowing AI to enable us to assess whether the distinction between AI and investment for the immediate needs of the project will ultimately be important in the context of transmission charging, capex recovery etc, but we note this potential difficulty with your proposed definition.

#### **Question 4: 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?**

Your proposed principles would benefit from two additional principles:

- To ensure that the pursuit of coordinated networks does not jeopardise the timely connection of offshore renewable generation projects to shore.
- To support negotiated and flexible connection agreements between the NETSO and the developer that represent best *overall* value to consumers (having regard to both

risks and benefits) – meaning radial, integrated and integratable solutions should all be open to consideration.

**Question 5: 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?**

The connection application process is the right place for the developer and NETSO to identify, discuss, develop, appraise and ultimately agree a connection offer. We note that a higher level view of offshore coordination could exist in a successor document to the SYS and ODIS, which would give all stakeholders an understanding of the key issues and a route to get their views on coordination heard (via the associated consultations). AI opportunities will always be triggered and/or validated by developers and their interactions with National Grid so the process should always facilitate this relationship.

**Question 6: Do you envisage that changes to industry codes and licences are necessary to enable the connection offer process to identify AI?**

We expect that changes to NGET's licence would be necessary to accommodate a successor document to the SYS and ODIS.

**Question 7: 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?**

Clearly there is a greater degree of complexity where more than one developer (generator) is involved in a connection offer. However, the most appropriate way to gain agreement would still be through exploring options in a negotiated way, as per the existing arrangements. There will always be issues with confidentiality where interactivity is necessary (as with onshore); however our experience to date is that National Grid has mostly dealt with these issues appropriately.

**Question 8: Are there other parties that should be able to identify opportunities for AI?**

We believe that the NETSO and the developer are the parties best placed to determine the detail of particular connection offers, and assess the risks and benefits of specific AI proposals on a case by case basis.

**Question 9: 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?**

Consumers' interests will be best served by preserving certainty and stability in the OFTO regime as far as possible, addressing only those issues that are obviously problematic (see our response to your enduring tenders consultation). Where changes to the regime are necessary, they should be made in a way that protects what is established and understood,

and build on what is working relatively well. It would be unwise to try and hastily impose new measures to augment asset life in Generator Build OFTO assets, particularly given the very short time available before major Round 3 decisions need to be locked down (e.g. consenting).

Tinkering with such things as technical standards will cause delays to connection offers already in train, and would not get rid of the issue of residual asset life beyond the existing 20 year TRS, as many offshore assets designed, built and regulated on the basis of a 20 year TRS are already in situ. Ofgem should retain the 20 year TRS as a manageable and accepted period, and instead focus on how best to manage residual asset life at an appropriate future date (e.g. possible re-tender for continued operation and maintenance of OFTO assets, bearing in mind that the initial cost of capital and decommissioning will have already been paid for over the initial 20 year period).

**Question 10: What are your views on whether a longer revenue stream for assets that have wider network benefits could create better value for consumers?**

The 20 year TRS should be retained. The requirement to bid a flat TRS with RPI indexation means that prospective OFTOs need to be able to lock in a good proportion of their costs over 20 years. We question whether, say, a 40 year TRS would be manageable for prospective OFTOs, given the difficulties of locking in costs over such a long period. A 40 year period may augment the risk premium associated with the cost of OFTO finance and would not therefore be helpful to consumers.

**Question 11: What are your views on the best way to deal with possible interaction between assets with differing lengths of tender revenue streams?**

Ofgem should reopen the issue of residual asset life once we have more visibility on how offshore assets are performing after an appropriate period, and make a more informed judgement about the residual value of those assets at that time. We anticipate that some project specificity is likely to be needed here – asset health for different sites around GB will almost certainly vary over time, and the case for prolonging TRSs / retendering etc will differ accordingly.

**Question 12: Do you agree with these high-level user commitment and charging principles for AI?**

It is clearly right that wider network users should bear a fair share of liabilities and charges where they stand to benefit. Failure to adhere to this principle would make the benefits of coordination extremely difficult to realise, as unacceptable liabilities and charges, beyond what are strictly necessary for connection, would fall on the generator.

Whilst Ofgem's *principles* appear reasonable, they do not resolve the prevailing uncertainty around user commitment and charging. We would strongly urge Ofgem to facilitate the production of indicative methodologies for calculating user commitments and charging as soon as practicable. As part of this, Ofgem needs to resolve how assets initially built as radial

connections and subsequently integrated such that they yield wider system benefits would be treated.

**Question 13: What areas of the transmission charging regime may need to change to facilitate AI in the offshore transmission network?**

Clearly the principle has to be that shared (or shareable) assets should have shared (or shareable) charging. If assets located offshore are integrated into the wider transmission system and provide wider system benefits, then charging should be treated similarly to onshore, with a zonal tariff applying beyond the strictly local/specific works.

We would strongly encourage Ofgem to push for as much clarity as possible on user commitment / securities and charging, with a clear calculable methodology to be published by NGET as soon as practicable. It is extremely difficult for developers to appraise the costs and benefits of undertaking AI while substantial uncertainty about key costs persists. This makes offshore coordination harder to realise and consumers' interests harder to serve.

**Question 14: 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?**

Whilst we welcome recognition from Ofgem that additional and early clarity is needed in order to bring about AI, we believe that developers will need greater comfort from Ofgem than is currently being proposed. We are not convinced that simply allowing developers to seek an opinion on whether the scope of AI is allowable will be enough to bring AI about. There would still be substantial residual uncertainty over allowed costs.

As mentioned at the beginning of our response, we think that Ofgem's proposals need to move towards either:

- (i) A generator build option where the developer has an option to agree an upfront capex allowance for AI with Ofgem; or
- (ii) Detailed ex ante guidance on what Ofgem considers to be an efficient procurement and construction process in addition to its proposed AI assessment.

A move towards option (i), the option for the developer to agree an upfront capex allowance with Ofgem, could in principle provide a means of removing the substantial uncertainty over allowed capex that exists under the current proposals. However, we note that this option would require development and may not therefore be practicable in the limited time available.

Given the obvious challenges of agreeing a precise upfront capex figure, we would suggest that option (i) could be moderated by up/downside caps and collars, with sharing factors to spread the risks and potential benefits between the developer and the consumer. It would also be necessary to consider the treatment of exceptional events.

An upfront capex allowance is not a cost recovery guarantee, so the consumer does not bear the risk of a project's cost overruns (and is only exposed to a partial and contained risk if caps and sharing factors are used, with some potential upside in the event of project underspend).

Option (ii), detailed ex ante Ofgem guidance on AI, may be an alternative route to providing greater certainty to developers. However, the guidance would effectively need to be a roadmap of an economic and efficient process from Ofgem's perspective, which a developer could model its delivery process on. If the guidance is insufficiently detailed, it is unlikely to have a material positive effect on the level of certainty around AI capex recovery.

AI could cost major Round 3 developers hundreds of millions of pounds in additional capex, but the benefits to the developer of constructing it (or bearing the risks of an OFTO / TO constructing it) are currently unclear. We believe that Ofgem needs to consider the currently proposed balance of AI risk and reward carefully.

**Question 15: 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?**

Ofgem may wish to make it optional for developers (generators) to go through the assessment gateways, but should ensure that they have sufficient regulatory and technical capacity to undertake assessments for all potential AI. This is all the more important in view of the substantial increase in scale and cost of the next round of offshore wind projects. Clear ex ante guidance as soon as practicable on the AI process would make it easier for a developer to assess the need to go to Ofgem for AI assessment(s).

Ofgem also needs to consider how they propose to treat situations where a developer and the NETSO come to an agreement on a connection which doesn't involve AI. If the NETSO and developer, having appraised the available options, come to a radial connection agreement in good faith, we would welcome comfort that Ofgem would not seek to undermine project progress by "calling in" any such agreement.

**Question 16: Do you agree with the proposed high-level criteria for use by Ofgem if considering whether AI would be economic and efficient?**

The proposed high level criteria seem reasonable. However, we note that it may not always be straightforward to separate out AI for offshore generator focussed AI from AI with wider network benefits. This gives rise to associated challenges around securities, charging, permitted build options etc. Again, we note that clarity from Ofgem around the critical boundaries in the offshore regime (developer benefit vs wider network benefit etc) would reduce the risks of being involved in the offshore sector.

**Question 17: What are your views on the appropriate timing of the possible Ofgem assessment stages?**

The proposed timing of assessments appears reasonable. However, Ofgem needs to be mindful of:

- (i) Instances where the timing of the formal assessments may benefit from a degree of flexibility
- (ii) The benefits to developers and the NETSO of being able to informally engage with Ofgem on AI
- (iii) The fact that firm policy commitments arising from this consultation may not be ready in time for more advanced Round 3 project phases / stages.

**Question 18: What information should in your view be provided as part of any published guidance that supports AI approval?**

We believe Ofgem should:

- Clearly set out the information they believe they would require to undertake their AI assessments in advance of pre-construction and construction works commencing.
- Provide comfort on how they would view connection agreements that do not involve AI.
- State how they would treat investment that is initially offshore generator focussed but stands a good chance of becoming used for wider network benefits over time, as new phases of transmission infrastructure are rolled out.
- Provide clarity on user commitment/securities and charging and how these may change where an asset changes from being radial to integrated.
- Clearly state what they believe would constitute an economic and efficient delivery of AI.

**Question 19: Should there be additional requirements to share information with Ofgem to help streamline Ofgem's assessment of AI for a project? What information should be included?**

It is for Ofgem to state the information it needs in order to undertake its assessments of AI. If Ofgem was to require the NETSO to provide it with connection offers when those offers were made, it would need to be mindful of the fact that those offers would be subject to negotiations between the NETSO and the developer, and would not necessarily constitute the final connection agreement.

**Question 20: What are your views of the different options for who should undertake pre-construction works for assets that are driven by wider network benefits?**

Developers having a choice of whether they wish to undertake preconstruction works would be reasonable. However, as a principle, we do not believe there should be any fundamental shift in the approach consulted on for the enduring regime.

A key question here is whether the regime can ensure that AI can remain tractable and avoid the risk of making offshore wind projects untenable. For example, there should be no prospect of preconstruction work for a West Wales bootstrap being in the scope of anticipatory investment and enabling works for initial phases of development in the Irish Sea zone.

Ofgem needs to ensure that the scope of AI preconstruction and construction works can be sensibly limited. For instance, modest oversizing of offshore platforms, cables and transformers in anticipation of an initial radial connection being integrated into the wider system at a later date (with a separate tender for that work) should definitely be the target model. Integratability makes more sense than seeking to roll out fully integrated zones as perfect foresight is not available.

**Question 21: Could OFTOs potentially have a role in undertaking pre-construction works for assets significantly driven by wider network benefits? How might this work?**

We do not believe there should be any fundamental shift in the approach consulted on for the enduring regime.

**Question 22: Do your views of the attractiveness and feasibility of an early OFTO build option differ for assets that are driven by wider network benefits?**

If there was a proper separation of modest anticipatory investment, which could sensibly remain in the scope of a generator build connection and be undertaken by the offshore developer, and subsequent integrating works, we could see that OFTOs could have a role in preconstruction for those subsequent integrating works.

However, we do not support unpicking what has been proposed for the enduring regime and in particular the principle that the selection of an OFTO should not be on the critical path for developers' projects. Only where generators can still connect their projects without the integrating works (although the integrating works have additional system benefits) should OFTOs be involved in pre-construction of those assets. Whilst there are potential benefits to coordination, we should not forget that there are renewable targets that need to be met, and substantial risks associated with upheaval of a regulatory regime which is only just becoming familiar to stakeholders.

**Question 23: 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?**

In cases where generators depended on the offshore assets being constructed, they would have every incentive to construct the assets in a timely, quality and cost effective manner. This would be the case regardless of whether other users of those transmission assets would

benefit. Where generators did not depend on the offshore assets being constructed, we would not expect them to have an interest in assuming the risk of constructing them. Hence, we strongly encourage Ofgem to support integratability of initial radial connections, with separate tenders for any subsequent integrating works.

**Question 24: 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?**

See our response to question 23. The regime needs to be supportive of initial radial connections, with separate tenders for any subsequent integrating works. Putting developers in a position where they have to build a fully coordinated solution with "additional delivery incentives" or expose their projects to the risks of an OFTO building a fully coordinated solution will only discourage investment in offshore wind.

**Question 25: What are your views on how any distinction between "offshore generator focused" and "wider network benefit" assets should be made?**

We are not convinced that all transmission assets can easily be categorised as "offshore generator focussed" or having "wider network benefit", as Figure 4 of your consultation document illustrates. For example, a 1GW cable where, say, 600MW was needed for the immediate needs of a project, could have wider benefit to an additional user(s), but would also be serving the needs of the offshore generator.

Ofgem has not provided sufficient clarity to enable us to assess how important these distinctions might ultimately prove to be. However, we reiterate our view that shared (and shareable) transmission assets should in principle be subject to shared (or shareable) user commitment/securities and charging.

**Question 26: 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?**

To some extent, these difficulties may be mitigated by the regime facilitating the initial build out of radial connections and separate tenders for subsequent integrating works. This may help ensure a degree of separability of parties' preconstruction works.

**Question 27: What changes may be needed to support the process? What would be the impact of requiring an OFTO to hold assets for future generators?**

To some extent, these difficulties may be mitigated by the regime facilitating the initial build out of radial connections and separate tenders for subsequent integrating works. This may help ensure a degree of separability of parties' preconstruction works.

**Question 28: 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?**

We would expect that commercial arrangements could be made to accommodate access rights prior to the transfer of assets to an OFTO under generator build. Existing obligations on OFTOs to provide access should be sufficient thereafter.

**Question 29: Are there any other issues with shared assets that need to be considered?**

We believe that the key areas for Ofgem to focus on at present are as indicated at the beginning of our response.