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Re: Offshore transmission - Consultation on potential measures to support efficient network coordination

Dear Jon

We welcome the opportunity to respond to this consultation. Please see our responses to the questions in the consultation below:

Question 1

We do not believe any changes are needed to the connection offer process itself as the connection offer only reflects the network design proposal. The issue is with how the network design is formulated and the limits of the remit of each TO and, for offshore, the developer, where applicable, to develop an overall coordinated network design optimised for both on and offshore requirements. This will need to be informed by development of the SQSS for integrated on and offshore transmission.

It is not yet clear whether the NETSO requires additional powers to develop an efficient network. We think it is important to clarify how the optimised network both on and offshore will be designed, constructed and maintained before the existing industry frameworks are considered in detail.

The lack of clarity between the incumbent TO's responsibilities and funding arrangements onshore (RIIO), how these interact with the development of competition in transmission onshore and the role of the NETSO, developers and OFTO's for offshore transmission, is a barrier to the NETSO taking on an enhanced role in network development. This is an area that we understand Ofgem's recently launched ITPR project may address.

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Question 2

We believe that the proposals for a reformed network planning document are sensible.

Question 3

We agree with the definition for Anticipatory Investment and its characterisation between pre-construction and construction related activities.

Question 4

We agree with the AI objectives as set out and would not give greater emphasis to any one particular objective.

Question 5

The connection offer is the appropriate place to classify potential AI works. Under the current arrangements however, NETSO would only be able to consider the onshore related AI. It would be for the developer or OFTO, where one is in place, to consider these for offshore. The NETSO's limitation and affiliation with an incumbent TO and the offshore developer's drivers may give rise for offshore related AI to be currently identified outside of the formal connection offer process by the developer.

Question 6

Changes may be required to the Transmission or User's works appendices in the CUSC Construction Agreement to specifically classify AI works. This may need to be supported by changes to the front end of the Construction Agreement to formally identify the AI works section and the obligations around these.

Question 7

Resolution of the first mover generator bearing all the risk associated with works needed for subsequent generators, even if that first generator is not utilising all of the initial investment, will assist coordinated offers being agreed. The decision on CMP192 may help with this.

Question 8

It is not clear how existing, or new prospective, OFTO's can be involved in the identification of AI opportunities and performance of the associated works under the

current arrangements.

Question 9

Asset life is a matter for the manufacturer of the assets, the proper maintenance of the asset and the environment in which it is installed. It is not clear how the NETSO prescribing a desired asset life will change this.

Question 10

We support granting longer revenue streams for assets that have wider network benefits where the life of the assets are established as being greater than 20 years. This will help reduce the cost of these assets and deliver better value for consumers.

Question 11

Although it adds complexity we think it would be appropriate to establish separate revenue streams for assets with a life greater than 20 years.

Question 12

With regard to offshore generator driven AI, we would not expect any party to provide user commitment where the AI works are being taken forward by the developer at its cost. As Ofgem describes, the developer's risk is whether Ofgem determines the AI expenditure to be economic and efficient or not. Where the AI benefits other offshore generators this risk could be managed through commercial agreement between these parties.

With regard to the AI charging principles we support charging for these based on cost reflective principles.

Question 13

The areas identified in National Grid's January 2012 charging paper on charging for integrated on and offshore transmission assets identifies a number of areas that we would agree need to be considered. We will seek to participate in any future code modification process in relation to charging for integrated on and offshore transmission network assets and in the context of the Project Transmit work.

Question 14

We think it would be more efficient if Ofgem published clear and transparent criteria against which it would determine whether AI costs would be allowed under its assessment of the costs. This would aid developers in making project decisions on whether to incur expenditure against AI works. Without this it is hard to see how a developer would be willing to pursue efficient AI investments, to the detriment of the consumer.

Question 15

Following our response to question 14, if Ofgem publishes clear criteria against which it would allow certain AI costs then we do not believe the Stage 2 Ofgem assessment is necessary. It may add to the timescales and costs associated with a project. We would support the Stage 2 assessment only being optional, where a developer may have a specific need to seek Ofgem's agreement to pre-construction AI costs, with the developer bearing the risk of any unallowed costs. It may be possible for the developer to share this risk with other parties within a zone through commercial agreement. Ofgem would then be able to assess both the pre-construction and construction costs as parts of its stage 4 assessment.

Question 16

We support the high level criteria described, in publishing guidance on the process we would ask that Ofgem details the criteria it will apply to its assessment and what information it needs in order to complete this.

Question 17

With regard to the Stage 2 assessment, this should not take place until after the connection offer between the generator and NETSO has been signed and the Connection Infrastructure Options Note (CION) has been agreed between the parties, which would also help support the need for AI where identified. This is because the CION helps substantiate the economic solution from the onshore transmission network perspective, factoring in the optimised OFTO design.

Question 18

We support the areas identified in paragraph 3.50 and would emphasise the need to publish the criteria that Ofgem would apply to determining whether AI costs would be allowable.

Question 19

Obligations on relevant parties to inform Ofgem when AI has been identified may help with planning its workload and resource requirements.

Question 20

We agree with Ofgem's initial options 2 or 3. We would only envisage the onshore TO carrying out AI in relation to those works on its system. We think it is important that the generator retains the choice of whether to undertake the AI. It will be important where the existing onshore TO undertakes AI that this does not undermine any future competition for the construction, ownership and maintenance of those assets, whether they relate to onshore or offshore investments. As stated in response to question 8 it is not clear how an existing OFTO could perform initial AI, unless this is an extension of its existing asset base.

We think Ofgem is right to retain the early OFTO build option. Where there is a central design authority and the investment in the wider and local network required to connect a generator or provide additional capacity on the network is tendered, the early OFTO build option may emerge as a potential model for delivering offshore investment from pre-construction, construction and in to operation.

Question 21

We think there may be scope for an OFTO to undertake pre-construction works for AI for assets significantly driven by wider network benefits. Ofgem could adopt a two stage tender process, mirroring its AI cost assessment stages and replicating the principles of the Transmission Investment Incentives, whereby pre-construction works are tendered for from existing or prospective OFTO's. It will be important that the outputs from the pre-construction works are subsequently available to all bidders for the construction opportunity.

Alternatively a single tender stage is run at the pre-construction stage, which agrees funding for pre-construction works, again replicating the principles of the Transmission Investment Incentives and a revenue stream for the subsequently completed construction works. Giving bidders certainty in relation to cost overruns in the construction phase will be important to encouraging any emerging competition for these investment opportunities combined with appropriate scrutiny of the construction spend and any requests for additional construction expenditure.

Question 22

How Ofgem gives bidders certainty to cost differences between the estimate and final outturn cost would be important to encouraging investors to participate. Ofgem will need to seek views from prospective OFTO's and funders, but the options outlined in response to question 21 above are reflective of the early OFTO option, which we think there is merit in reconsidering in relation to the delivery of AI/wider transmission works. This may require further development of the offshore transmission regime but there may be scope for mapping the eventual onshore transmission competitive framework across to offshore if this is attractive to investors.

Question 23

We think a generator already has sufficient incentives to keep its costs as economic and efficient as possible as either it will not be allowed to recover a certain portion of its costs or it will be exposed to the agreed regulatory value through transmission charges. Furthermore, at a time where there is a lot of competition for capital, projects are already incentivised to avoid incurring unnecessary costs.

Question 24

We think the competitively tendered OFTO build option is more likely to be the main focus for assets that will have wider network benefits. However, in other circumstances, we continue to believe the generator build option will remain attractive for a number of developers.

Question 25

Whether an asset is required for an offshore generator or generators or whether it provides a wider network benefit should be determined as a combination between the requirements of the SQSS and the amount of capacity that is specifically required for the offshore generators using the asset.

Question 26

The agreed transfer value for the lead generator's pre-construction works would be the main mechanism for the lead generator to recover its costs. We view alternative contractual arrangements between the lead generator and subsequent generators as a potential mechanism for sharing the risk of any disallowed costs by Ofgem associated with AI that the lead generator is undertaking, this should be achievable for generation projects within a single zone. Sharing this cost risk where coordination benefits are

delivered between a number of zones may be harder to achieve.

Question 27

Where user commitment is used to allow a lead generator to recover stranding costs from subsequent generators there will need to be a mechanism to allow the funds to flow from the NETSO to the lead generator.

Where an OFTO holds assets for a future generator we do not at this stage envisage any difficulties arising from this as the OFTO would earn a return on those assets under its revenue stream. It would have to be obliged to facilitate the connection of subsequent generators through its transmission licence and would need to ensure that the use of any assets was made available under appropriate terms to any subsequent incoming OFTO, in the event that the incumbent OFTO was not selected to deliver the transmission network for subsequent generators.

Question 28

The existing transmission access arrangements are sufficient and we do not see any reason to change these. We believe the existing OFTO transmission licence obligations to facilitate third party connection may also be sufficient but these should be reviewed to ensure they are sufficiently robust where an OFTO holds assets which would be used by subsequent generators.

Question 29

There may be detailed implications to the risk profile and contractual arrangements for any subsequent OFTO tenders, but we do not have any additional comments at this stage.

We hope that you found our response of help. Should you wish to discuss our response further please do not hesitate to contact me.

Yours sincerely

Guy Phillips
Grid Interface Executive