



Moray Offshore Renewables Ltd

40 Princes Street

EDINBURGH

EH2 2BY

0131 556 57602

Jon Parker
Offshore Coordination Policy
Ofgem
9 Millbank
London
SW1P 3 GE

26 April 2012

EDPR / REPSOL Response to – Consultation on potential measures to support efficient network coordination Ref 26/12

Dear Jon,

EDP Renewables UK Ltd (EDPR) and Repsol Nuevas Energias UK (Repsol) welcome the opportunity to respond to Ofgem's Offshore transmission – Consultation on potential measures to support efficient network coordination published on 1st March 2012. EDPR / REPSOL has followed closely the industry debate in relation to offshore transmission and we welcome the publication of the DECC / Ofgem consultation Conclusion Report to the Offshore Transmission Coordination Project (OTCP). We recognise that the report highlights some critical issues that have to be addressed to encourage the development of integrated networks offshore and we do not underestimate the task in hand. However we are disappointed with the pace of reforms and progress towards ensuring that such networks are developed in a time frame such that the maximum benefit may be delivered both to the developers of offshore projects and to other potential Users of such systems and indeed ultimately to the UK Consumer.

EDPR / REPSOL have interests in both Round 3 offshore and in the Scottish Territorial Water developments and have become frustrated by the lack of clarity and incentives available to encourage integration which we firmly believe are the only way to maximise the development of the offshore generation within the UK.

EDPR / REPSOL have endeavoured to give a full response to this Consultation by responding to each of the individual questions posed by Ofgem's consultation and in the interest of clarity and to



underline our strongly held views on these matter we have provide the following summary of our views.

In relation to the main issues as EDPR / REPSOL perceive as impediments to the timely development of integrated networks can be summarised as follows:

Charging and Security Issues

The two biggest barriers to the development of integrated networks are the charging and securities issues and those issues surrounding anticipatory investment. In relation to the current securities and charging regime EDPR / REPSOL believe that there is quite simply insufficient reward or incentive to encourage the development of these networks. The reasons are very transparent put simply the program risk to any single project in having its progress dependent on another project's ability to gain consent and / or install connection assets for it cannot be mitigated by any identifiable economic gain. Further even those projects identified as being the first of a series of projects forming an eventually fully integrated network face significant and potentially prohibitive security requirements and unclear investment signals in relation to the treatment of AI assets. The ultimate effect of this degree of uncertainty is to drive Generators to seek and develop radial connections.

In summary EDPR / REPSOL believe that the treatment of offshore assets in relation to integrated networks should not be treated any differently from those forming part of the onshore integrated network. EDPR / REPSOL are encouraged by NGET recent paper on the issue and would advocate that the headline issues they have highlighted form the basis of discussion for future treatment of such networks.

Anticipatory Investment.

The whole issue of AI is one of uncertainty breeding lack of confidence in the ability of any developer or OFTO to deliver an integrated solution. There is uncertainty over the definition of AI, the classification of AI and the charging and security treatment of AI issues. EDPR / REPSOL contend that in this current situation the networks cannot develop properly.

What is required is early identification of AI assets, clear classification of different types of AI and transparent charging arrangements related to these assets. EDPR / REPSOL also believe that the process which authorises AI is too slow and lacks transparency in terms of process and success criteria. EDPR / REPSOL are also mindful that there is a lack of process control in relation to the authorisation and approval of both pre-construction and construction AI and a flexible and fast acting assessment and confirmation process is required.



Regulatory Issues

EDPR / REPSOL firmly believes that the lack of clarity over roles and responsibilities in relation to the interactions between TO's and OFTO's in respect of the devolvement of integrated networks containing element of AI associated with wider transmission works and Generator led AI is a barrier to development.

Clear and transparent delineation between the roles and responsibilities here and ultimately correct assignment of asset ownership and operational responsibilities are required. It is imperative that the licenses of the TO are amended or extended to match a robust delineation of responsibilities between the two. Until such times as this is achieved interim measures should be put in place to ensure that such ambiguities do not impede the ability of any Generator or OFTO to develop an integrated network so long as the NETSO believes that all current system requirements and obligations are fulfilled.

Design and Planning of Integrated Networks

Setting aside the other impediments to the development of integrated networks, EDPR / REPSOL are of the opinion that NGET in its current role of NETSO has sufficient powers at the moment to encourage and facilitate the economic and efficient development of such networks. Whilst not being the ultimate design authority their license obligations as NETSO in tandem with the license obligations of the relevant TO's provides sufficient influence in relation to the development of efficient and economic networks.

Consenting Issues

As with the design and planning issues if we set aside the other impediments, whilst recognising as pointed out in the OTCP that there are potential barriers to integration presented by the planning system and current legislation EDPR / REPSOL are minded that these are not insurmountable. EDPR / REPSOL recognise that there is a political will to resolve such issues and support the efforts of DECC to address all such issues with the other relevant Government departments. On the issue of consents EDPR / REPSOL are aware that coordinated networks with the potential reduction in offshore and onshore assets go a considerable way towards addressing the concerns of the environmental agencies and all of the relevant stakeholders. EDPR / REPSOL are constantly mindful of the benefits to be gained by this approach in the planning process and one concern is that insufficient weight is attached to this significant benefit and would propose that mechanism are developed to recognise this and any planning gain in the early stage is a significant incentive towards the development of these networks.



Technology Issues

EDPR / REPSOL believe that there technology issues to develop integrated to their full potential both in a UK and European context however these are not insurmountable.

EDPR / REPSOL is confident in the major suppliers ability to deliver what the market demands. However that market needs to develop and in order to do so all of the issues thus far highlighted in our summary require have to be addressed. In this interim period EDPR / REPSOL still believe that there is significant potential for integration and coordination but it is failing to materialise because of a fundamental lack of incentive to develop these networks, underpinned by an uncertainty over the treatment of the questions surrounding AI.

This concludes the summary of the EDPR / REPSOL views on this consultation, it is hoped that Ofgem will find these to be constructive in developing the detail of the regulatory framework for offshore transmission.

Yours sincerely

Dan Finch

Ronnie Bonnar

Managing Director
EDPR UK

Managing Director
Repsol Nuevas Energias UK



EDPR / REPSOL's Responses to Ofgem's Specific Questions.

Q1a) the connection process (including the relevant industry framework) supports the design of an efficient and coordinated network?

EDPR / REPSOL does not believe the connection process does not support the design of an efficient and coordinated network in any meaningful way. It can only do so in specific circumstances where the need for AI is easily identifiable, the securities are manageable by the lead developer, the charging methodology provides a clear financial incentive to later developers for acceptance of such an offer and that this incentive outweighs any program risk associated with dependence on the progress of other projects

Q1b) the NETSO needs further powers to develop an efficient network?

EDPR / REPSOL do not believe at this time that the NETSO needs for further power to develop integrated networks, give the right incentives and clarity in relation to AI EDPR / REPSOL believe the NETSO would be an effective partner in the process with the powers it already holds.

Q1c) there are any barriers to the NETSO taking on an enhanced role in network development

EDPR / REPSOL do not believe that there are any barriers to the NETSO seeking to take a more proactive role in the development of the networks, however we are firmly of the opinion that it has to be partnership approach with both the OFTO's and the Generators.

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

EDPR / REPSOL are in agreement that the SYS and the ODIS document should be joined into a single document. However we would caveat that this by saying that the ODI element of any new document has to be a firmer pointer to the way in which integration is to be achieved across the network and it has to be more closely aligned to the SYS elements. The SYS elements cannot be allowed to lose the degree of certainty they current offer

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?

EDPR / REPSOL believe that the definition of AI is reasonable and that there are two distinct sets of works in relation to pre-construction and construction works.

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?.



EDPR / REPSOL are largely supportive of the proposed objectives and regulatory design principles with the caveat that whatever systems develop out of these should not act as barrier to connection of new projects by delaying their planning, consenting or construction. The establishment of future principles and practices should not in any way disadvantage or discriminate against early movers.

It is imperative that this process should not introduce any further risk or uncertainty in relation to existing or impending investments decisions by any developer currently progressing with their project.

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 process should be the beginning of the process of identifying AI opportunities. The NETSO should initially identify those assets which are deemed to be AI assets and categorise those assets as either AI assets wholly or mainly for the benefit of the Generator, and those wholly or mainly for wider transmission re-enforcements. It is important that as part of any integrated offer the developer is fully aware of NETSO's view of why those assets are deemed to be AI and for what purpose those assets are included. A common understanding and acceptance of these requirements should be developed in agreement with the developer during the 3 month period for acceptance in the same way that the CION assumptions are agreed upon prior to acceptance. The AI assets inclusion and categorisation should be subject to period review as the project design develops and system background changes.

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

Taking into account our response to Q5, EDPR / REPSOL do not think change to codes and licenses are necessary in order to identify AI opportunities as the NETSO are identifying at a high level assets that maybe AI as a result of any integrated offer. However the conversion of these opportunities to deliver an integrated network will require such changes.

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?

EDPR / REPSOL have had no direct involvement in any such offer so we cannot speak from experience, however it would appear to us that in general the current charging and security regime doesn't provide sufficient incentive to negate the obvious program risk of developers becoming dependent on one another gaining consent to trigger the initial phase of any integrated network. This goes to the heart of the issues on securing AI and that some way must be found to alleviate this burden from the developers to allow them to engage positively in relation to the development of integrated networks.

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

EDPR / REPSOL believe it's possible that other parties such as joint industry bodies could come forward with proposals for integrated networks but that the main participants will be OFTO, TO's, NETSO and the Generators themselves. However greater clarity of the role and remit of the TO in those networks consisting of wider transmission AI works and Generator AI works would be a significant step forward.

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?

Essentially there has to be an incentive for this to happen a clear requirement for those assets to be designed in this way allied to a certainty over a longer revenue stream for the TO or OFTO who is operating the assets. On that basis if its accepted that under the existing enduring regime that the asset lifetime of installed plant will be at least equal to the revenue stream associated with them, then why would it be any different for assets required longer term. The disparity between onshore works where that revenue stream and asset cost recovery is spread over 50 years rather than the 20 years for offshore is one specific example.

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?

EDPR / REPSOL would agree that assets that form part of a truly integrated network retain a value beyond the design lifetime of the original Generation facility connected to them and as such are worthy of a longer revenue stream. In that respect they provide ready access to new or repowered Generation plant at a significantly reduced cost when compared to wholesale asset replacement which is a benefit to everyone not least of all the consumer. EDPR / REPSOL would also contend that such assets as a result of the greater system security in relation to the delivery of power whether Renewables or otherwise deliver value to the consumer. It is important to remember that any integrated network assets will have a lifetime in excess of those associated with the original generation plant and this will ultimately result in lower cost of energy for consumers in the future as the assets are re-used by future generation.

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

EDPR / REPSOL believe that all assets that form part of a truly integrated network capable of delivering power to the market are worthy of a longer revenue stream and such be worthy of such. In relation to how they are treated alongside other assets which are deployed we believe revised definition on what constitutes local and wider assets and the extension of a form of MITS to the offshore environment should make the categorisation of the assets plus the security requirements and charging mechanism clear. In the final analysis transparency and clarity in all such matters is what is required to engender confidence.



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

While EDPR / REPSOL do accept that there may have to be a degree of user commitment for Generator driven AI we do not agree that even with the implementation of CMP192 that all such commitment should be the sole responsibility of the Generator. There has to be an acceptance that what a Generator can fund or underwrite may be limited and if in the final analysis the AI is of benefit to everyone in so far as an integrated connection is deemed to be the most economic and efficient then the systems and processes in place should allow it to happen within reason. We accept that further work has to be done on this and that a reform of the charging and securitisation principles akin to the NETSO's proposal could go some way towards restoring a degree of pragmatism and balance to this question.

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

As previously stated we believe that review of the charging regime alongside the clarification of wider and locals assets and what constitutes MITs, alongside a resolution to how DC networks are treated in relation to charging will go some way towards providing an incentivised process for the delivery of integrated networks. We believe that the treatment of offshore assets should be non discriminatory in so far as for integrated assets they should be treated in exactly the same way as onshore assets. We would welcome a further development of the broad principles recently outlined in the NETSO's recent publication on these issues.

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?

In the opinion of EDPR / REPSOL there is a need for clarity in respect of how AI will be treated by OFGEM and that early engagement with developers is an absolute requirement. Such engagement has to be available from a point post offer acceptance, in so far as when a Generator has firmed up its plans in relation to the development of its concept for design of the OFTO network they can achieve some form of sign off on the cost of any pre construction AI works. It should also be made clear how recoverable those costs should be under the enduring OFTO regime, before entering in to a contract for any such works a Generator has to know that he has reasonable prospect of recovering those costs otherwise a developer will be forced to delay or forego the procurement of the works.

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?

At this stage the proposals from OFGEM would serve as the minimum amount of interaction required in our opinion and the earlier this engagement process is available to the Generators or other parties seeking to undertake these works the better. What is required is that the engagement should result in some surety over the cost recovery in relation to the capex expenditure otherwise



there will be a general lack of interest in undertaking the works by a Generator. In terms of the final form of this engagement we have no strong views at this time.

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

Again EDPR / REPSOL have no strong objection to the basis of the criteria as set out in this proposal but we do feel that it should also consider factors such as the need to meet UK and EU targets on climate change and the decarbonisation of energy. The balance between these objectives and the need to protect the consumer from the risk of stranded assets has to be carefully balanced. It should also be considered that the needs of the consumer are best served by insulating them from the vagaries of the fluctuation in the price of wholesale gas by the development of alternative energy. Ultimately what's required is clarity and transparency on the definition of the measures of economic and efficient as applied by OFGEM and how these usurp or not any of the other consideration we have referred to in replying to this particular question.

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

The EDPR / REPSOL view as stated previously is that these stage assessments should be as early and as flexible as possible, that within reason a Generator or OFTO or TO or potential provider of works or services should be able to engage often (and in a focussed way for coordinated networks) with OFGEM and be provided with some surety of their contractual position.

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

OFGEM should provide clear guidelines in relation to the economic and efficient test criteria, or provide a template or model to facilitate the analysis if individual specific cases. Ultimately each case needs to be judged on its own merits inclusive of all the consideration we have outlined in our response to Q16. Further we believe that where commercial confidentiality allow it, for the sake of transparency OFGME should publish their determination of each AI application and a commentary on why the decision was reached in favour or against AI. We believe this will serve to build confidence within the market place in respect of AI and educate all participants on the weight given to each individual are of consideration.

Question 19: 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?

EDPR / REPSOL believe that all information that is available from all parties should be shared as part of the determination process. EDPR / REPSOL further believe that the quality and relevancy of information available will be dependent on the nature of guidance given by OFGEM on the determination process. It's not in the interests of anyone to withhold any relevant information and if a party advocating AI in some form or fashion is aware that certain information is required to make the determination then there is no reason to believe it will not be forthcoming. Transparency is the

key we cannot allow a situation to persist where determinations are held up by a lack of information to arrive at a determination, nor can we persist with a situation whereby information is continuously sought throughout the determination period.

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?

EDPR / REPSOL believe that all parties from Generators to local onshore TO's should be allowed to carry out these works should they wish to do so. We do however believe that without the proper incentives the list of those willing to engage in such works will be limited.

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?

EDPR / REPSOL believe that the answer to this question is the same as that given for Q20.

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?

EDPR / REPSOL believe that an early OFTO build will be attractive to some parties under specific circumstances such as Generator who is apex constrained with a flexible program where they are prepared to allow to confer the risk of delay in delivery over to an OFTO. The fact that the overall works are driven by wider transmission re-enforcements are then a matter for the appetite of the particular OFTO. In our opinion any OFTO who believes he can make a return on those assets he will retain in the operational phase will be interested. The key question will be who owns and operates the wider transmission assets, if it's the OFTO then it's no different for them to any other asset in that he is guaranteed a regulated return. If its handed off to a TO then he has to balance the risk of the transfer value etc in the same way that a Generator build developer has to when transferring it to an OFTO.

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?.

EDPR / REPSOL believe that there are changes that can be made but they would have to be significant, the only incentive in our view at this moment in time for a Generator to undertake such works is to ensure that his project is delivered on time assuming there is a dependency on those wider works for his connection. Currently if there is no immediate dependency on those wider works there is in our opinion no incentive at all for a Generator to undertake these works. At the very least the Generator would have to be indemnified against any risk of not getting the total cost of his capital outlay on such works back.

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?

EDPR / REPSOL believe currently as stated above that the only incentive for the Generator build of wider assets is the minimisation of program risk. We have no real confidence that any other incentive would provide a credible reason for undertaking these works assuming that it would not be permissible to profit from such works.

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

EDPR / REPSOL are not entirely sure that as network developments that in the longer term such a distinction can be drawn. As a system develops and becomes more integrated then in common with any interconnected transmission system apart from deemed connection assets how do you determine which assets are there solely for the Generator and which are part of the wider works. What was previously a radial connection from one point on the system to another could be untimely form part of a shared alternate route to market for another generators output.

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?

EDPR / REPSOL have no strong opinion on this issue but in light of OFGEM’s previous experience in the transfer of assets from one party to another certain principles or precedent must have been established and further guidance from OFGEM in this respect would be welcomed.

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?

The form or intent of this question is not entirely clear to us. On the assumption that the AI issues are resolved alongside the charging and securities questions then it would be incumbent on any OFTO forming part of an integrated network development to provide such assets. If these assets were not provided then it wouldn’t be an integrated network.

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?

EDPR / REPSOL believe that the principles, commercial arrangements, industry codes and licenses should be modelled on the same basis as onshore transmission to allow an integrated network to evolve. We believe that in all respect the treatment of offshore Generator should not be discriminatory in any way that detracts from their ability to connect to the network.

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

We believe that overall a holistic approach to all these issues are required including consideration of the environmental impact, cumulative impact, consenting authorities requirements to investigate all possibilities and demonstrate best option selection, ultimately cost reduction to meet Government targets, and that this will result in reduced development timelines for subsequent projects. Other than this have no other specific consideration to be added to those already highlighted our concern mainly relates to the incentives and mechanism needed to allow AI to proceed in whatever form is necessary to develop an integrated offshore network. in the nearest-term timescale possible (especially to support Round 3, as delivery of the bulk of Round 3 economically could hinge upon coordinated networks. In addition-we should mention the cost reduction that DECC mentioned-£3.5B UK-wide. Most of these savings would come from Round 3)Including consideration of the extension of the revenue stream beyond the current 20 year limit, where at the very least those assets are deemed to form part of an integrated system.