

**Joint developer response to Ofgem's consultation on potential measures to support efficient network coordination**

26 April 2012

Dear Jon,

Thank you for the opportunity to respond Ofgem's consultation published on 1 March 2012. The enclosed statement has been provided jointly by a large number of wind farm developers currently active in the UK market ("the group").

We trust that you find the comments constructive in developing the detail of the regulatory framework for offshore transmission, and look forward to your responses on the issues raised.

The response is copied to DECC for completeness.

Yours sincerely,

**Centrica Energy**  
**DONG Energy**  
**EDP Renewables**  
**Eneco**  
**E.On Climate & Renewables**  
**Fluor**  
**Mainstream Renewable Power**  
**Repsol**  
**RWE Npower Renewables**  
**Siemens**  
**Scottish Power Renewables**  
**SSE Renewables**  
**Statkraft**  
**Statoil**  
**Warwick Energy**

# **Joint developer response to Ofgem’s consultation on potential measures to support efficient network coordination**

## **Introduction**

The group welcomes the publication of the joint DECC/Ofgem Conclusions Report to the Offshore Transmission Coordination Project (“OTCP”) and Ofgem’s consultation on addressing two of the key barriers identified to support efficient network coordination. We recognise the complex task ahead in developing a regime which meets the needs of all network users. Nevertheless, identifying workable solutions to these barriers will be crucial to the success of otherwise of network coordination. We trust that the issues raised in this response are helpful in informing Ofgem’s thinking on these matters.

Given the wide representation of companies that have contributed to this response, it is not appropriate or realistic for this statement to respond to the specific questions raised in the consultation document. These issues will be addressed to varying extents in individual company responses, as well as by other stakeholders. However, the group considers it is both timely and necessary at this point in the development of the regulatory framework for electricity transmission to make a joint-response – timely given this document is the first output following the conclusions of the OTCP and necessary in the sense that it expresses a collective view across developers on key issues.

To provide focus to this statement, points are framed around the six barriers identified in the DECC/Ofgem Conclusions Report. We recognise that the consultation focuses on measures to tackle the first two barriers only (network planning and anticipatory investment), and that mechanisms are in place to address the others. However, given the linkages between the barriers, and in order to provide a rounded response on network coordination, feedback is provided on all six. As a prelude to main body of the response, we would also like to re-emphasise key points which were raised during the OTCP, namely that:

- (i) the solutions put forward should not disadvantage any project compared to their position had they proceeded under a point-to-point approach (including in terms of cost, risks or programme); and
- (ii) existing or impending investment decisions and plans should not be undermined by any new coordination arrangements.

## **1. Planning an efficient and economic network**

The OTCP identified that modifications to industry processes are likely to be needed to enable the NETSO to better identify coordination opportunities, and that this may be better facilitated through reforming network planning documents such as the Seven Year Statement (SYS) and the Offshore Development Information Statement (ODIS).

The group supports the underlying principle of improving the network planning process and any moves to evolve existing arrangements are welcomed. Any changes to the connection process should be progressed through normal industry governance processes to enable due participation

## **Joint developer response to Ofgem's consultation on potential measures to support efficient network coordination**

and process. As part of this, developers should retain the ability to negotiate terms of individual agreements and not have arrangements imposed on them which could affect the commercial viability of projects.

The group supports the principle of reforming the SYS and ODIS. Both of these documents have served a useful purpose, but it is the right time for them to be reviewed and we agree they should be combined into a single network planning statement. Continued separation reinforces a misleading view of the delineation between onshore and offshore transmission, which is not reflective of how the transmission system is expected to develop as the industry moves forward.

However, within the reformed documentation, it will be important to clearly delineate level of certainty of transmission solutions. The offshore transmission connection solutions presented in the ODIS are concepts based on a range of generation scenarios going forward. They do not have the same level of maturity or certainty as those onshore reinforcements being taken forward and identified in the SYS. As such, there should be a clear delineation between contracted capacity and the network scenarios in order to ensure the information presented is clearly understood within the appropriate context.

### **2. Anticipatory Investment**

The OTCP identified that developing a mechanism that enabled parties to undertake levels of anticipatory investment was a necessary pre-condition to the development of a more coordinated approach to offshore transmission. The group agrees with this.

In the consultation, the separate identification of works which are focussed on the connection of individual projects and works which provide wider network benefits assumes that, in the former case all works are secured and in both cases that all affected generators have fully secured their share of the works. This is no better than the existing situation and would represent a continued barrier to AI and therefore coordination. Projects in an early stage of development will not be able to fully secure anticipatory works at the time earlier projects need them to go ahead. As noted in the consultation, the distinction between generator works and wider works is not easy to identify. The regime needs to be able to trigger AI wherever the potential benefits to all parties (and therefore to customers) outweigh the potential (stranding) risks.

While developing coordination and AI for the medium to long term, the group believes that early action is also needed to underpin anticipatory investment in dedicated connections to the small number of offshore wind farms that have not yet reached FID but could have their connections advanced now to permit earlier commercial operation in mid-decade. However, this should not in any way disadvantage or discriminate against early movers.

Clearly further work will be required to develop robust arrangements and the strawman presented in the consultation outlines an initial approach on which individual companies will no doubt respond. At a high level, the group wishes to make two points:

## **Joint developer response to Ofgem's consultation on potential measures to support efficient network coordination**

- (i) in developing detailed mechanisms, Ofgem must not lose sight of the need to appropriately incentivise behaviours and de-risk activities across all stakeholders (developers, transmission companies as well as consumers) if a coordinated offshore network is to help facilitate the connection of renewable generation to meet energy policy objectives, and
- (ii) that any mechanism should provide sufficient levels of certainty such that developers can make investments in full knowledge of risks to that investment.

Furthermore, clear guidance will be required on how Ofgem would implement their test of "economic, efficient and co-ordinated" on a developer's decision whether or not to take forward an Anticipatory Investment connection option. Developers cannot be targeted with stranding risk under charging and user commitment without fully understanding their ability to take forward a lower risk, less co-ordinated solution.

### **3. Consenting**

The OTCP highlighted that there are a number of planning and consenting issues that may act as a barrier to offshore wind deployment.

The group notes the issues identified in the joint statement on these issues and actively supports work to unlock these. The group actively supports DECC's work with other Government Departments, principally DCLG, in identifying and seeking to unlock any consenting barriers to enable anticipatory investment, and will continue to engage as appropriate on these issues. However, any additional planning or consenting requirements which are developed as a result of this work should facilitate but not delay or increase costs for projects where further offshore coordination is not the optimal solution. Further, it must be clear about who is responsible for obtaining consent, the timing of this, the form and scope of the consent and treatment of liabilities associated with this work.

### **4. Risk-reward profile**

The OTCP noted that the existing charging and user commitment regimes do not appropriately cater for the development of a coordinated grid, but that there are industry processes which are the appropriate vehicles for change.

The group fully recognises these industry processes, and members will actively participate in dialogue in due course. It will be important that final decisions resulting from these processes strike the appropriate balance between protecting the needs of consumers and positively incentivising or enabling industry participants to make the necessary investments in transmission infrastructure to deliver the expected volumes of offshore generation over the coming decades.

## **Joint developer response to Ofgem's consultation on potential measures to support efficient network coordination**

### **5. Regulatory boundaries**

A key finding from the OTCP was that there is currently a lack of clarity on the regulatory treatment of assets that involve combinations of onshore reinforcements, offshore generation connections and interconnectors. There is a clear need for the different regulatory regimes to be properly aligned if the benefits of a coordinated approach are to be fully realised, and to enable generators to connect to grid offshore.

### **6. Technology**

The OTCP recognises that technology developments are central to the delivery of effective network coordination, but notes that some such technologies (e.g. 2GW HVDC cables) are not yet commercially available. It is essential that appropriate support is provided to enable technology innovation, and for these technology advances to contribute to reducing the levelised cost of energy over time.

Furthermore, changes will be required for the regulatory framework to properly take account of DC connections. For example, the SQSS will require amendment going forward.

### **Concluding remarks**

This response presents high level views from across developers of offshore projects on the key issues raised in the joint DECC/Ofgem conclusions report to the Offshore Transmission Coordination Project and in Ofgem's consultation document. These are in addition to individual responses provided by signatories to this statement.

We trust that you find these comments constructive in developing the detail of the regulatory framework for offshore transmission, and look forward to your responses on the issues raised.