SCOTTISHPOWER RENEWABLES

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Sent by email only to offshore.coordination@ofgem.gov.uk

Dear Jon,

OFFSHORE TRANSMISSION:
CONSULTATION on POTENTIAL MEASURES to SUPPORT EFFICIENT NETWORK COORDINATION

Thank you for the opportunity to respond to the above consultation of 01 March 2012. I am pleased to submit this response on behalf of ScottishPower Renewables (SPR).

SPR are the UK's leading developer and operator of wind generation projects, and we are involved in almost 9GW of offshore wind development and construction projects in the UK. These include the 7200MW East Anglia zone and 1800MW Argyll Array project both of which are under development. In addition we are jointly developing our transitional West of Duddon Sands (WoDS) project, which is due to enter into commercial operation by 2014. All three of our offshore projects have entered into connection agreements. We have also been proactive participants in the Offshore Transmission Coordination Project group and its 'expert' workgroups. Therefore we have excellent first hand experience of the offshore transmission arrangements and a critical interest in ensuring that the proposed coordination arrangements are 'fit for purpose', developed in a timely fashion but above all support the growth in offshore renewable electricity generation projects that will be required to meet Government's energy policy objectives.

We welcome this work to develop proposals for transmission system coordination as the potential cost savings to consumers are significant and we also acknowledge the commitment shown by all stakeholders to developing suitable arrangements thus far. We believe that in order to maximise the potential cost savings the arrangements should be fully developed and implemented in a timely and considered manner otherwise as more projects pursue point-to-point options the overall opportunity for coordination will reduce.

We have attached an Appendix to this response giving our detailed answers to the questions posed in the consultation. There are a number of key points that we believe are crucial to the success of the proposed arrangements and we have summarised them below to highlight and emphasise them.

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1. In developing the arrangements we should ***retain a focus on the purpose*** **of the offshore grid and arrangements**, which we view as being to facilitate production and consumption of renewable energy to meet Government energy policy objectives. The arrangements themselves are not the purpose but should focus on supporting investment in generation;
2. The coordination arrangements should ***not disadvantage or adversely impact any generation project*** (in terms of cost, risks or programme etc) compared to their position had they proceeded under a point-to-point approach;
3. To avoid creating regulatory and market uncertainty ***existing or impending investment plans should be facilitated and supported*** in the coordination arrangements;
4. Developers may be willing to pursue the 'Generator Build' OFTO option to build offshore transmission assets but this is as a result of the programme impact of the OFTO build option. The arrangements should reflect this and recognise that ***developers may not be willing or able to make investment, undertake construction or commit to onerous or extreme levels of security that are not directly required for their own project***, even with appropriate incentives and protections in place;
5. Developers should ***not be faced with either having to invest in, and undertake, Anticipatory Investment (AI) that delivers wider benefits*** as well as their own requirements ***or wait for it to be undertaken under the OFTO build process*** which is anticipated to add delay to project programmes;
6. Developers require ***high degrees of certainty early on in respect of cost recovery*** for AI work, meaning that the asset design should be fixed early in this process, ideally to coincide with conclusion of connection agreements which act as a trigger for generators to commence further design, specification and procurement of long lead time items. We believe that this can best be facilitated through the appointment of a body with responsibility for overall design and coordination of the network or approval of same;
7. Generators willing to undertake AI with wider benefits should be ***indemnified for their cost and risk associated with the wider investment*** and should be rewarded appropriately;
8. Fair, consistent and transparent ***user commitment and charging arrangements will be key*** to ensuring the success of the coordination arrangements and should reflect the wider benefits provided by achieving Government energy policy objectives and developing an important industry for GB;
9. As a priority, ***arrangements for intra-zone AI should be developed***. With fewer parties and interfaces these should be more readily delivered and provide learning points for the wider arrangements.

We hope you find our comments clear and helpful but we would be happy to discuss them more fully with you. If you would like to do so, please contact me on 0141 568 4748 or at allan.kelly@scottishpower.com.

Yours sincerely,

Allan Kelly
Regulatory Policy Manager
ScottishPower Renewables

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APPENDIX to RESPONSE

SECTION 2: PLANNING AN EFFICIENT, ECONOMIC AND COORDINATED NETWORK

Q 2/1 What are your views on whether:

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

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

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

Above all, we believe that projects that are already well underway and/or have signed connection agreements should not be disadvantaged in any way (cost, risk, programme etc) by network coordination arrangements. However we believe there may be a mismatch in these aims and to alleviate this, the connection process should facilitate the design being fixed early in the process, and only changed where there are clear benefits. We believe an appropriate aim would be for the design to be fixed at or closely after the conclusion of the connection agreements as this triggers developers carrying out further detailed design, specification and procurement of long lead time items. In our view this will require the creation of an overall design coordination role and that the NETSO is best placed to undertake this role. Further, we believe that the time allowed for the production of connection offers will need to be extended to allow the design to be fixed at this stage.

In addition, 'ModApp' requests should not be used to introduce coordination requirements that adversely impact on generation projects.

Whilst there may be perceptions amongst some in industry of a conflict of interests with NETSO's other business interests we believe that this can be managed easily by the use of appropriate confidentiality/non-discrimination provisions and application of appropriate incentives to the NETSO.

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

We support development and refinement of arrangements that prove more effective and useful for developers and OFTOs and the proposals for a reformed network planning document meet this aim. However, we must be careful to ensure that any new documents are not presented or viewed as a blueprint of, or strategic plan for, the required system as this could prejudice generation projects' consent outcomes. In addition, wide consultation should be undertaken to inform the form and content of the documents initially and on an ongoing basis.

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SECTION 3: ANTICIPATORY INVESTMENT

Q 3/3 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?

These seem to cover the main areas and as initial proposals we assume that Ofgem anticipates that the pre-construction activities listed are not a prescriptive/exclusive list of types of work that would be classed as AI. Also we hope that the scope of works forming AI can be viewed on a project by project basis as necessary.

Q 3/4 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?

In developing the arrangements a focus should be retained on the purpose of the offshore grid and arrangements, which we view as being to facilitate production and consumption of renewable energy to meet Government energy policy objectives. The arrangements themselves are not the purpose and so should focus on supporting investment in generation.

Q 3/5 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?
Q 3/6 Do you envisage that changes to industry codes and licences are necessary to enable the connection offer process to identify AI?
Q 3/7 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?

We believe that the requirements should be formalised and finalised through the connection process (which should include any post agreement discussions or modifications) but that the NETSO should initiate early discussions about AI opportunities with any interested parties even if this requires them to do so outwith the connection process. This is likely to require changes to codes and licence obligations including in respect of confidentiality provisions.

Offshore generation projects are commercial projects where considerable capital investment is made at considerable risk which clearly requires appropriate levels of returns to investors. The planning and consenting and grid application processes mean that there are potential competitive advantages to 'early movers'. The loss of these potential competitive advantages would be a serious concern for developers that would threaten cooperation between competing developers.

Q 3/8 Are there other parties that should be able to identify opportunities for AI?

We believe that the three categories of party proposed by Ofgem are appropriate. In addition, affected developers should also be involved in any NETSO assessment of the nature of benefits derived from AI.

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Q 3/9 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?
Q 3/10 What are your views on whether a longer revenue stream for assets that have wider network benefits could create better value for consumers?
Q 3/11 What are your views on the best way to deal with possible interaction between assets with differing lengths of tender revenue streams?

In our response to the enduring OFTO consultation we advocated that longer revenue stream periods should be allowed as part of the OFTO tender process and where specified by the generator. Accordingly we believe that to derive maximum benefit from coordinated network arrangements – as a result of providing greater certainty over costs and interfaces and reducing the administrative burden - AI revenue streams should be set to reflect the anticipated life and usefulness of the assets to be delivered under the AI proposal.

We recognise the complexities and difficulties this might present in the circumstances identified and also in circumstances where different, but interdependent, assets are delivered under different tender processes at significantly different times. We believe that in these circumstances the revenue stream terms should be aligned in such a way that the generator is not disadvantaged compared to the position in which they would have been had their sole assets been subject to their preferred revenue stream term. This could either be achieved by insulating the generator from any residual costs following the termination of their use of their sole assets or by setting the revenue stream term for the wider assets at the lower/lowest of the required revenue stream terms, with options set out in advance for the term being extended.

Revenue streams may not reflect design life and the practical extended life of well managed assets and OFTOs could consider modelling reasonable terminal values if they have short, 20 year, revenue streams. This could allow for the ongoing extension of an OFTO licence or transfer from the initial OFTO to a subsequent OFTO at an agreed terminal value.

Q 3/12 Do you agree with these high-level user commitment and charging principles for AI?
Q 3/13 What areas of the transmission charging regime may need to change to facilitate AI in the offshore transmission network?

We believe that the arrangements for user commitment and access charging are key to the success of coordination arrangements and warrant significant further consideration and development by industry to ensure that transparent, robust and consistent arrangements are developed that are effective in an offshore context.

The general principles listed in the consultation seem clear. However, the development and programme risks faced by offshore generators are such that having to secure the full extent of AI from which they benefit and subsequently pay for it is likely to present such a risk and barrier to investors that many developers are likely to pursue a non-AI option even if this ultimately delivers lower overall value and benefits.

Ultimately consumers will benefit from achievement of Government energy policy objectives partly through the growth of offshore renewables (which is likely to be more fully facilitated by AI) and from increased security, reliability and diversity of supply arising from the enhanced transmission network. Thus developers should not always be expected to underwrite and pay

for all offshore generator driven AI although we acknowledge that it is appropriate that some – albeit dilute - economic signal should be given to such generators.

Where a generator has to undertake AI with wider benefits they should be totally indemnified for their costs and risk associated with the wider investment and they should be rewarded for undertaking and financing the AI, at least in respect of their financing costs.

With regard to transmission charging we believe that the most obvious impact on the charging methodology arises from more of the offshore network being classed as shared infrastructure rather than local assets. This will not only affect the allocation of costs and cost reflectivity of charges but also the NETSO's cost recovery methodology in respect of the G/D split (which has already been the subject of considerable debate during the TransmiT project).

Q 3/14 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?
Q 3/15 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?

Developers require high degrees of certainty early on in respect of cost recovery for preconstruction and construction works. Although undue regulatory and administrative burdens should be avoided, developers' needs for early certainty in respect of cost recovery warrant a more transparent, robust and firm approach to cost assessment than is in place under current OFTO arrangements, especially where AI delivers wider benefits and is not driven purely by the specific generator.

The robustness and appropriateness of the proposed two stage assessment process will depend on the detail and firmness of cost assessment decisions issued. At each milestone stage in the development process developers should be given certainty over the level of costs that they will be able to recover for work that has yet to be undertaken along with confirmation of the actual level of costs they will recover for work that has already been undertaken. Where the assessment is forward looking any sensitivities should be clearly stated and fixed and the factors that may change the assessment should be limited to those at the extremes.

An early first stage assessment to identify whether the costs of AI pre-constructions works will be allowed is appropriate and should be undertaken even if the project has passed this stage prior to the introduction of this policy. Where feasible, this assessment should also give a firm commitment on the level of such costs that the developer can expect to recover. If this is not possible then we suggest a further assessment stage should be included through which developers can be given this required level of cost recovery certainty, especially for AI that delivers wider benefits and is not driven by the specific offshore generator.

We are concerned that the proposed Process Step 3 appears to suggest that where AI will deliver wider benefits as well as generation project specific benefits the decision on who should undertake this work will be made as part of the process rather than as a reflection of the developer's business needs. Developers should not be faced with either having to invest in, and undertake, Anticipatory Investment (AI) that delivers wider benefits (as well as their own requirements) or wait for their requirements (along with the wider works) to be undertaken under the OFTO build process - which is known to add delay to project programmes – or another build option.

Q 3/16 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 appropriate but we believe that fuller consideration should be given to the impact on developers ie the impact on the developer's user commitment and transmission charges. In addition, the 'Needs case' should also consider the benefits arising from achieving Government energy policy objectives. Further, we believe that a realistic approach to allocation of risk should be adopted for the reasons noted in our answer to Q 3/12 above: developers already face considerable risk that is likely to mean they may be unable or unwilling to assume further risk of AI even if this benefits them directly as well as provides wider benefits. Ultimately consumers will benefit from achievement of Government energy policy objectives and so this should be reflected in the assessment criteria and process.

Q 3/17 What are your views on the appropriate timing of the possible Ofgem assessment stages?
Q 3/18 What information should in your view be provided as part of any published guidance that supports AI approval?

As noted in our answers above, a developer needs a high degree of certainty as early as possible in respect of cost recovery, including for pre-construction works as the sums involved in this work are significant. We are very aware of the interaction of this with the design and consenting phases of projects and note Ofgem's suggestion that the generator should maintain flexibility in consenting applications. Generators generally try to do so to allow windfarm designs to accommodate stakeholders' concerns and technical and commercial developments. However, often consenting authorities are resistant to such an approach - this is an issue that needs to be addressed in developing suitable and workable coordination and consenting arrangements.

We recognise that it is challenging for early certainty on cost recovery to be given as the information available at early stages will be limited. However in addition to the information proposed by Ofgem, a clear statement of the general principles to be applied, together with examples derived from up to date case studies, would be of help to developers. In addition, it may be appropriate to carry out more frequent cost assessments timed to coincide with key development milestones which are likely to be an appropriate stage to provide greater certainty on costs incurred and costs expected to be incurred in the next phase of development.

Q 3/19 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?

Where information is identified that will aid the AI cost assessment process then, subject to commercial confidentiality provisions, this should be made available. The example given (information from NGET on connection offers made that include AI) is appropriate.

Q 3/20 What are your views of the different options for who should undertake pre-construction works for assets that are driven by wider network benefits?

As noted in our answers above, we believe that developers should not be faced with either having to invest in, and undertake, Anticipatory Investment (AI) that delivers wider benefits (as well as their own requirements) or wait for their requirements (along with the wider works) to

be undertaken by another party under another process. Of the approaches suggested we think that these should only be considered if the developer agrees that wider AI should be undertaken. If not then the developer should be allowed to proceed with their preferred option for provision of their offshore assets.

Where the generator agrees that wider AI should be undertaken, ideally they should undertake it themselves as we believe the other options suggested add complexity and risk, and probably time, to the overall process.

Q 3/21 Could OFTOs potentially have a role in undertaking pre-construction works for assets significantly driven by wider network benefits? How might this work?

We struggle to see how this might work without adding complexity, administrative cost and delay (associated with tendering and/or commercial negotiations surrounding the work). In addition we believe this might give the OFTO an unfair competitive advantage over competing OFTOs in the subsequent OFTO tender process.

Q 3/22 Do your views of the attractiveness and feasibility of an early OFTO build option differ for assets that are driven by wider network benefits?

No.

Q 3/23 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?

Where the developer's own works are reliant on the wider AI works we believe that this is an adequate incentive for the developer to progress and complete the AI wider works. We also believe that appropriate protections for developers to encourage them to undertake wider AI are as important as incentives. As noted earlier, developers undertaking wider AI should be totally indemnified for their costs and risk associated with the wider investment and they should be rewarded for undertaking and financing the AI in the same way as a consultant or contractor would be.

Q 3/24 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?

Developers are willing to pursue the Generator Build OFTO option in the absence of a build option that aligns with their own project programmes. We are concerned with the suggestion that where wider AI is justified the developer should have to undertake this work or wait for their requirements (along with the wider works) to be undertaken by another party under another process. As noted in our answers above, we believe that developers should not be faced with this ultimatum and so, in our view, only where the developer agrees that wider AI is justified should it be allowed to proceed, either as Generator build or under another option. Subject to this, and as also noted in our answer to Q 3/23 above, appropriate protections and incentives will be required to encourage developers to undertake this work otherwise they are unlikely to be willing to undertake it.

Q 3/25 What are your views on how any distinction between "offshore generator focused" and "wider network benefit" assets should be made?

This is a challenging aspect of this area of work and the consultation and we feel it warrants a workgroup to take it forward, considering any parallels there may be with current onshore policies. However, in general high level terms, we believe that only intra-zonal AI should be classed as offshore generator focussed, with any other form of AI requiring an objective assessment of the classification of the elements of the work required. This assessment should only be made with the full involvement of the developer.

Q 3/26 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?
Q 3/27 What changes may be needed to support the process? What would be the impact of requiring an OFTO to hold assets for future generators?
Q 3/28 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?

The developer undertaking AI that delivers wider benefits should always be able to recover their full costs associated with this work, on completion of the works and transfer of the works to the successful OFTO. Thus we feel that the assets should always be transferred to an OFTO rather than being retained by the original developer or being transferred to another developer or generator under commercial contractual arrangements between the parties. In this case, OFTO tender processes for the subsequent generation development(s) should address the use of and/or transfer of the relevant assets. It may not be appropriate for assets to be shared but instead for the initial OFTO to have to provide access to, and use of, the assets to subsequent generators/OFTOs under a service agreement between the parties. We believe that the use of commercial contractual arrangements between developers/generators should be avoided as they are likely to prove difficult to put in place, in timeframes or terms that are consistent with either party's project requirements.

Q 3/29 Are there any other issues with shared assets that need to be considered?

Subject to a decision as to whether assets should be classed as 'shared' if they are classed as such then there are likely to be issues associated with cost allocation and charging for them, determining availability levels and performance credits and liabilities and decommissioning obligations and liabilities etc.