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Dear Jon

Offshore transmission – Consultation on potential measures to support efficient network coordination

We welcome the opportunity to provide our views on the potential measures to support efficient network coordination set out in the above consultation document. We have to date been fully involved in the offshore transmission co-ordination project through the OTCG and its working groups, and our responses to the specific questions raised in the consultation are set out in the annex to this letter.

However, we would also like to highlight that this consultation on co-ordination measures is one of several developments in the UK electricity industry that together make this a very opportune time to consider the future governance, incentivisation and ownership of NETSO. The other developments include:

- The proposals coming from the Electricity Market Reform exercise;
- The Integrated Transmission Planning and Regulation (ITPR) project including its review of NETSO's role in relation to effective system planning onshore, offshore and across borders.
- The increasing need for interconnection between the UK and the rest of Europe and the move towards a more regulated model for interconnection;
- The growing number of TOs in the UK electricity market both through the OFTO process and owners of potential new interconnectors;
- The prospective introduction of competition in onshore transmission as part of the RIIO process.

We also understand that DECC and Ofgem are conducting a review of the conflicts of interest NETSO might have in relation to its role in EMR. We understand that this review should also be cognisant of any potential conflicts of interest highlighted by the review of NETSO's role under ITPR. In addition we would expect additional potential conflicts of interest could arise from the increasing number of TOs with which NETSO will need to interface, many of which will be competing with NETSO affiliates, and from the need for NETSO to represent these TOs through ENTSO-E.

Measures taken to improve co-ordination could give rise to similar potential conflicts of interest as outlined above, and should be taken into account in the DECC/Ofgem review when considering the governance, incentivisation and ownership of NETSO.

We are happy for this response to be made available on the Ofgem website.

Yours sincerely

Chris Veal
Managing Director

Encl.: Annex 1 – Response to Specific Questions

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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 would consider that the connection process itself is not necessarily the problem. In our view NETSO should be responsible for deciding the High Level Design[1] of an efficient and coordinated onshore and offshore network. Thus they would undertake some of the onshore planning function currently undertaken by TOs along with offshore planning. It is important that once a connection offer has been accepted, the parts of this High Level Design that are required to be completed prior to connection of the generation do not change (unless such changes can be achieved without adverse impact on the affected generators). We also consider that NETSO should have a role in ensuring a suitable degree of standardisation, for example through the industry codes such as the Grid Code or STC.
b) the NETSO needs further powers to develop an efficient network?	We have not carried out a legal review of industry documentation to determine whether NETSO would have sufficient powers under the current arrangements.
c) there are any barriers to the NETSO taking on an enhanced role in network development?	We do not see any barriers as such but would consider that if NETSO has an enhanced role it would give rise to the requirement for greater business separation arrangements between NETSO and the rest of NGET to ensure that NETSO has the correct incentives in planning the network.
Question 2: Do you agree with the proposed objectives for a reformed network planning document? Would other changes be useful?	We agree that the SYS, ODIS and ENSG 10 year plan should be merged into a single 10-year document containing credible scenarios upon which wider system works are based. However, this document should still retain details on the committed contractual background so that potential connectees can understand the likely conditions they will see in their connection offers in respect of local works. We note that local issues can be difficult to predict at present as there is often little or no information available regarding how offshore wind farms are connected.
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?	Yes.
Question 4: Do you agree with our initial proposed objectives and regulatory design principles for an approach to AI? Are there	Yes we consider these to be a sensible set of principles and in particular we consider it vital that the principles build on the existing offshore regulatory framework so as to retain the benefits of competition and to minimise

[1] By High Level Design we mean the topology of the network, required asset design life, the capacities of each circuit element of this topology and the voltage at the interface (level and AC/DC), plus a description of any Anticipatory Investment required to be performed by the generator.

some which you see as more important than others?	disruption in implementation.
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 one platform for identifying AI opportunities but it should not be the only such platform. Having said that we recognise that it is the most appropriate platform for NETSO to communicate generator led AI designs to the generator who is then expected to obtain consents for these designs as part of his overall project development. We would consider that only AI works that are clearly to be carried out by the generator should be specified in the connection offer as works to be carried out by the generator. AI that might be carried out by others (e.g. for pre-construction works the onshore TO, OFTO, and for construction works the OFTO if <20% of incremental capex, or else as determined by competition) should be listed in the connection offer but marked as to be delivered through a different route. AI opportunities could also be identified by NETSO in its wider planning role, for example if a bootstrap type project was required, it could, in theory at least, be formed by linking two offshore wind farm connections. This might not be as a result of a single connection application.
Question 6: Do you envisage that changes to industry codes and licences are necessary to enable the connection offer process to identify AI?	We have not carried out a legal review of industry documentation to determine what changes to industry codes and licences are necessary to enable the connection offer process to identify AI.
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?	Yes. It is clear from previous examples (e.g. Humber Bank & Westernmost Rough) that generators do not co-operate in respect of grid connection issues. Where works are required in order to benefit more than one generator it is clear that it cannot be left to a single generator to perform these works – under these scenarios an independent third party should carry out the works (e.g. the onshore TO or a suitable OFTO in respect of pre-construction and an OFTO in respect of construction works).
Question 8: Are there other parties that should be able to identify opportunities for AI?	In general we consider that any party should be able to identify opportunities for AI but that these should go through an approval process by Ofgem and/or NETSO (see response to question 14).
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?	There are several options which Ofgem could use to ensure that assets that provide wider network benefits are designed, constructed and operated for a longer asset lifetime. In our view these assets should be provided by third parties (OFTOs) through a competitive tender process and under this model the options include a combination of: i. Making the extended design life a tender requirement that would then flow through into the TOCA between the successful OFTO and NETSO; ii. Giving the OFTO a longer revenue period (to

	match the extended design life) – under this scenario we would recommend that the regulatory asset depreciation period should be set up front by Ofgem, and from year 21 onwards the OFTO would be allowed to recover a regulated rate of return on capital employed plus opex cost recovery (i.e. akin to the RIIO model) – this would retain the benefits of competition without placing long-term cost risk on the OFTO; iii. Making it clear that should major asset replacement be required prior to the end of the asset design life that this would not be funded through additional revenues under the existing OFTO licence and if the existing OFTO failed to carry out the asset replacement it would trigger the energy administration regime.
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?	See response to question 9 above. In general we consider that a longer fixed price revenue stream would not produce better value for money for consumers given the cost risk that it would place on the OFTO in requiring them to commit to O&M and insurance costs over a term longer than 20 years.
Question 11: What are your views on the best way to deal with possible interaction between assets with differing lengths of tender revenue streams?	One of the benefits of NETSO having overall High Level Design responsibility would be that it could specify the required asset design lives of various network components. This is key to ensuring that the correct assets are built in the first place. Different initial lengths of tender revenues streams should not be a problem so long as there are clear mechanisms to deal with what happens at the end of the initial tender revenue stream period. As described in our response to question 9 above, some form of RIIO extension might be appropriate.
Question 12: Do you agree with these high-level user commitment and charging principles for AI?	In general we agree with the high-level user commitment and charging principles. We have some detailed questions which we shall seek to address in bilateral discussions. We also consider that there may need to be some special arrangements for smaller projects, for example for newer offshore technologies (wave & tidal), which may be less well placed to provide significant user commitment.
Question 13: What areas of the transmission charging regime may need to change to facilitate AI in the offshore transmission network?	Before assessing the possible need for changes to the transmission charging regime it would be helpful if more information was made available on how the current charging arrangements would work with AI and Ofgem's interpretation of the "cost reflective charging principles" referred to in Table 2. For instance if a 1000MW cable is built that initially only connects 500MW does that user always pay half of the OFTO's charge (with the other half being socialised) regardless of what other users eventually connect? And if a further 500MW user connects to the cable after (say) 5 years does he pay the same as the first user, including a reduction in tariffs after just 15 years when the OFTO's fixed-price period ends?

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?	Yes, we agree that the generator should be given approval on the need case for the AI work prior to carrying it out. With respect to who gives this approval we note that the straw-man model has Ofgem doing this. We would consider that in the case of pre-construction AI works NETSO should have the information and the correct incentives to do this – providing there is suitable business separation in place and/or the proposed AI isn't something that would replace work that would otherwise be undertaken by NETSO's affiliated onshore TO. This would avoid placing an additional burden on Ofgem in approving the need for relatively low levels of spend. Ofgem would only need to review the efficiency of spend at cost assessment prior to transfer to an OFTO.
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?	As contained in our response to question 14, we would consider that there should be a need case assessment pre-carrying out of the AI works, and an efficiency test post completion of the AI works. We would consider that generators should be required to go through the relevant gateways – this will then avoid situations where work is carried out for which need cannot be demonstrated or where a third party should instead be performing it.
Question 16: Do you agree with the proposed high-level criteria for use by Ofgem if considering whether AI would be economic and efficient?	Yes.
Question 17: What are your views on the appropriate timing of the possible Ofgem assessment stages?	In general we agree with the information that would need to be available in order to carry out, as appropriate, the assessment for pre-construction and construction AI works. We would consider that within the constraint that Ofgem is provided with the appropriate information, it should be up to NETSO and/or the generator as to the right time to approach Ofgem – this could be agreed in the connection agreement. For AI that is not to be delivered by the generator, NETSO should decide when to approach Ofgem for approval. It should be recognised that generators may be unwilling to develop transmission assets with an AI element if they feel that there is a material risk that an AI design that is approved at the connection offer stage (Stage 3 in Figure 3) is then blocked at the pre-construction stage (Stage 4 in Figure 3) requiring the entire design to be changed and new consents to be sought, with the whole wind farm being delayed by many years.
Question 18: What information should in your view be provided as part of any published guidance that supports AI approval?	We agree with the information set out in para 3.50 of the consultation document.
Question 19: Should there be additional requirements to share information with Ofgem to help streamline Ofgem's assessment	Developers and NETSO seeking approval for AI arrangements are already incentivised to properly present evidence making the case for their desired grid development approach. It is unclear what additional data

of AI for project? What information should be included?	can usefully be required.
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?	We agree with the range of options presented in para 3.56 of the consultation document and also that options 2 and 3 best meet the design principles for wider network AI works. We would extend this to include all AI works which affect more than one generator for the reasons set out in our response to question 7 above. We would have a concern if as an OFTO we were requested to carry out pre-construction AI works, that then meant that we were either prevented from bidding for the construction AI works, or had to put in place business separation provisions in order to bid for those works.
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?	As an OFTO we would be prepared to undertake pre-construction works (and have the capability and experience to do this) but only if our concerns outlined in our response to question 20 above were satisfactorily resolved.
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?	Not really – we still consider that it would not be possible to run a fixed price tender for any construction works at the "early OFTO build stage". The only possible exception to this is for works that are required for wider grid reasons (i.e. not subject to delay if generator projects are delayed) *and* which do not come ashore at all and hence have extremely low consenting risks (e.g. a connection between two offshore platforms). However, preconstruction works should be relatively small for these types of project and therefore the gains of having an OFTO carry out the pre-construction works are still likely to be outweighed by losing the benefit of a competitive late OFTO build competition.
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?	As stated above we do not believe that generators should be allowed to undertake these works. Generators have only been allowed to complete their own grid connections because of the certainty they have required that these works are completed on time. We do not believe that this is a model that should be extended to non-generator specific connections. There are clear conflicts of interest – for example if a generator's own plans were delayed it would lose the incentive to complete the wider works on time, potentially dis-benefiting other generators or reducing security of supply.
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?	We consider that the OFTO build option should be the only option for assets that have wider network benefits.
Question 25: What are your views on how any distinction between "offshore generator focused" and "wider network	Anything that is not a radial connection to a single generator should be classified as providing wider network benefits. We consider that a consistent approach to this

benefit" assets should be made?	classification could be gained by using the TNUoS charging/user commitment arrangements – i.e. if a piece of network is being committed to or paid for by more than one user then it is a wider use asset. In the examples given in Figure 4 of the consultation document we would consider that all the dotted lines would be classified as providing wider network benefit. In addition we would also consider that the 1.5GW HVDC connection in case 6 should also be considered as providing wider network benefits. This would be consistent with the TNUoS charging user commitment arrangements. Also we do not believe that the further offshore users would want to be dependent on the nearer generator building the connection for many reasons, including that stated in our response to question 23 above.
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?	We do not believe that commercial contract arrangements are sensible as it requires generators with competing projects to negotiate and agree with each other which we do not believe will lead to efficient outcomes. Past experience (see answer 7) confirms that such arrangements are impractical. Pre-construction works which serve more than one user should be carried out by the onshore TO or another third party (which could be a suitable OFTO) and the costs of these works should be recovered from NETSO upon transfer to a successful OFTO.
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?	We do not think that an OFTO would be required to hold assets for a future generator as these assets would always ultimately be transmission assets and therefore ultimately will be owned by OFTOs. There may be a scenario where an onshore TO or an OFTO holds assets that a generator will want to use during construction prior to the transfer of constructed assets to an OFTO. We would consider that suitable contractual arrangements could be put in place to support this – for example the onshore TO or the OFTO could hold these assets on trust prior to eventual transfer to an OFTO.
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?	Again we would consider the best way of dealing with this is not to have shared assets built by a generator.
Question 29: Are there any other issues with shared assets that need to be considered?	See above.