

Offshore Transmission – update on regulatory options

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#### Contents

- Background: aim of project
- Re-cap of initial options
- Our current thinking
- Way forward



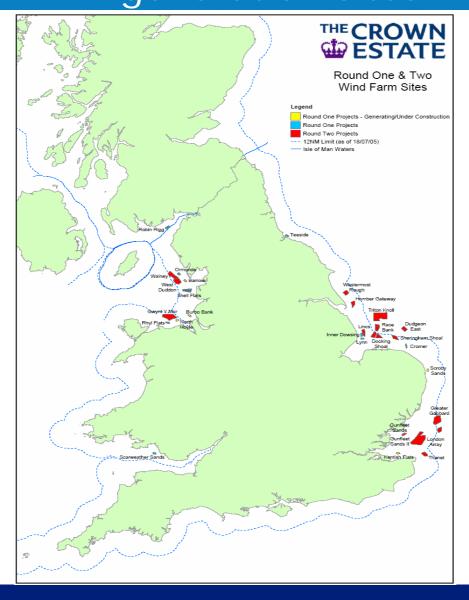
### Background: aim of project

- To institute a regulatory framework and design price controls
- Powers derive from Energy Act
- New area of "network" regulation

# Background: existing and planned generation sites Promoting choice and value for

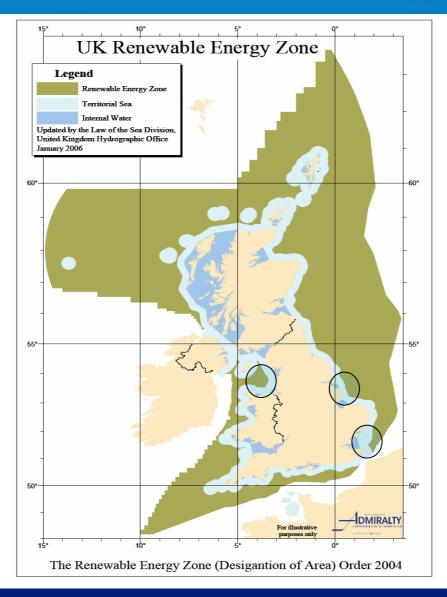


Promoting choice and value for all gas and electricity customers



# Background: the REZ Ofgern Promoting choice and value for all gas and electricity customers







#### Background: particular characteristics

- Radial connections (largely) with no demand customers
- No existing regime/incumbents/infrastructure
- 100% load related capex investment



#### Options for implementation – July OTEG

Extension of Onshore Arrangements to adjacent areas

The current 3 TO onshore zones are extended offshore - in practice this results in a single TO (National Grid) actually operating offshore (for Round 1 and 2), although future Rounds for wind or wave and tidal are likely to result in the other TOs starting operations.

2. Single Offshore Zone (1 TO)

A competitive tender is held for a single offshore zone, awarded to one TO (in perpetuity).

3. 3-5 Zones (competitive tender)

Between 3 and 5 zones are established within the Strategic Areas and a competitive tender is held for a TO licence in respect of each zone (resulting in between1 and 5 TOs).

4. 3-5 Bundles of Lines (competitive tender)

A competitive tender is held for 3-5 'bundles' of generating stations located in close proximity to each other (resulting in between 1 and 5 TOs).

Distribution Model - many TOs

A number of TO licences are granted (using existing applications route) for a single offshore zone, developers then (jointly or individually) hold a competitive tender amongst licensed TOs to supply their grid connection.

Point to Point - many TOs

Developers hold a competitive tender to prospective TOs to supply the grid connection, the winner then approaches Ofgem for a TO licence via application.



#### Our current thinking

- Moving from theory to reality
- Led to two broad approaches:
  - 1. Exclusive:
  - 2. Non-exclusive:
- Focus to develop workable option for each approach
- Difficult problem no natural fit
- Used onshore as basis of the two approaches
- Aim is to get approaches refined enough so we can consult on two tangible options

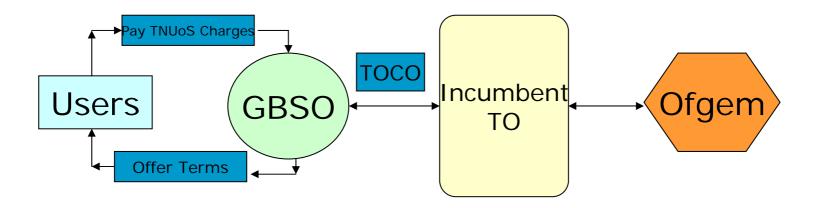


#### Exclusive licences

- Single TO would be exclusively responsible for a defined geographic area
- Number of ways this could be done ultimately a somewhat arbitrary approach
- Suggest competitively tendered regional monopoly zones
- Has potential element of competition
- Multi-zones allows possible benchmarking
- Discretion in future award of licences in other areas

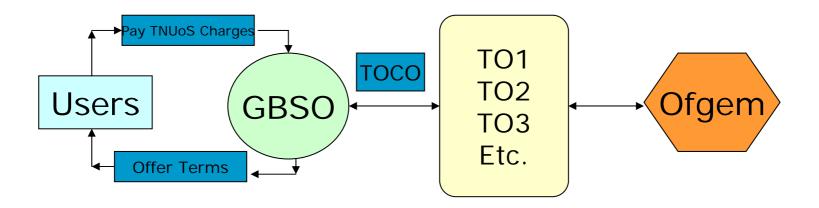


# Conceptually – exclusive licences





#### Conceptually – non-exclusive licences





## Non-exclusive licences - changes

- TO licenses issued to any party which applies and meets the application criteria
- After application from generator, all offshore TOs have the right to submit a TOCO
- Bids can be for single / multiple applications
- TOs bid revenue stream
- Winning TO gets price control
- Impact:
  - Generators: minimal change
  - TOs: must bid for work
  - Customers: share risk, share reward





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