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Dear John

Response to the Consultation Document 06/1952 Licensing offshore electricity transmission – a joint Ofgem / DTI consultation

Thank you for the opportunity to respond to this Consultation Document. The successful development of offshore wind is essential if the UK is to meet its targets for renewable energy. We therefore strongly support moves which will facilitate connection of offshore projects. You will see from our responses to the specific questions that we are in favour of Option 2. This approach, we believe, will benefit from effective co-ordination of projects within each area to ensure efficient solutions, delivering maximum MW, in the shortest possible timeframe.

There is another, significant, advantage of Option 2. As part of the wider review of the Renewables Obligation, changes are being considered which will help stimulate build of offshore wind by improving their commercial prospects. These changes could in themselves however be damaging where significant alterations to the current scheme could erode investor confidence. It would, however, be possible to limit the magnitude of change if grid costs were to be "socialised", ie. those costs over and above standard onshore costs are spread amongst other users. Government's powers to limit grid charges could be invoked through Option 2, and we urge Ofgem to make this a key consideration when considering the respective merits of the two options.

This response is submitted on behalf of the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

Chapter 2 Question 1 Which option do you favour and what are your reasons for doing so? Do you have any views on any aspect of our intended approach under each option?

ScottishPower's preference is for Option 2, the "exclusive multi-zone approach" as we do not believe that Option 1 will deliver the most economic solution where multiple applications are being addressed in a single geographical area. Only by co-ordinating planning and development through a single transmission operator can consistent engineering standards and economies of scale be achieved to assist the viability of offshore renewable schemes and maximise the amount of renewable development.

Question 2

Do you think that the approaches which have been ruled out should be considered further and are there any other options or approaches that should be considered?

The "generator tender approach" under Option 1 would further fragment the development of offshore connection assets making it less likely to achieve economies of scale. However, generators should be actively involved in the tender assessment process. Extension of the three existing onshore licences would be discriminatory due to the arbitrary nature of the areas assigned to each existing licensee.

The "one zone" approach would create a single monopoly operator and prevent new operators entering the market thus reducing the scope for innovation and the introduction of new technologies.

Question 3 Should anything further have been taken into account in assessing the options?

No.

Chapter 3 Question 1

Could providing anything further, beyond the comfort already provided by Ofgem, be justified for projects that will be constructed or have secured financial close prior to the award of offshore TO licences?

Developers of projects within Rounds 1 and 2 continue to have major concerns over the adoption of assets constructed before the introduction of the new regulatory arrangements. In particular, as highlighted in our response to Question 2, the absence of clear connection standards provides no guidance on the adoption tests for economic and efficient construction and fitness for purpose. Additional comfort is required for the projects identified in Tables 1.1 and 1.2 to enable these projects to proceed to financial close.

Question 2

Would a departure from Ofgem's current approach to the adoption of assets be justified or would different treatment be unduly discriminatory?

Developers require clear guidance on the connection standards to be met to guarantee that assets constructed will be adopted by offshore transmission licensees. Definition is required on the tests of economic and efficient construction of assets together with the demonstration of fitness for purpose. Developers should be comfortable that constructing assets against such standards will ensure subsequent adoption by the offshore TO. In the absence of such adoption standards, a mechanism to allow economic and technical assessment of proposed connection assets by Ofgem prior to construction could provide the necessary assurance that assets were suitable for adoption. Any approach which goes beyond this could be construed as discriminatory to subsequent connecting parties.

Question3

What are your views on the potential costs to TOs of bidding to build, own and operate offshore assets? Do you have views on how such costs might be minimised?

Use of Option 2, "exclusive multi-zone approach" would minimise costs of bidding by pre-selecting the TO for each geographic area. Where possible, costs such as seabed surveys, should be shared during the bidding process. With the preferred operator having demonstrated their ability to deliver the connection assets in the most economic manner, no further bidding rounds would be required thus minimising costs.

Question 4

Do you believe there is a risk of lack of co-ordination that is specific to the nonexclusive approach? If so, how serious a problem do you believe this is? To what extent could the suggested measures or any other measures mitigate such a risk?

Yes. There is a major risk that the lack of co-ordination with the non-exclusive approach will deliver less economically sound connection assets including duplication and unnecessary levels of redundancy. Of particular concern is the potential lack of co-ordination in the routing of subsea cables resulting in duplication, unnecessary cable crossings and limitations in the available routes. In the worst case, this could jeopardise the viability of offshore renewable developments and result in a failure to meet the Government's renewable targets.

Question 5

Is it appropriate to allow generators to bid to provide their own transmission services, in particular in the light of any potential moves towards unbundling at an EU level?

Under Option2 there should be no requirement for a generator to bid to provide its own connection assets as the successfully tendering TO would be obliged to provide a connection offer. However, while not desirable, a generator should be allowed the option of providing its own assets where no TO emerges to provide them to ensure that offshore renewables are developed to the greatest extent.

Question 6

How can confidence be built that the tender process can be run transparently and fairly and to what extent can the proposals outlined in this chapter ensure this?

Due to the potential conflict which would arise if National Grid as GBSO was to evaluate tenders including ones from its transmission operator business it would be necessary for the process to be overseen by an independent tender panel which could not include representatives of any of the tendering parties. This will prove difficult as panel members will require considerable specialist industry knowledge and is another argument in favour of Option 2.

Question 7

Is it appropriate to have certain defined re-openers in a fixed-price bidding system?

If re-openers are not provided in defined circumstances then bidders will be forced to include a premium for uncertainties arising from changes, such as regulatory or legislative changes, which are outwith their control. Such a premium could result in projects failing to meet economic hurdles and not progressing to construction.

Question 8

How should the geographic extent of exclusive regional licence areas be defined? What is the appropriate balance between obliging exclusive offshore TOs to assume unknown levels of risk and the need for wider geographic area to ensure a TO is available to connect generators? Is it appropriate to make available three offshore TO licences that cover the three strategic areas and to leave the remainder of the offshore area unlicensed until the need for new licensees arises?

As discussed at Chapter 2, Question3, it would not be appropriate to extend the existing three TO licences. The geographic extent of licences and the anticipated output (in MW) should be determined as part of the process of leasing offshore areas for renewable development thus allowing offshore licensees to expand the extent of their offshore commitment incrementally as their experience (and the confidence of their investors) develops.

Question 9

On what basis should competition for offshore exclusive TO licences be run?

Under both Options the full extent of the commitment by the offshore transmission licensee will not be certain at the time of bidding although the potential total output should be known (see Question 8 above). In order to provide an objective means of comparison, bidding licensees could be asked to tender for a fixed "basket" of assets determined in advance by the independent tender panel and representative of the expected scale of development in each geographical area. In competing for geographic areas under Option 2 we would expect bidders to demonstrate innovative engineering solutions to achieve the best economic and engineering design.

Question 10

What is the value and feasibility of benchmarking exclusively licensed offshore TOs and in what way could this be facilitated if desirable?

Benchmarking will be an essential part of testing licensees costs for economy and efficiency and will require a degree of ingenuity on behalf of regulatory authorities. Where possible benchmarks against other industries should be used e.g. offshore oil and gas industries for costs of providing offshore platforms and telecommunications industry and international utilities for the cost of subsea cable laying. As expertise grows, costs would be expected to fall and benchmarking between UK offshore licensees should be possible.

Question11

How can suitable incentives be placed on exclusive offshore TOs to ensure that assets are constructed and operated economically and efficiently? Is there an alternative to simply passing through costs which raise the charges paid by consumers and generators? Would it be suitable to use international benchmarks as a means of assessing economy and efficiency?

See answer to question 10 above.

Question 12

What arrangements would be appropriate for dealing with future build outside of exclusive licensed areas?

New licensed areas should be opened in response to demand from offshore developers subject to such extension of licensed areas conforming to overall government policy on renewable development and extension of renewable obligations.

Question 13

How can generators be provided with timely, firm offers within reasonable timescales under the exclusive option?

Under the exclusive option, specific targets will require to be placed upon the offshore licensee to ensure timely delivery of connection offers. Such targets may not necessarily be identical to those for onshore developments. Where an offshore developer considers that the licensee is failing in its obligation to provide a suitable connection offer, the developer should have the right to refer the issue to the Authority (or independent tender panel) for determination.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

James Anderson Commercial and Regulation