

**National Grid Electricity Transmission**  
**Response to DTI/Ofgem consultation on licensing**  
**offshore electricity transmission**

**January 2007**

**1.0 Executive Summary**

National Grid Electricity Transmission (NGET) welcomes the opportunity to respond to the DTI/Ofgem consultation on 'Licensing offshore electricity transmission'. This response represents the views of NGET as Great Britain System Operator (GBSO) onshore, as Designate GBSO for the offshore Renewable Energy Zone, and as the owner of transmission assets in England and Wales.

A response representing the views of National Grid as a potential offshore transmission network owner will be provided separately.

In summary, the views of NGET are:

- Whatever approach is ultimately implemented, it must be capable of facilitating the timely connection of a significant volume of offshore generation;
- We agree with the general principle that it is appropriate to promote efficiency and economy via the introduction of competition. However we believe that competition between offshore TOs is likely to be limited and it needs to be clear that the costs of introducing such competition do not outweigh any benefits that are delivered;
- We believe, generally, that the competitive benefits of a non-exclusive approach would make it more favourable than an exclusive approach;
- However, we are concerned that the non-exclusive, common tender approach described in the consultation, and which is the clear preference of the Authority, could result in significant practical difficulties, and hence costs, that will outweigh any benefits delivered;
- We have significant concerns relating to the involvement of the GBSO in any tender process to appoint an offshore TO. We believe that this is a regulatory function and should not be devolved to the GBSO; and
- We believe that one of the options that has been ruled out, the generator tender approach, should be re-considered, in conjunction with an 'indicative' connection offer process, as it could address some of the practical concerns we have relating to the common tender approach whilst still delivering the benefits of competition.

Our detailed views are contained in the remainder of this document, as specific answers to the questions that DTI/Ofgem pose in the consultation.

## 2.0 Chapter Two – Regulatory Options

### 2.1 *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?*

#### 2.1.1 Summary

On balance, NGET supports a non-exclusive approach over an exclusive approach due to the competitive benefits that could accrue. However we are concerned that the common-tender approach as supported by Ofgem would give rise to significant practical difficulties making it unworkable in practice.

In our answer to this question, we consider the exclusive and the non-exclusive approaches separately, how they might work during the connection application process, and then discuss our view of the merits of each.

#### 2.1.2 Connection Application processes

The current onshore connection application process obliges the GBSO to provide an offer for connection to a potential customer within three months of the application being made. The GBSO seeks offers from any TOs that are affected by the potential customer, and then collates these to provide an overall offer for connection to, and use of the transmission system.

For the offshore regime to facilitate the timely connection of a significant volume of renewable generation, we believe that it is important that the offshore TO, who will provide transmission services to a particular offshore customer, needs to be identified as early as possible in the overall design and development of the connection. Equally the design of the connection needs to be identified and agreed at an early stage to allow an offer to be provided, by the GBSO, to the potential customer.

We believe that it is essential that the formal connection application and offer process for offshore customers is subject to the same timescales as for onshore customers, and we explain our reasoning behind this below in section 2.1.5.

#### 2.1.3 Exclusive Approach

Our understanding of the exclusive approach (regardless of the number of areas that are allocated) is that when a customer applies for an offshore connection the following issues are relevant:

- **Identification of offshore TO** – this is the monopoly TO for the relevant area, and therefore is readily identifiable at the time when a customer applies for connection. We assume that the monopoly TO would have an obligation to provide an offer to the GBSO when a customer applies in that area (in the same way that onshore TOs are obliged to offer within their licensed transmission area). We assume that in all cases, prior to a customer applying for connection, a TO for that particular area has already been selected (see Chapter 3, question 8, 3.8);
- **Identification of affected TOs/DNOs onshore** – We assume that a process similar to the existing onshore process will be adopted whereby the GBSO identifies all affected TOs. This will depend on the overall connection solution that is selected. In some circumstances it may be the case that more than one offshore TO is impacted when, for example, a route passes from one exclusive area into another;
- **Seabed surveys** – we assume that the offshore TO will be responsible for obtaining seabed surveys and determining connection options via co-ordination with other TOs (as discussed in 2.1.7); and

- **Optimum connection solution** – We believe that it should be the responsibility of all affected TOs, in conjunction with the GBSO, to determine the overall optimum connection option, and we discuss this further below in 2.1.6.

This process is very similar to the connection application process that is currently in place onshore, but with the addition of a new participant, namely the offshore TO (and possibly a DNO).

The time consuming element of this process appears to be obtaining a seabed survey and other relevant routing information. It may be the case that the exclusive TO undertakes surveys for all of its area on appointment, as this would minimise the work that would need to be done when a specific application is made, although it is likely that this would be impractical and uneconomic. To determine a specific connection a likely corridor based on desktop seabed data is first required, then onshore coastal surveys of the proposed landing points, and finally a detailed geophysical and geotechnical survey of the proposed route is required. Only at this stage could a manufacturer/installer determine accurate costs for the project. The timescales associated with this are likely to be lengthy.

It seems unlikely that this process could be undertaken once a connection application had been received whilst still maintaining the three months timescales. Consideration should be given as to whether the survey and an assessment of the connection options are undertaken prior to a formal connection application being made.

Alternatively, an Offer from the GBSO (based on information from the relevant offshore TO) could be made on an indicative basis using 'desk-top data'. If accepted by the customer then the first stage of the project could then be to confirm the design, sea-bed route, costs and timescales. We describe this in more detail below.

#### 2.1.4 Non-exclusive Approach

Our understanding of the non-exclusive (common-tender) approach is that when a customer applies for an offshore connection the following issues are relevant:

- **Identification of offshore TO** – no monopoly TO will exist, and a tender process will be initiated to identify a TO by the GBSO (or another party). We are assuming that, due to the likely costs associated with it, a tender process would not commence before a formal connection application was made, and significant commitment was demonstrated by the potential customer. We have significant concerns in relation to such a tender process being overseen by the GBSO. Firstly, we believe that oversight of such a tender process is a regulatory function and, accordingly, that such a function should not be devolved to the GBSO. The role of the GBSO under the NGET licence is to co-ordinate and direct the flow of electricity over and onto the GB Transmission System in an efficient, economic and co-ordinated manner (Transmission Licence Condition C16). The procurement of TOs via tender process does not fall within this scope, and we believe it is entirely inappropriate for the GBSO to undertake any actions which could have an effect of determining who should be awarded the licence to act as a TO. Secondly, within the GBSO, we simply do not possess the requisite skills to perform such a function;
- **Identification of affected TOs/DNOs onshore** – This will depend upon the overall connection solution that is selected, which is potentially different depending upon which offshore TO is selected;
- **Seabed surveys** – the consultation document suggests that the GBSO (or another party) could be required to undertake preliminary works to identify a small number of feasible routing options and obtain seabed surveys to make available to all TOs interested in bidding. We have two major concerns with this:
  - Obtaining seabed surveys is time consuming and costly. It is not clear to us at what point sufficient commitment has been demonstrated by the potential customer to progress with this. At present, an application fee is paid up front by the customer, and no significant work is undertaken by

the GBSO or affected TOs, until this fee has been paid. If this approach were taken offshore, then seabed surveys and other works would not begin until an application (and any associated fee) was received. It is our view that this information will not be able to be sourced to inform a subsequent tender process, and then provide an offer back to the customer, within three months. Application fees for offshore customers (if they were based on the same cost reflective principles as those for onshore customers) could be significantly higher than for onshore customers, due to the nature of, and amount of the work that will be required to produce them; and

- Duties of the GBSO. We do not think that it is appropriate for the GBSO to source seabed surveys or other preliminary information ahead of any tender. We do not currently possess the requisite skills to do this within the GBSO business since any expertise on seabed surveying (or the like) that exists within National Grid is in our unlicensed business which could be interested in participating in the tender. We discuss our views on the potential conflict of interest between the role of NGET and the role of National Grid as an offshore TO in 2.1.9 below. We are also concerned with any liabilities that might rest with the GBSO should these activities be undertaken to inform a tender.
- **Optimum connection solution** - We believe that it should be the responsibility of all affected TOs, in conjunction with the GBSO, to determine the overall optimum connection option. Clearly, with the non-exclusive approach, a number of different offshore TOs could be bidding for the work, and this may give rise to a number of different connection options. We discuss this further below.

We believe that the overall process described above would be significantly costly, time consuming and complex. We do not believe that this process can be run in such a way as to provide the customer with a connection offer in a timely fashion.

In our discussion of the exclusive approach in 2.1.3 above, we suggest that an indicative offer could be made within the three months timescales. This is achievable in the exclusive approach because the relevant TO is already in place. In the non-exclusive, common-tender approach, this would not be achievable, as a lengthy process has to be undertaken to identify a TO after a connection application has been made, and before an indicative offer could be prepared.

As an additional comment on the common-tender approach we are concerned with the implications of no potential TO coming forward within the tender process. Our understanding of the process is that the 'pre-licensed' TOs would have no obligation to participate in tenders, but the GBSO would still have the overall obligation to offer terms to the customer. If this is the case then it may be necessary to change the transmission licence to deal with circumstances such as these.

## 2.1.5 Timescales for Connection Offers

As stated above, at present, any customer who wishes to connect to the transmission system applies to the GBSO, regardless of where the connection is within Great Britain. The GBSO will then provide a connection offer, which should reflect the offers made by the TO(s) and DNO(s), back to that customer within three months of the application (this timescale can only be extended with the consent of the Authority). Once the role of the GBSO is extended to cover the Renewable Energy Zone, then the obligation to offer terms for connection to, and use of, the transmission system will also cover this extended area.

We believe that it is essential that the connection application timescales for potential offshore customers should be the same as for potential onshore customers and would welcome confirmation from Ofgem/DTI that they agree with this statement.

If offshore offers took longer than onshore offers, then two potential customers, one offshore and one onshore, who apply for connection at the same time, would receive connection offers at different times. This could result in the offshore customer receiving a later connection date than the onshore customer. Additionally, if the offers were interactive, an onshore customer could conceivably sign his offer prior to the offshore customer receiving his, resulting in the offshore offer having to be fully re-assessed. Whilst we note that Final Sums Liabilities are currently being considered by the industry, any differences in the timescales could result in different liabilities occurring for potential customers who make their applications at the same time.

A longer application process for offshore customers could therefore be seen as discriminatory against offshore customers.

Clearly one way around this would be to extend onshore application processes to align with the timescales required for offshore, but we do not believe that this would be efficient, and an extension of the timescales was ruled out during the development of BETTA. Therefore any offshore process (from the time of application to the provision of the offer) needs to be achievable within three months. Whether this is possible is driven by the available information at the time of the connection application, and we have considered this in our description of the processes above in 2.1.3 and 2.1.4.

The discussion above is predicated on the fact that we use the same connection application process going forward for offshore as we currently do for onshore. As highlighted above, it is for consideration whether a slight departure from the normal process is appropriate, and what changes may be required to facilitate this. For example consideration could be given to a revised process whereby an 'indicative offer' is made to a customer based on initial information. This indicative offer would provide likely details of connection designs, dates and costs and would give the customer the opportunity to withdraw after only limited expenditure. It would also allow the customer to progress, via a second stage to the application process, to receiving a firmer offer, using more accurate information. This would of necessity be developed over longer timescales. Indeed such an approach has been used in developing more complex offers for onshore customers under the existing licence and code framework and it is our view that a process of this kind may be more appropriate for offshore customers due to the additional complexities involved. It is our view that consideration should be given to whether any changes to the existing CUSC and Transmission Licence obligations are required to provide further clarity of the process. Additionally, it would need to be considered how any development to the 'User Commitment model' may fit in with the process.

It is our view that the common tender, non-exclusive option presented in the consultation precludes an offer (or indeed an indicative offer) being made within the current onshore timescale of three months, and therefore would not facilitate the timely connection of offshore generation.

#### **2.1.6 Determining the optimum connection solution**

It appears clear to us that, as compared to the current onshore arrangements, it is more complex to identify the optimum connection solution for offshore applications. This is because more organisations may be involved in offshore connection applications than onshore applications (potentially multiple offshore TOs, onshore TOs and onshore DNOs), and there is the potential for a number of significantly different options to be developed.

Consider an example where an offshore generator could be connected via a relatively short section of sub sea cable to a DNO onshore, but this DNO connection would result in a significant requirement for onshore re-inforcement (potentially both DNO and onshore TO). An alternative solution could be for the generator to be connected via a longer sub sea connection to an onshore TO, where relatively little onshore re-

inforcement was required. Clearly the relative costs of these alternatives can be compared, but other issues need to be considered, for instance the consents required, and the subsequent timescales for connection.

The responsibility for determining the overall optimum connection solution could rest with either the GBSO, or the offshore TO, with regulatory oversight. If it were the sole responsibility of the GBSO then an assessment of different solutions would have to be undertaken during the connection application process, prior to any offer being made, and this could add significant time to the current processes, as re-work and revised offers may need to be provided as the optimum solution emerged.

We believe that, for offshore connections, a more efficient solution would be for the application to be made and then the offshore TO to undertake a limited amount of work in conjunction with other affected TOs, DNOs and the GBSO to allow the development of an indicative offer for the customer. Such an offer should provide a high degree of protection to developers (equivalent to onshore projects) in the sense that it would identify likely dates and designs and by signing the offer the customer would indicate its commitment to proceed. Upon signature a second stage of the process would be invoked which would require the customer to put in place non-returnable funds to fund the activities required to develop the details of the offer.

As stated above, such an approach has been used in developing more complex offers under the existing licence and code framework.

### **2.1.7 Obligations on TOs**

Onshore Transmission Owners are obliged, by virtue of their transmission licence, when making a connection offer to ‘...co-operate and co-ordinate its activities with other transmission licensees in accordance with the STC’ [SO-TO Code](Condition D4A). In practice this obligation becomes active once a formal application, and the associated application fee, by a customer is received.

We believe that this obligation should be applied to offshore TOs, and that it should be used to ensure that TOs develop the optimum connection arrangements for offshore customers. In practice this means that offshore TOs would be responsible for co-ordinating activities with all affected onshore TOs, DNOs and the GBSO to determine the optimum connection solution. This could be done to varying degrees of detail and firmness during different stages of the process as the GBSO provided additional detail of the offer back to the customer. We believe that this process will work most efficiently in the generator tender approach, where an offshore generator can select an offshore TO in advance of making any application for connection to the GB transmission system (via a competitive process). The offshore TO can then develop an indicative solution in co-ordination with onshore TOs, DNOs, and the GBSO during the three month period so that the GBSO can provide an indicative offer. We present a workable process for the generator tender approach in our answer to question 2.

### **2.1.8 Incorporation of DNOs**

It is clear that offshore transmission will, in some cases, connect onshore to DNOs. This gives rise to a number of issues that have been subject to an initial consideration by the Offshore Transmission Expert Group (OTEG). We believe that significant work needs to be done to identify how DNOs are best incorporated into existing processes that currently only cover the GBSO and TOs. A number of issues need to be resolved including:

- When a customer applies to the GBSO for the right to connect to and use the transmission system, does this also confer rights on that customer to use any affected DNO systems? Alternatively, is a separate contract required between an offshore customer and a DNO?
- How is any required investment in a DNO system co-ordinated and funded?

- What compensation is payable if restrictions on the DNO system prevent the offshore customer exporting?
- What obligations/incentives are there on the DNO to keep their system available (i.e. standard of service), to co-ordinate outages that affect offshore generators, to provide information to the GBSO etc?
- How are generation power flows managed at the interface between the DNO and the onshore TO?

We are pleased to note that Ofgem/DTI intend to hold industry workshops shortly to consider these issues. For the purposes of this response, we have assumed that, from the perspective of the GBSO, a DNO affected by an offshore connection is treated in the same way as an affected TO i.e. that the relationship is managed via a code akin to the SO-TO Code with appropriate equivalent Licence obligations on DNOs. It is by no means clear that this will be the case. Currently technical and commercial arrangements between the GBSO and DNOs are managed via the Grid Code and CUSC respectively, and this may be a more appropriate model.

We believe that this is a significant issue to address in developing the offshore regime, and raises a number of general issues about the treatment of embedded generation and the operation of DNO systems. We look forward to engaging in the industry debate.

#### **2.1.9 Role of the GBSO in a non-exclusive (common tender) approach**

This issue is also covered in our answer to question 6 for Chapter 3 of the consultation document (see section 3.6).

As stated in 2.1.4 above, we do not believe it is appropriate for the GBSO to have a direct role in issuing tenders and selecting offshore TOs. The remainder of this section is provided without prejudice to this statement, and provides our views on the process described within the consultation document.

We are confident that, given clear and transparent assessment criteria supported by relevant licence restrictions, NGET as GBSO would operate in a non-discriminatory fashion when assessing tenders, even when one of the tenderers may be National Grid. We welcome the statement by Ofgem/DTI that they feel it inappropriate to impose separation of our SO and TO businesses. We believe that the benefits of operating an integrated TO and SO business across Great Britain have been clearly demonstrated by NGET and far outweigh any perceived benefits that might accrue from separation.

We are concerned however that, whatever controls are put in place to give confidence that the GBSO is acting in a non-discriminatory fashion, there could always be a perception that it is not. Additionally it would be inappropriate to put in place anything that discriminates against National Grid as a potential TO in any tender process. With these issues in mind, we are uncomfortable with any process where the GBSO would be solely responsible for assessing tenders, and therefore believe that an independent tender panel should be used in any tender assessment process.

National Grid has already established the necessary information ring-fences to separate our roles (as designate GBSO and as a potential offshore TO) during the development of the offshore transmission regulatory regime.

#### **2.1.10 Exclusive vs. non-exclusive approach - conclusion**

Whichever option is ultimately chosen by Ofgem/DTI, it must facilitate the timely connection of a significant volume of offshore renewable generation. It is our view that this is best achieved by identifying an offshore TO as early as possible in the

process to allow an offer to be provided to the customer within acceptable timescales, and if possible, within the three month timescales that we operate within today.

This statement suggests that an exclusive approach may be preferable as a pre-appointed monopoly TO would already be in place prior to any specific connection application being received by the GBSO. We also foresee potential economic benefits via an exclusive approach. A single TO operating within a geographic area would result in that TO developing specific expertise for that area, with only one company having to deal with third parties, for example equipment manufacturers, surveyors.

However, we agree that competitive processes should be used, where possible, to promote economy and efficiency, and we are not convinced that the pre-appointment of TOs ahead of any certainty of actual construction requirements will necessarily deliver the most economic and efficient solution.

However, it is not clear to NGET how tenders for exclusive licences would be issued, and how these tenders would be subsequently assessed. This could only be achieved on a very general basis as it is likely that specific details of individual projects within a zone would not be available.

We agree that competitive processes to select an offshore TO could deliver benefits on a case by case basis whenever an offshore TO is required, and on balance, we believe that these benefits would outweigh the benefits delivered by an exclusive approach.

However we are concerned that the common-tender approach, as supported by Ofgem, presents significant practical difficulties to make it unworkable in practice and these are described above. We are also concerned about the role of the GBSO in such a process.

We believe that the benefits of competition, and the early appointment of an offshore TO (prior to a connection application being made), could be delivered via a 'generator-tender' approach, without introducing the practical concerns we have about the common tender approach, and we describe our reasons for this in our answer to question 2 below.

We believe that consideration should be given to the further use of 'indicative' offers which build upon the existing framework for the provision of connection offers. Further work should be undertaken with the industry to assess whether this would require any changes to the existing industry framework.

On balance therefore, NGET supports a non-exclusive approach over an exclusive approach. However, we do have concerns relating to the practical consequences of implementing such a regime, and therefore do not support the 'common-tender' approach that is described in the consultation document. NGET would support the non-exclusive generator tender approach that has been ruled out in the consultation.



**2.2**     **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?*

**2.2.1**     **Summary**

Yes, NGET believes that the generator-tender approach should be considered further as we believe it can deliver the competitive benefits of a non-exclusive approach whilst not presenting the practical difficulties of a common-tender approach that we describe in our answer to question 1. We disagree with the reasons cited in the consultation document for ruling out the generator tender approach.

As stated in our answer to question 1, we believe that a workable non-exclusive approach is more favourable than an exclusive approach. Therefore we agree with Ofgem/DTI that the two exclusive approaches (one zone and extension) should be ruled out, and we make no more comment about these options.

The remainder of the answer to this question, therefore, is concerned with the generator tender approach.

**2.2.2**     **Reasons for ruling out the generator tender approach**

Ofgem/DTI rule out the generator tender approach for two reasons, namely:

1. Ofgem/DTI believe that it would be very difficult to capture the advantages of co-ordination under this approach; and
2. As Generators only pay a proportion of network charges (with the majority paid for by demand customers) it is not felt that it would be appropriate for the generator to select a network provider where it does not solely bear the risk of that decision.

We disagree strongly with both of these reasons and outline our rationale below.

**2.2.3**     **Co-ordination**

As outlined in our answer to question 1, we believe that the existing onshore obligation on TOs to co-ordinate and co-operate with other TOs should be extended to offshore TOs. This would ensure that any offshore TO identified by a generator tender would be obliged to work with onshore TOs, DNOs and the GBSO to co-ordinate the development of the transmission system. We do not believe that a generator tender approach presents any co-ordination problems over and above those that would be present in a common-tender approach.

**2.2.4**     **Generator's liability for network charges**

The statement made by Ofgem/DTI that a generator only pays a proportion of network charges, and hence does not solely bear the risk of that decision, is incorrect if it is assumed that the current onshore charging methodology is applied offshore.

Whilst it is true that 27% of the overall Transmission Network Use of System (TNUoS) revenue is recovered from generators (with the remaining 73% being recovered from demand customers), charges reflect the impact individual generators at different locations would have on the Transmission Owner's costs, if they were to increase or decrease their use of the respective systems. These costs are primarily defined as the investment costs in the transmission system, maintenance of the transmission system and maintaining a system capable of providing a secure bulk supply of energy.

Consider an example where the investment costs in the transmission system to provide a 500MW connection from the existing onshore transmission system to a single 500MW offshore customer total £100m, and that customer is in a single generation charging zone. The full £100m would be reflected in the differential between the £/kW charge paid by the generator (assuming that the charges are completely cost reflective) and the £/kW charge paid by an identical generator connected adjacent to the existing transmission system onshore. The 27%:73% revenue split is only applied to the total TNUoS pot, and does not apply to individual charges.

It is our view therefore, that the generator has a very real incentive to appoint a TO who will deliver the necessary standards of service at the most economic price.

## **2.2.5 Benefits of the generator tender approach**

As stated above, we believe that an offshore generator would be directly incentivised to select the most economic and efficient tender for a TO due to the direct exposure to these costs via the generation TNUoS charges. Additionally we would expect a significant role for Ofgem in approving any decision arising out of the tender process. This approach has the additional benefit that the GBSO is not directly involved in the selection of the TO, and so removes any potential conflict of interest.

In developing the generation project in the first place, and gaining Crown Estate consent, the offshore generator is likely to have detailed information about seabed conditions and landing options. This information could be provided with any tender information, thereby ensuring that all potential TOs have the same information to base bids on. This seems more efficient and practical than asking the GBSO (or another party) to provide this information to potential tenderers.

We believe that the selection of a TO could be made by an offshore generator prior to any formal connection application by it to the GBSO. This approach would not be possible in a common-tender approach as the GBSO (or other party that was running the tender) would not necessarily know in advance of a customer's intention to apply. An offshore generator is best placed to determine the appropriate time to select a TO such that sufficient information is available to inform any bidders, and so that it aligns with its own project development timescales.

As described in our answer to question 1, we believe that indicative offers could be used to provide sufficient comfort to potential offshore customers and with further detail being developed (and hence further costs being incurred) as the process progresses and the potential customer demonstrates further commitment.

Thus when a connection application is made by the offshore generator to the GBSO, this application would also include details of the successful offshore TO. The GBSO would then be able to develop an indicative offer, in conjunction with the offshore TO, onshore TOs and DNOs and, within three months of receipt of the application, make such an offer back to the customer. This would be consistent with the connection offer timescales for onshore customers.

The consultation document acknowledges the risk (for both exclusive and non-exclusive approaches) that a TO might not come forward, and states that there is a possibility in the non-exclusive approach that the offshore developer may apply for a TO licence, and may bid to provide its own connection. We believe that the generator tender approach is entirely consistent with this statement and running the tender early in the process would allow further time for the offshore developer to consider his options and, if necessary apply for a TO licence.

### **2.2.6 Workable process for generator tender approach**

NGET proposes the following process for how a generator tender approach could be developed to deliver the timely connection of offshore generation, the benefits of a competitive process and a process that maintains consistency with onshore application timescales so as to ensure non discrimination against potential offshore customers.

- The offshore generator runs a tender to identify an offshore TO prior to any application to connect to the transmission system. The offshore generator is likely to have the best available information on the local conditions and can therefore prepare information to inform the tender. As envisaged in the common tender approach, the tender would be undertaken against open and transparent rules and assessment criteria. If necessary, an independent tender assessment panel could be employed to apply a further level of assurance in the process and we would expect a role for Ofgem in such a process;
- The generator is incentivised to select the most economic and efficient offshore TO, as it will be directly exposed, via the cost-reflective generator TNUoS charges to the full cost of the equipment that is installed to connect it;
- Once an offshore TO was selected by the generator, an application to connect and use the transmission system would be made to the GBSO;
- The GBSO would then work with the affected TOs (onshore and offshore) and DNOs to provide an indicative connection offer to the customer within three months of the application being made; and
- The indicative offer would be designed to provide sufficient information to the potential customer to allow it to decide whether to proceed, and if the decision is made to proceed, provide the necessary financial commitment to fund the further work to develop the details of the connection offer.

We believe that this process offers the benefit of running a competitive tender and can maintain the three months timescales between the submission of a formal connection application and the receipt of an offer.

We would urge Ofgem/DTI to re-consider this approach.

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

We do not believe that the consultation document takes into account the practical consequences of the connection application process sufficiently. We believe that this consideration is essential to ensure that whatever approach is adopted is able to facilitate the timely connection of a significant volume of offshore generation. In particular we believe that the timescale between a customer submitting a connection application and receiving a formal offer should be maintained at three months, and any approach taken has to make sure that this is possible.

Our answers to question 1 and question 2 major on these practical considerations and we hope that they can be taken into account as the decision on the licensing regime is considered further.

**3.0 Chapter Three – Practical issues under the regulatory options**

We provide responses to the questions posed in Chapter Three without prejudice to the views that we have provided in our answer to the questions in Chapter Two.

**3.1 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?*

We have no comment to make on this question.

**3.2 Question 2:** *Would a departure from Ofgem's current approach to the adoption of assets be justified or would different treatment be unduly discriminatory?*

As GBSO, we would like to minimise any 'legacy' issues as the new regime is implemented. If any further comfort is given to developers then consideration needs to be given as to any impact on the enduring regime when the Energy Act powers have been commenced.

**3.3 Question 3:** *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?*

One approach to minimise costs to TOs would be to oblige a third party to provide information to inform any bid. As stated in our answer to question one from Chapter Two, we do not support an approach where the GBSO provides such information. We believe that the most appropriate mechanism is to use the generator tender approach, where the offshore generator provides information to any potential TO bidders.

On a point of clarification, we would like to confirm that the TO will not be operating offshore assets, this will be done by the GBSO.

**3.4 Question 4:** *Do you believe there is a risk of a lack of co-ordination that is specific to the non-exclusive 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, we believe that there is a risk of a lack of co-ordination in the non-exclusive approach. However we believe that co-ordination can be achieved through close working of all affected parties. Furthermore we believe it is appropriate to utilise transmission and distribution licence obligations, as we describe above, to ensure that this co-ordination takes place. In addition the SO-TO code should be reviewed to determine whether changes are required to ensure that this co-ordination takes place.

**3.5 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?*

We believe that it is appropriate to maintain the arrangements that currently exist onshore, namely that companies can operate ring-fenced, separate legal entities as generation and transmission companies. There are a suite of licence obligations on transmission licensees that ensure there can be no undue preference shown by a transmission business to any affiliated generation business (and that a transmission licensee or (in NGET's case) its affiliates cannot engage in generation activities without the consent of the Authority). As such, effective business separation arrangements are already in place to ensure that no intra-group conflict of interest can exist between transmission and generation licensees.

Where this situation exists, regulatory oversight should ensure that the combination of generation and transmission is not abused and appropriate rights for third party access are provided for etc.

**3.6 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?*

As stated above, as GBSO, we do not support any proposal where the GBSO issues and assesses tenders. Regardless of what measures are put in place to provide assurance of the process, there would always be the perception that the process was not being run in a fair manner. If the GBSO were to undertake such a role, we feel strongly that it should be supported by an independent tender assessment panel.

Clear and unambiguous tender assessment criteria should be used to provide transparency, although it may be the case that more subjective criteria (for example, track record) also need to be used to select a TO.

**3.7 Question 7:** *Is it appropriate to have certain defined re-openers in a fixed-price bidding system?*

It is our view that if there was no prospect for re-openers then the bids received could be inefficiently high. An appropriate system needs to be developed that allows legitimate re-opening for pre-determined events to ensure that efficient bids are achieved. Given that the cost of offshore investments is likely to feed through more directly to offshore generators (due to them being in a single TNUoS zone) then it will also be important that when such re-openers are exercised by the TO the generator has the ability to review the effect of this and if appropriate amend its project requirements – including deciding to terminate.

The requirement for re-openers is driven by the level of certainty that exists when the tender is issued. In section 2.1.5 above we describe a potential change to the connection application process whereby a series of staged offers are provided to the customer as more detail emerges. If this approach were taken then it may be possible to limit the number of re-openers that were put in at the final offer stage, as more confirmed information would be available.

It is essential that no perverse incentives are created whereby a TO bids low and wins the work, and then ramps his costs up via re-openers.

**3.8 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 a 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?*

We believe it would be sensible to define the three strategic areas as exclusive TO zones and define new zones when the need arises. This approach would lead to the optimum level of co-ordination.

**3.9 Question 9:** *On what basis should the competition for offshore exclusive TO licences be run?*

Exclusive TO licences should be awarded to companies who can demonstrate the ability to build, construct and maintain networks, ideally in a marine environment. It may be that lessons can be learnt from the awarding of Crown Estate consent to offshore generators.

We do not think it would be appropriate to have a competition based purely on rate of return. This is because any rate of return is based on risks and the actual risks are unknown until detailed seabed conditions are known for particular projects. A rate of return approach could result in TOs using re-openers to mitigate a low rate of return that was used to win the licence in the first place.

It is our view that competition in offshore TOs will be relatively low. TOs will have limited resources and will only have access to a limited pool of manufacturers/installers and so any competition will be over design, project management, availability of resource etc, rather than rate of return.

It needs to be recognised that the sea bed is a hostile environment for cables and some places are more hostile than others (e.g. due to fishing activity). It is therefore likely that the rate of return will vary on a project by project basis depending on the specific risks.

**3.10 Question 10:** *What is the value and feasibility of benchmarking exclusively licensed offshore TOs and in what way could this be facilitated if desirable?*

A clear definition of what is being benchmarked would be needed. For example, some issues could be easily benchmarked, such as reliability, availability and maintenance costs. However it is likely that TOs operating in different areas would face significantly different challenges and this, coupled with the fact that there would be a limited sample size, may diminish the value of any benchmarking exercise. (Please also see our answer to question 11).

**3.11 Question 11:** *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?*

We do not believe it would be suitable to use international benchmarks as a means of assessing economy and efficiency. No two areas of sea bed will be identical; no two landing sites will be the same. Furthermore savings on installation may reduce capital expenditure at the expense of higher operational costs through poor reliability.

It is also unclear, given the relative youth of this industry, where one would go to for reliable benchmarks.

**3.12 Question 12:** *What arrangements would be appropriate for dealing with future build outside of exclusively licensed areas?*

We believe that the best approach is to initially licence the three strategic areas. Future exclusive licences could be added as required, and the processes used to allocate these new exclusive TOs could utilise any experience gained from the initial exercise.

**3.13 Question 13:** *How can generators be provided with timely, firm offers within reasonable timescales under the exclusive option?*

We believe that any upfront work that can be done prior to the application being made should be done. This will minimise the work that needs to be done to develop a connection offer. We cover this point in our answer to question 1 in Chapter 1.